



FPN

One asset property / France

In a surprise move, FIPP has deprived FPN shareholders of control over PAMIER SARL.

Litigation - 03/11/2020

FIPP has taken full control of FPN's only asset, depriving FPN's shareholders of the recovery potential linked to building refurbishment or a full redevelopment. This may trigger a long and bitter legal battle between FIPP and OTT Group unless a negotiation takes place between the parties.

Fact

- In a short press release issued last Friday, FIPP announced that it has taken full control of PAMIER SARL, the latter owning all of FPN's real estate in Le Blanc-Mesnil.
- FIPP exercised pledges on PAMIER shares. As FIPP already has full control over the FPN Board, a related party transaction of this nature should have been ratified by the Annual General Meeting (AGM). The FPN board has repeatedly delayed the AGM, including the last one scheduled on 28 October, just before the take-over decision.
- FIPP should thus take full control of FPN's sole asset without disclosing the terms of this related party transaction and most likely without paying a cent. FPN shareholders could be left with an empty shell, with negative shareholders' equity. The H1 20 report will reveal whether FIPP has a residual shareholder loan in FPN that is likely to be converted in order to avoid a bankruptcy.
- In our Latest of 26 August 2020 "Reference shareholder transferred its risk in FY 19") we had already warned about the mounting risk level due to the increasing guarantees taken by FIPP on the asset itself to the detriment of all the other shareholders.

Analysis

Unusual. The courts will have to rule on the legality of the transaction

FIPP (c. 17% of both shares and voting rights in FPN as of October 2020 – AV estimate – but controlling 100% of the Board prior to the 21 December 2020 AGM) owned a €12.6m shareholder loan in FPN at the end of FY 18. In October 2019, the latter was converted into debt backed by mortgages on Pamier SARL, FPN's 100% subsidiary owning the group's plot and real estate in Le Blanc-Mesnil. This move gave FIPP real guarantees (mortgages) to the detriment of the other FPN shareholders.

This move enabled FIPP to secure its loan through mortgages backed by the asset itself (plot) and 100% of Pamier SARL shares. Starting with an initially naked loan, FIPP's loan was thus secured, depriving the other FPN's shareholders of the remaining portion of the unencumbered asset and its redevelopment potential.

A more usual move would have been to convert the shareholder loan into new FPN shares via a large capital increase, the latter offering other shareholders the opportunity to participate. The consequence would have been a reduction in FPN's consolidated debt and the securing of its balance sheet.

A few months after taking material guarantees on the asset, FIPP last week decided to exercise these guarantees and launch a full take over PAMIER SARL.



Christian AUZANNEAU
property@alphavalue.eu
+33 (0) 1 70 61 10 50
cs.alphavalue.com

This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy	Upside: 118%
Target Price (6 months)	€ 0.05
Share Price	€ 0.03
Market Cap. €M	2.89
Price Momentum	UNFAVORABLE
Extremes 12Months	0.02 ▶ 0.03
Bloomberg	FPN FP Equity
Reuters	FPN.PA

[Download Full Analysis](#) [Company Page](#)



PERF	1w	1m	3m	12m
Foncière Paris Nord	-5.66%	-12.3%	-5.66%	-16.7%
Real Estate	-2.26%	-3.92%	-5.71%	-25.4%
STOXX 600	-2.27%	-4.09%	-2.38%	-12.9%

Last updated: 25/08/2020	12/19A	12/20E	12/21E	12/22E
Adjusted P/E (x)	-4.77	-3.98	-2.65	-7.63
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-8.60	-10.4	-12.3	-37.0
Adjusted EPS (€)	-0.01	-0.01	-0.01	0.00
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	0.00	0.00	0.00	0.00
EBIT margin (%)	ns	ns	ns	ns
Attributable net profit (€th)	-3,697	13,258	2,700	-800
ROE (after tax) (%)	27.6	-171	-198	27.4
Gearing (%)				

[Company Valuation](#) - [Company Financials](#)

However, we do not rule-out this move preceding a negotiation phase. In our view, this FIPP move is not wholly rational for a number of reasons: i/ long and expensive future carrying costs; ii/ the cost of legal proceedings; and iii/ the personal risk incurred by the four current FPN Board members.

A long legal battle ahead

We expect the OTT Group to challenge the legality of this transaction. It will take many years (5-7?) before the Commercial Court, then the Appeal Court and then the Cour de Cassation (the French Supreme Court) reach a final decision on whether or not the conditions were legal.

We would highlight that, by depriving FPN's shareholders of the call-option constituting the benefit of a refurbishment or full redevelopment of the site, FIPP risks being retrospectively deemed to have unfairly appropriated a capital gain without any cash counterpart.

Only the Courts can rule on whether or not this transaction is legal.

What's next from the shareholder perspective?

Such a legal proceeding will probably freeze the plot's development for a prolonged period. The latter will accumulate increasing operating losses as both PAMIER SARL and the plot itself could prove unsellable for a long time. Nobody will want to buy or incur expenses on an asset whose long-term ownership is in question.

We expect the OTT Group to request the cancellation of the transaction. The courts usually prefer to award damages rather than cancel a deal. In 5-7 years, a small free option could again progressively emerge as a function of progress on the legal proceedings. During this period, FPN will have to pay its own annual operating costs without the opportunity of significant cash-ins resulting from the sale or refurbishment followed by rental of its subsidiary's buildings.

As a consequence, and should a negotiation not be rapidly forthcoming, we will consider reducing our target price per share to zero due to the time required for legal proceedings. This zero valuation will not include, however, the potential but unpriceable future contribution of penalties awarded to minority shareholders, nor the benefit coming from an agreement between both main parties.

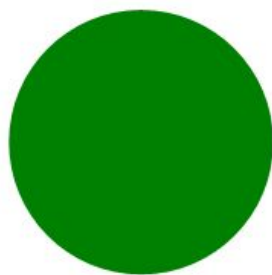
■ Impact

FIPP has played hard ball and secured the value of its shareholder loan without aligning its interests with those of the other shareholders. Talks between the two main parties (Duménil/Ott) as to the future of FPN might thus now be considered to have broken down.

In this taking of control, FIPP has chosen the most aggressive course. With no negotiation, the result will be a significant prejudice to the detriment of both parties. If FIPP is able to keep the asset at the end of the day, it will have to manage a "cold" and costly asset (both in terms of euros and risk) over a prolonged period.

Please note that FPN hasn't yet published its H1 20 accounts and that the AGM convened to approve the accounts has been postponed to 21 December 2020.

Sales by Geography



France (100.0%)

Consolidated P&L Accounts

		12/19A	12/20E	12/21E
Sales	€th	0.00	0.00	0.00
Change in sales	%	-100.0	0.00	0.00
Change in staff costs	%	2.04	1.50	1.50
EBITDA	€th	-2,899	-2,584	-2,300
EBITDA(R) margin	%	ns	ns	ns
Depreciation	€th	-2,141	0.00	0.00
Underlying operating profit	€th	-3,592	12,416	-2,300
Operating profit (EBIT)	€th	-3,592	13,258	-2,300
Net financial expense	€th	-105	-0.01	-0.01
of which related to pensions	€th	0.00	0.00	0.00
Exceptional items & other	€th	0.00	0.00	5,000
Corporate tax	€th	0.00	0.00	0.00
Equity associates	€th	0.00	0.00	0.00
Minority interests	€th	0.00	0.00	0.00
Adjusted attributable net profit	€th	-3,697	-2,584	-2,300
NOPAT	€th	-2,514	9,281	-1,610

Cashflow Statement

EBITDA	€th	-2,899	-2,584	-2,300
Change in WCR	€th	1,572	80.0	900
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	0.00	0.00
Exceptional items	€th	0.00	0.00	0.00
Other operating cash flows	€th	0.00	0.00	0.00
Total operating cash flows	€th	-1,327	-2,504	-1,400
Capital expenditure	€th	0.00	0.00	0.00
Total investment flows	€th	0.00	0.00	0.00
Net interest expense	€th	-105	-0.01	-0.01
Dividends (parent company)	€th	0.00	0.00	0.00
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	0.00	1,650	0.00
Total financial flows	€th	2,297	2,801	-3,600
Change in cash position	€th	970	-1,237	-5,000
Free cash flow (pre div.)	€th	-1,432	-2,504	-1,400

Per Share Data

No. of shares net of treas. stock (year...	Th	82,629	115,629	115,629
Number of diluted shares (average)	Th	578,876	411,490	244,105
Benchmark EPS	€	-0.01	-0.01	-0.01
Restated NAV per share	€	0.08	0.03	0.05
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 0.05	75%	■ Icade
DCF	€ 0.06	25%	■ Gecina
TARGET PRICE	€ 0.05	100%	■ Covivio

NAV/SOTP Calculation

- Nexity
- Vonovia
- Deutsche Wohnen

Balance Sheet

		12/19A	12/20E	12/21E
Goodwill	€th	0.00	0.00	0.00
Total intangible	€th	0.00	0.00	0.00
Tangible fixed assets	€th	17,885	34,569	34,569
Financial fixed assets	€th	217	217	217
WCR	€th	-10,962	-11,042	-11,942
Other assets	€th	0.00	0.00	0.00
Total assets (net of short term liab.)	€th	7,140	23,744	22,844
Ordinary shareholders' equity	€th	-15,279	-217	-2,517
Quasi Equity & Preferred	€th	0.00	0.00	0.00
Minority interests	€th	0.00	0.00	0.00
Provisions for pensions	€th	0.00	0.00	0.00
Other provisions for risks and liabilities	€th	842	0.00	0.00
Total provisions for risks and liabilities	€th	842	0.00	0.00
Tax liabilities	€th	0.00	0.00	0.00
Other liabilities	€th	4.00	0.00	0.00
Net debt (cash)	€th	21,573	23,961	25,361
Total liab. and shareholders' equity	€th	7,140	23,744	22,844

Capital Employed

Capital employed after depreciation	€th	7,140	23,744	22,844
-------------------------------------	-----	-------	--------	--------

Profits & Risks Ratios

ROE (after tax)	%	27.6	-171	-198
ROCE	%	-35.2	39.1	-7.05
Gearing (at book value)	%			
Adj. Net debt/EBITDA(R)	x	-7.44	-9.27	-11.0
Interest cover (x)	x	-34.2	1,241,600	230,000

Valuation Ratios

Reference P/E (benchmark)	x	-4.77	-3.98	-2.65
Free cash flow yield	%	-56.9	-86.6	-48.4
P/Book	x	-0.16	-13.3	-1.15
Dividend yield	%	0.00	0.00	0.00

EV Calculation

Market cap	€th	2,515	2,891	2,891
+ Provisions	€th	842	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	21,573	23,961	25,361
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th			
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	24,930	26,852	28,252
EV/EBITDA(R)	x	-8.60	-10.4	-12.3
EV/Sales	x	ns	ns	ns

Analyst : Christian Auzanneau, Changes to Forecasts : 25/08/2020.