

# SEMAPA

## Full Rating Report

### Ratings

#### Foreign Currency

Long-Term IDR AA-  
Short-Term IDR F1+

#### Local Currency

Long-Term IDR AA-

### Outlooks

Long-Term Foreign-Currency IDR Stable  
Long-Term Local-Currency IDR Stable

### Financial Data

#### SEMAPA

	31 Dec 2017	31 Dec 2016
Operating revenues (EURm)	169.3	182.9
Rev. from pub. sector (EURm)	0	0
Oper. bal. after rev. from pub. sector (EURm)	2.0	2.5
Total debt (EURm)	441.1	405.0
Total assets (EURm)	696.0	682.8
Equity and reserves (EURm)	8.4	7.9
EBITDA/oper. rev. inc. rev. from pub. sector (%)	4.1	2.3
ROA (%)	0.1	0.0
ROE (%)	6.0	-3.8
Total debt/EBITDA (%)	64.9	119.1

Source: Fitch Ratings, SEMAPA

### Key Rating Drivers

**Ratings Affirmed:** The ratings reflect SEMAPA's strong oversight by the City of Paris (AA/Stable/F1+), its large share of guaranteed debt (end-2017: 53% of long- and short-term debt), and Paris's commitment to ensure urban development projects under concession are financially balanced. The ratings factor in the real estate market reversal and inherent refinancing risk for urban development activities. In line with the top-down approach in our *Government-Related Entities Rating Criteria*, SEMAPA's ratings are one notch below, and credit-linked to, Paris's.

**Protective Legal Status:** SEMAPA is a private law company whose capital can only be owned by local and regional governments (LRGs). After the merger of the City of Paris and the Department of Paris, the former will own 92% of SEMAPA's capital from January 2019; the remaining 8% will belong to the Region of Ile-de-France (AA/Stable/F1+). SEMAPA is subject to close control and monitoring by the city, similar to that it exercises over its internal services.

**Strong Control:** SEMAPA can only operate on demand from its shareholders. All of its operations are governed by six concession agreements with the City of Paris (with end-dates spanning from 2018 to 2028), which state that all assets and liabilities linked to these operations will revert back to the city at the end of the respective concession agreements, or by mandate agreements with similar properties.

**Debt Almost Fully Guaranteed:** The city's support is highlighted by its ability to guarantee up to 80% of SEMAPA's long-term debt. At end-2017, 75% of SEMAPA's long-term debt benefited from an explicit first-demand guarantee from the City of Paris. This share falls to 53% when including short-term financial obligations. Fitch expects this share to remain broadly stable over the medium term.

**Moderate Socio-Political Importance:** Fitch views SEMAPA's socio-political importance for the City of Paris as moderate as there is a real need in greater Paris for more usable land, due to fast demographic growth, which is driving demand for both housing and office space. However, in times of global financial stress, the City of Paris might refocus on its core responsibilities such as water provision or social housing.

**Serious Financial Implications of Default:** Fitch estimates that a default by SEMAPA would have large and direct financial implications for the City of Paris due to the existence of a cross-default clause in the EMTN programme, which would trigger the city's guarantee, even if the default occurred on a non-guaranteed obligation.

**Refinancing Risk:** Due to its limited equity relative to the size of its operations, SEMAPA is forced to rely on external financing. Excluding any new operations, Fitch expects SEMAPA's funding needs to peak at EUR385 million in 2019.

### Related Research

[City of Paris \(July 2018\)](#)

### Analysts

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### Rating Sensitivities

**Weakening of Paris's Support:** A rating action on the City of Paris would be reflected in SEMAPA's ratings. A downgrade could result from a weakening of the city's support through a significantly lower assessment of the "strength of linkage" or "incentive to support" key rating factors.

**Profile**

Société d'Etude, de Maitrise d'Ouvrage et d'Aménagement Parisienne (SEMAPA) is a local public company (SPLA), which has an exclusively public shareholding structure, with the City of Paris as its main (92%) shareholder.

The majority of its business focuses on the PRG concerted development zone (ZAC) (via a mandate from the City of Paris), which is the largest development operation in the Paris area.

**Principal Rating Factors**

**Summary**

	<b>Status, ownership and control</b>	<b>Support track record and expectations</b>	<b>Socio-political implications of default</b>	<b>Financial implications of default</b>
Rating factors	Very Strong	Very Strong	Moderate	Strong

Source: Fitch Ratings

**Strength of Linkage**

**Status, Ownership and Control (Very Strong)**

*Legal Status*

As an SPLA, SEMAPA is a public limited company whose shareholders can only be local authorities or groups of local authorities. At end-2018, Paris – both city and department – owned 92% of SEMAPA's shares; the remaining 8% was held by the Region of Ile-de-France.

SPLAs are governed by a law of 13 July 2006 and subject to the Urban Planning Code, which defines them as a form of public enterprise. The contracts between an SPLA and its shareholders must meet the conditions required by community law and are considered "in-house" contracts (not subject to competition) for urban development actions. The General Code for Local Authorities allows LRGs to guarantee up to 80% of the SPLAs' loans for development projects.

Given the duration and the significant size of the operations that are – or can be – entrusted to SEMAPA, its lifetime increases to 70 years (compared with 60 years previously), extending its maturity to 2040. Its territorial competency has also been increased to cover the entire municipal territory.

SEMAPA's SPLA status is key in Fitch's analysis. Article 36 of SEMAPA's statutes states that net assets remaining after the repayment of the nominal value of shares are to be distributed among shareholders in proportion to their equity participation.

*Control*

SEMAPA is governed by a board of directors composed entirely of elected representatives, with the exception of the Director General, Ms Morey. The Board is chaired by Mr Coumet (mayor of the 13th arrondissement of Paris). The board decides on strategy and monitors the implementation of the missions entrusted to SEMAPA.

As an SPLA, SEMAPA is subject to similar control by Paris to that exercised over the city's own departments. Consequently, SEMAPA is considered an "internal operator" of Paris and does not need to compete to perform its missions. Fitch believes that this removes the risk inherent in the use of tenders.

SEMAPA could be subject to control by the national court of auditors.

In terms of activity, as provided by the planning code, an annual report for each development concession for construction must be submitted to the LRG. This report is written by SEMAPA and sent to the board of directors. It includes a report on the progress made in terms of the

**Related Criteria**

[Government-Related Entities Rating Criteria \(October 2018\)](#)

[International Local and Regional Governments Rating Criteria – Outside the United States \(April 2016\)](#)

programme's implementation at the end of the year, an estimation of revenue and expenditure, and a cash flow forecast.

This document is completed by: a regular check (at intervals of less than one year) through a steering committee – chaired by the City of Paris and taking place before each board – which is responsible for monitoring the overall progress of SEMAPA's operations; production of quarterly dashboards; and a quarterly review of the situation and cash flow forecasts.

SEMAPA may also be subject to an audit by Paris. The last dated from July 2010 and did not identify any major risks.

### Support Track Record and Expectations (Very Strong)

In terms of urban development, in accordance with the law, Paris guarantees 80% of SEMAPA's loans provided that annual repayments do not exceed 5% of the city's operating revenues. However, the granting of this guarantee requires a few weeks of instruction (time required to pass a draft deliberation to the Council of Paris).

SEMAPA may also request a temporary cash advance from Paris (renewable or repayable at maturity). This advance is subject to a funding agreement that has to be approved by a resolution voted on by the City Council of Paris on a monthly basis. At end-2017, SEMAPA had never taken advantage of this type of advance.

Conventions relative to cash advances with the City of Paris are rather limited in amount (eg EUR30 million for the PRG operation – see *Activities*). However, in case of financial difficulty, the city would repay SEMAPA's loans, which are guaranteed. These loans would be considered as debt owed to the city by SEMAPA.

Fitch believes that monitoring of SEMAPA allows Paris to anticipate potential cash flow problems.

Concerning the PRG operation, as stipulated in the development concession contract, should SEMAPA prove unable to repay loans benefiting from Paris's guarantee, Paris would have to include in its budget the necessary funds to complete its obligations to lenders. This funding takes the form of treasury advances, which SEMAPA would have to reimburse at the end of the operation. In view of the weighting of the SEMAPA loans guaranteed by Paris, Fitch estimates that SEMAPA benefits from strong support from Paris.

### Incentive to Support

#### Socio-Political Implications of Default (Moderate)

##### *Strategic Importance*

Fitch views SEMAPA's socio-political importance for the City of Paris as moderate as there is a real need in greater Paris for more usable land, due to fast demographic growth, which is driving demand for both housing and office space. Although the City of Paris has other, smaller urban development agencies, SEMAPA is the only one with the financial capacity and technical know-how to manage large operations, giving the City of Paris some flexibility.

Paris's many responsibilities include urban development with a 2018 budget of EUR424 million, of which EUR48 million is for joint development zones. However, Fitch does not believe that, in a situation of budgetary stress, this responsibility would be one of its priorities.

#### Financial Implications of Default (Strong)

##### *Regular Issuer*

SEMAPA is a regular issuer under its EUR340 million EMTN programme and its EUR250 million NeuCP programme. Its issuance calendar is set in accordance with that of the City of Paris. SEMAPA's debt represented about 8% of Paris's direct risk at end-2017. Other than social housing entities, it is one of the city's largest and most indebted satellites.

### *Financial Implications for the City of Paris*

Fitch estimates that a default by SEMAPA would have large and direct financial implications for the City of Paris due to the existence of a cross-default clause in the EMTN programme, which would trigger the city's guarantee, even if the default occurred on a non-guaranteed obligation.

### Overall Assessment of Linkage

The assessment of the four rating factors under Fitch's *Government-Related Entities Rating Criteria* translates into an overall support score of 35, out of a maximum possible score of 60, and the application of a 'top-down minus one' approach.

### Operations

#### Activities

As a developer, SEMAPA's role is to design, plan and realise urban projects for the City of Paris; it coordinates the works and can directly build parts of development operations, notably public spaces and facilities. To this end, when a promoter is selected, SEMAPA buys the land. Fitch assumes that this allows SEMAPA to reduce the risk of "real estate portage", which is especially true for the PRG operation.

At end-2017, development activity was only carried out through operations management and public facilities conducted with general interest aims, on a defined area. The aim of ZACs is that the sale of land and real estate operations allows for the financing of the development of the defined area and reduces the cost for the LRG. Moreover, in accordance with an agreement, owners located in the PRG project are obliged to sell their land only to SEMAPA. During the duration of the ZAC's realisation, Fitch estimates that this reduces, on the one hand, the risk of competition for SEMAPA in terms of the acquisition of land and, on the other, the risk of land speculation.

Initiated in 1991, the PRG operation continues to represent SEMAPA's main activity, with EUR144 million of turnover in 2017 compared with total turnover for SEMAPA of EUR169 million. In 2015, an amendment was signed to extend the date of expiry of this operation from 12 January 2024 to 30 June 2028. This expiry date is only an estimate as the timeframe could be extended in case of the transaction not having been completed. Fitch considers that there is no negative impact of the project's balance in financial terms, as the financial contribution of the local authority has been adjusted. At end-2017, progress had reached 67% (64% at end-2016), consistent with the initial overall phasing of the operation.

Located in the 13th arrondissement of Paris, this operation represents an area of 130 hectares, with scheduled production of 585,000m<sup>2</sup> of housing, 745,000m<sup>2</sup> of office space, 405,000m<sup>2</sup> of shops and activities, and 55,000m<sup>2</sup> of neighbourhood amenities. By way of comparison, Paris covers an area of 100km<sup>2</sup> with a population of 2.3 million.

The main partners in this operation are Paris, SNCF Mobilités (A+/Stable/F1) and SNCF Réseau (AA/Stable/F1+) with which an agreement has been signed. At end-2017, these partners represented 83% of total acquisitions.

PRG is a balanced operation that does not include any subsidies from Paris. The City of Paris is only committed to acquire a portion of public facilities for EUR503 million and to pay a specific participation of EUR299 million over the concession period.

SEMAPA has also led five other, smaller-scale operations: ZAC Gare de Rungis (construction phase completed), ZAC Joseph Bédier-Porte d'Ivry, operating Cité Doré, ZAC Paul Bourget, and ZAC Porte de Vincennes. SEMAPA is also in charge of some construction projects under mandates, mainly on the PRG area.

Fitch estimates that SEMAPA's economic risk is limited as almost all of its operations (including PRG) are made at the risk of Paris. At maturity of the public development agreement, Paris is subrogated to the rights and obligations of SEMAPA, including the level of commitments made

by the latter. Moreover, the revenue and expenditure on development operations do not affect SEMAPA's results. In case of modification of the programme, the financial contribution of the local authority would be changed by an amendment with the aim of maintaining a project's balance in financial terms. Article 24 of the convention related to PRG's operation states that the amount necessary to balance the participation is determined at the closing of the operation.

SEMAPA is only exposed to economic risk on ZAC Bédier-Porte d'Ivry. Fitch estimates that the risk is limited as this operation shows an expected positive net result of EUR10.9 million in 2018 after Paris's financial participation (EUR3.1 million). Moreover, this operation has a budget of only EUR86 million compared with EUR4.4 billion for PRG.

### Balanced Budget

In 2017, SEMAPA's turnover declined by 7% to EUR169 million, from EUR183 million in 2016. This fall in turnover was due to the concentration of a number of transactions with significant amounts, involving some irregularity in the pace of sales achievement.

Expenditure also decreased by 7% due to a reduction in inventory (the value of improvement work and other expenses was below the cost of sold assets). Expenses on operations under concession were stable at EUR140 million (2016: EUR139 million).

At end-2017, all operations were balanced and on SEMAPA's own activity. SEMAPA recorded a small net profit for the year of EUR0.5 million.

### Debt and Liquidity

Given its developer activity and the amount of financing involved in PRG, SEMAPA's financing needs are high.

SEMAPA's developer activity implies financing equipment and works before – a few years later – cashing the revenues of building rights or contributions determined through the conventions. Consequently, bridging finance for the operation is ensured through bank loans guaranteed by Paris (at 80%).

In accordance with prudential rules, at end-2017 working capital (EUR453 million) covered SEMAPA's stock of developed land (EUR183 million) and almost all of its current assets (EUR313 million). Due to the limited size of its equity and reserves (EUR8.4 million at end-2017) compared with its operations, SEMAPA is forced to rely on external financing.

### Debt – Refinancing Needs

SEMAPA's debt increased to EUR441 million at end-2017 from EUR406 million at end-2016. It was made up of: EUR100 million of bank loans; EUR160 million of bonds issued under SEMAPA's EMTN programme; EUR50 million of NSV (German registered) bonds; and EUR130 million of commercial paper.

Fitch considers that SEMAPA is subject to refinancing risk in accordance both with the short-term maturities of its debt and with its business model. As liquidity management under development concession is pooled (see *Liquidity* below), this is mainly due to the positive cash liquidity generated on certain operations.

Fitch forecasts that the total financing requirement of operations will reach EUR215 million at end-2018 compared with EUR258 million at end-2017. The need for funding will be largely covered by the issuance of bank loans, bonds and commercial paper.

In the medium term, Fitch considers that financial needs are likely to increase, reaching a peak of EUR385 million in 2019 for all operations (mostly due to the PRG operation). Financing needs are likely to decrease afterwards without new operations.

Fitch considers that the diversification of SEMAPA's funding packages will enable it to cope with its funding peak. Fitch estimates that under its relationship with the sponsor, SEMAPA should benefit from Paris's reputation in the financial markets, as SEMAPA has expressed its aim to plan its programmes according to those made by Paris.

### Liquidity

Unlike French LRGs, SEMAPA has the freedom to place its cash where it wishes. At end-2017, liquidity remained sound at EUR196 million. This level was mainly due to the unused portion of loans previously contracted and fully mobilised. Liquidity management under concession is pooled and centralised.

Liquidity mainly consists of marketable securities such as short-term deposits. SEMAPA has focused on short-term maturities, which Fitch believes limits the risk associated with a change in value.

Appendix A

**SEMAPA**

(EURm)	2013	2014	2015	2016	2017
<b>Income statement</b>					
Operating revenues	95.5	264.4	212.7	182.9	169.3
Staff expenses	-6.4	-6.9	-6.7	-6.9	-6.7
Depreciation	-0.3	-0.3	-0.3	-0.4	-0.3
Other operating revenues and expenditure	-97.7	-254.0	-203.5	-173.1	-160.3
Operating balance before grants and subsidies	-8.9	3.2	2.2	2.5	2.0
Revenue from public sector	-	-	-	-	-
Operating balance after revenue from public sector	-8.9	3.2	2.2	2.5	2.0
Interest revenue	0.1	1.1	1.1	0.2	0.1
Interest expenditure	-1.7	-3.8	-3.0	-2.5	-1.6
Operating balance after financing	-10.5	0.5	0.3	0.2	0.5
Surplus on disposal of fixed assets	-	-	-	-	-
Non-operating revenue and expenditure	0.9	0.0	2.5	-0.5	0.0
Profit (loss) before taxation	-9.6	0.5	2.8	-0.3	0.5
Taxation	0.0	0.0	0.0	0.0	0.0
Profit (loss) after tax	-9.6	0.5	2.8	-0.3	0.5
Minority interests	-	-	-	-	-
Profit or loss for the financial year	-9.6	0.5	2.8	-0.3	0.5
<b>Balance sheet</b>					
<b>Assets</b>					
Tangible assets	3.6	3.5	2.9	2.8	2.5
Intangible assets	0.0	0.0	-	-	0.0
Other long-term assets	-	-	-	-	-
Long-term investments	0.5	0.5	0.5	0.5	0.5
Stock	276.9	253.9	239.8	197.0	183.0
Trade debtors	88.6	187.4	174.4	158.6	230.6
Other current assets	191.5	200.6	86.8	82.2	83.7
Cash and liquid investments	133.0	78.0	182.1	241.7	195.7
Total assets	694.1	723.9	686.5	682.8	696.0
<b>Liabilities and equity</b>					
Long-term liabilities	13.4	9.2	12.3	12.1	3.2
Pension	-	-	-	-	-
Long-term debt	357.9	385.2	430.7	406.4	441.1
Trade creditors	54.0	61.2	66.6	82.7	97.0
Other short-term liabilities	2.0	2.4	15.8	21.1	3.7
Short-term debt	262.0	260.7	153.2	152.6	142.6
Equity	0.5	0.5	0.5	0.5	0.5
Reserves	4.3	4.7	7.4	7.4	7.9
Minority interests	-	-	-	-	-
Liabilities and equity	694.1	723.9	686.5	682.8	696.0
<b>Debt statement</b>					
Short-term debt	0.0	0.0	30.0	105.0	221.1
Long-term debt	357.9	385.2	400.7	300.0	220.0
Total debt	357.9	385.2	430.7	405.0	441.1
Other Fitch classified debt	0.0	0.0	-	-	-
Total risk	357.9	385.2	430.7	405.0	441.1
Cash, liquid deposits and sinking fund	133.0	78.0	182.1	241.7	195.7
Net risk	224.9	307.2	248.6	163.3	245.4
Contingent liabilities	0.0	0.0	-	-	-
Net overall risk	224.9	307.2	248.6	163.3	245.4
% debt in foreign currency	-	-	-	-	-
% issued debt	0.0	0.0	23.2	63.0	77.3
% debt and fixed interest rate	-	-	-	-	-

Source: Fitch Ratings, SEMAPA

Appendix B

SEMAPA

	2013	2014	2015	2016	2017
<b>Cash flow statement</b>					
Funds from operations	0.2	0.0	-0.3	0.2	0.7
Other cash flow movements	-	-	-	-	-
Changes in working capital	48.3	-82.7	58.6	83.9	-81.4
Cash flow before net capital expenditure	48.5	-82.7	58.4	84.0	-80.7
Net capital expenditure	-0.1	0.6	0.6	-0.1	0.0
Cash flow before financing	48.3	-82.1	59.0	83.9	-80.7
New borrowing	0.0	100.0	150.1	156.2	85.0
Other cash financing	-	-	-	-	-
Debt repayment	-48.8	-72.8	-104.5	-180.5	-50.3
Cash flow after financing	-0.4	-54.9	104.6	59.6	-46.0
<b>Ratio analysis</b>					
<b>Profitability ratios</b>					
Personnel costs/oper. rev including revenue from public sector (%)	6.5	2.8	3.2	4.6	4.1
Revenue from the public sector/oper. rev. including revenue from public sector	-	-	-	-	-
EBITDA/oper. rev. including revenue from public sector (%)	-6.1	1.0	4.3	2.3	4.1
<b>Balance sheet ratios</b>					
Current assets/total assets (%)	99.4	99.4	99.5	99.5	99.6
Current assets/total liabilities (%)	100.1	100.2	100.7	100.7	100.8
Return on equity (%)	-200	9.6	35.4	-3.8	6.0
Return on assets (%)	-1.4	0.1	0.4	0.0	0.1
<b>Debt ratios</b>					
Net debt/EBITDA (x)	-37.5	128.0	28.3	48.0	36.1
Long-term debt/oper. rev. including revenue from public sector (%)	362.2	154.1	193.8	200.4	133.5
Total debt/EBITDA (x)	-59.7	160.5	48.9	119.1	64.9
Debt/equity (%)	7,456.3	7,407.7	5,451.9	5,126.6	5,251.2
EBITDA/gross interest expenditure (x)	-	-	-	-	-
Debt servicing/operating balance before revenue from public sector (%)	-567.4	2,393.8	4,886.4	8,520	2,580
Debt servicing/operating balance after revenue from public sector (%)	-567.4	2,393.8	4,886.4	8,520	2,580

n.a.: Not available

Source: Fitch Ratings, SEMAPA



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