

## SEMAPA

## Full Rating Report

## Ratings (IDR)

## Foreign Currency

Long-term IDR	AA-
Short-term IDR	F1+

## Local Currency

Long-term IDR	AA-
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## Outlooks

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

## Financial Data

## SEMAPA

	Dec 31 18	Dec 31 17
Operating revenues (EURm)	73.4	169.3
Revenue from public sector (EURm)	0	0
Operating balance after revenue from public sector (EURm)	2.5	2.0
Total debt (EURm)	441.6	441.1
Total assets (EURm)	646.1	696.0
Equity and reserves (EURm)	8.4	8.4
EBITDA/operating revenue (including revenue from public sector; %)	-1.2	4.1
ROA (%)	0.0	0.1
ROE (%)	2.4	6.0
Total debt/EBITDA (%)	-315.4	64.9

Source: Fitch Ratings, SEMAPA

## Key Rating Drivers

**Ratings Affirmed:** The ratings reflect SEMAPA's close control and monitoring by the City of Paris (AA/Stable/F1+), its large share of guaranteed debt (53% of long- and short-term debt at end-2018) and Paris's commitment to ensure urban development projects under concession are financially stable. The ratings also factor in the real estate market reversal and inherent refinancing risks for urban development activities. SEMAPA's ratings are one notch below Paris's, in line with the top-down approach in our *Government-Related Entities Rating Criteria*.

**Protective Legal Status:** SEMAPA is a private law company whose capital can only be owned by local and regional governments (LRGs). The City of Paris owns 92% of SEMAPA. The rest belongs to the Region of Ile-de-France (AA/Stable/F1+). SEMAPA is subject to close control and monitoring by the City of Paris, similar to that which it exercises over its internal services.

**Strong Control:** SEMAPA can only intervene at the request of its shareholders. All its projects are governed by six concession agreements with the City of Paris (with end dates from 2020 to 2032). These state that all assets and liabilities linked to these projects will revert to the city at the end of the respective concession agreement, or by mandate agreements with similar provisions.

**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-2018, 64% of SEMAPA's long-term debt benefited from an explicit first demand guarantee from the City of Paris. This falls to 53% when including short-term debt. Fitch expects this 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 the greater Paris area 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 crisis, the City of Paris might focus on its core responsibilities such as water provision or social housing.

**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 Euro medium-term notes (EMTN) programme, which would trigger the city's guarantee even if the default occurred on a non-guaranteed obligation.

**Refinancing Risk:** SEMAPA is forced to rely on external financing due to its limited equity relative to the size of its operations. Its outstanding debt reached 1.1x the value of its stock and receivables at end-2018, a stable figure compared to 2017.

## Rating Sensitivity

**Change in Paris's Ratings:** A change to the City of Paris's ratings would be reflected in SEMAPA's ratings. A downgrade could result from a weakening of the City of Paris's control or financial support.

## Related Research

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

## Analysts

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## Rating Track Record

Date	Long-Term Rating	Short-Term Rating
18 Dec 14	AA-	F1+
21 Jul 14	AA	F1+

2014's downgrading reflects Fitch's downgrading of France's rating  
Source: Fitch Ratings

## Profile

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

Most of its activity focuses on the Paris Rive Gauche (PRG) cooperative development zone (ZAC) via a mandate from the City of Paris, which is the largest development project in the Paris area.

## Principal Rating Factors

### Summary

	Status, ownership and control	Support track record and expectations	Socio-political implications of default	Financial implications of default
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, the City of Paris owned 92% of SEMAPA's shares. The remaining 8% was owned by the Region of Ile-de-France.

SPLAs are governed by the law dated 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 operations. The General Code for Local Authorities allows LRGs to guarantee up to 80% of an SPLA's loans for development projects.

The duration and the significant size of the projects that are or might be entrusted to SEMAPA mean that its lifespan has increased to 70 years from 60, extending its maturity to 2040. Its territorial responsibility has also been increased to cover the entire City of Paris.

SEMAPA's SPLA status is key in Fitch's analysis. In the event of dissolution, 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 contribution.

#### 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 in Paris) and decides on strategy and monitors the implementation of the projects entrusted to SEMAPA.

SEMAPA, as an SPLA, is subject to close control and monitoring by the City of Paris, similar to that which it exercises over its internal services. We therefore consider SEMAPA an internal operator for the City of Paris and does not need to compete to carry out its projects. Fitch believes that this removes the risk inherent in the use of tenders.

SEMAPA is also subject to control by the Regional Court of Auditors.

## Related Criteria

[Government-Related Entities Rating Criteria \(January 2019\)](#)

[Rating Criteria for International Local and Regional Governments \(September 2019\)](#)

An annual report for each development concession must be submitted to the LRG under the Urban Planning Code. This report is written by SEMAPA, sent to the board of directors and adopted by the Paris Council. It includes a report on the progress made in terms of the programme's implementation at the end of the year, an estimate of revenue and expenditure, and a cash flow forecast.

This document is completed during a regular follow-up (at intervals of less than one year) through a steering committee chaired by the City of Paris and taking place before the board of directors. It is responsible for monitoring the overall progress of SEMAPA's projects, the production of quarterly dashboards and a quarterly review of the current situation and cash flow forecasts.

SEMAPA may also be subject to an audit by Paris. The most recent audit, dated July 2010, did not identify any major risks.

### Support Track Record and Expectations: Very Strong

Paris guarantees 80% of SEMAPA's loans under the relevant law provided annual repayments do not exceed 5% of the city's operating revenues. However, the granting of this guarantee requires a few weeks of instruction (the time required to deliberate before the Paris Council).

SEMAPA can also request a temporary cash advance from Paris (renewable or repayable at the end of the project). This advance is subject to a funding agreement that has to be approved by a deliberation voted on by the Paris Council during its sessions. Up to end-2018, SEMAPA had never taken advantage of this type of advance.

Agreements related to cash advances with the City of Paris are rather limited in amount with regards to their use (eg EUR30 million for the PRG project). However, in the event of financial difficulty, the city would repay SEMAPA's guaranteed loans. These loans would be considered as debt owed to the city by SEMAPA under signed agreement.

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

Paris would have to include in its budget the necessary funds to fulfill its obligations to the lenders, as stipulated in the development concession contract, should SEMAPA prove unable to repay PRG loans under Paris's guarantee. This funding takes the form of cash advances, which SEMAPA would have to repay at the end of the project. Fitch concludes that SEMAPA benefits from strong support from Paris in view of the weighting of the guaranteed loans.

SEMAPA is subject to risks such as the downswing of the construction market, which could lead to it not being able to repay its debts. Fitch considers this risk to be low because the city is bound by the concession agreements to ensure the economic stability of each concession. In the event of a real estate crisis, Paris should increase its contribution to projects or reduce SEMAPA's investment programme.

### Incentive for Support

#### Socio-Political Implications of Default: Moderate

Fitch views SEMAPA's socio-political importance for the City of Paris as moderate as there is a real need in the greater Paris area 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 projects, giving it some flexibility. This strategic significance was confirmed in 2018 by the development of the new ZAC Bercy Charenton, entrusted to SEMAPA by the city.

Paris's many responsibilities include urban development, which has a 2019 budget of EUR311 million, of which EUR41 million is for cooperative development zones. However, Fitch believes this responsibility will not be one of the city's priorities in the event of budgetary pressure.

### Financial Implications of Default: Strong

#### *Regular Issuer*

SEMAPA is a regular issuer via 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 7% of Paris's total debt at end-2018. Other than social housing, it is one of the city's most indebted entities.

#### *Financial Implications on 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 possible 60, and the application of a 'top-down minus one' approach.

## Operations

### Activities

SEMAPA's role is to design and plan urban development projects for the City of Paris. It coordinates the projects' completion and can directly carry part of the work, most notably for public spaces and amenities. In this respect, when an area is selected, SEMAPA buys the land under framework agreements. Fitch assumes that this allows SEMAPA to reduce the risk of "real estate porting," which is especially true for the PRG project.

At end-2018, activity was only carried out through urban development and public amenities projects aimed at general interest. The aim of ZACs is that the sale of land and real estate operations allows for the financing of the development in 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 to SEMAPA. Fitch estimates that for the duration of the ZAC's development this not only reduces the risk of competition for SEMAPA in terms of land acquisition but also the risk of land speculation.

Initiated in 1991, the PRG project represented SEMAPA's main activity in 2018, with a turnover of EUR67 million from a total turnover of EUR73 million. In 2015, an additional clause was signed to extend the date of maturity of this project from 12 January 2024 to 30 June 2028. However, this date is only an estimate and the timeframe can be extended if the project is not completed. Fitch believes that there is no negative impact on the project's stability in financial terms as the financial contribution from the local authority has been adjusted accordingly. At end-2018, progress had reached 68% (from 67% at end-2017), consistent with the initial overall phasing of the project.

This project, located in the 13th arrondissement of Paris, covers 130 hectares with the scheduled production of 585,000 sqm of housing, 745,000 sqm of office space, 405,000 sqm of shops and businesses, and 55,000 sqm of neighbourhood amenities. In comparison, Paris covers an area of 100 sqkm with a population of 2.3 million.

The main partners in this project are the City of Paris, SNCF Mobilités (A+/Stable/F1+) and SNCF Réseau (AA/Stable/F1+), with which an agreement was signed. At end-2018, these partners represented 83% of total acquisitions.

PRG is a stable project that does not include any subsidies from Paris. The City of Paris is only committed to acquire a portion of the public amenities for EUR503 million and to pay a required contribution of EU-299 million during the concession period.

SEMAPA has also led five other smaller projects for the City of Paris: ZAC Joseph Bédier, the Cité Doré project (90 Boulevard Vincent Auriol), ZAC Paul Bourget, ZAC Porte de Vincennes and ZAC Bercy Charenton. The last of these, recently assigned to SEMAPA, is the largest of the six projects, with a budget of EUR961 million. However, it represents only 22% of the budget for ZAC PRG.

SEMAPA is also in charge of some public amenity construction projects under mandates, mainly in the PRG area.

Fitch estimates that SEMAPA's economic risk is very low as almost all its projects (including PRG) are carried out at the risk of the City of Paris. Consequently, at the end of the public development agreements, Paris is subrogated to the rights and obligations of SEMAPA, including the commitments made by the latter. Moreover, the revenue and expenditure on development projects do not affect SEMAPA's results. If the programme is modified, the financial contribution of the local authority would be modified by an additional clause with the aim of maintaining the project's financial stability. Article 24 of the PRG agreement states that the contribution amount required to settle the accounts is determined at closing of the project.

SEMAPA is only exposed to economic risk regarding ZAC Joseph Bédier-Porte d'Ivry. Fitch estimates that the risk is very low as this project had an expected positive net result of EUR15 million in 2018, after Paris's financial contribution of EUR3.1 million. Moreover, this project has a budget of only EUR86 million compared with EUR4.4 billion for PRG.

### Balanced Budget

SEMAPA's turnover had decreased by 57% to EUR73 million at end-2018, compared to EUR169 million at end-2017. This decrease in turnover was due to the concentration of a number of real estate transactions of significant amounts, involving some irregularity in the pace of sales.

Expenditures also decreased by 32% due to a reduction in stock (the value of improvement work and other expenses was below the cost of sold assets). Expenses on projects under concession decreased to EUR106 million in 2018, compared to EUR138 million in 2017.

At end-2018, all projects were stable and SEMAPA recorded a small net profit on its own activity.

### Debt and Liquidity

SEMAPA's financing needs are high due to its developer activity and the amount of financing involved in the PRG project.

SEMAPA's developer activity involves financing equipment and work (including highways and networks) before cashing in on the revenues of building rights (plots sold) or contributions determined through agreements a few years later. Consequently, bridging finance for the projects is ensured through bank loans guaranteed by the City of Paris (up to 80%).

At end-2018 working capital (EUR451 million) covered SEMAPA's stock of developed land (EUR217 million) and almost all its current assets (EUR205 million), in accordance with prudential rules. However, due to the limited size of its equity and reserves (EUR8.4 million) compared to the size of its operations, SEMAPA is forced to rely on external financing.

### Debt: Mid-Term Refinancing Needs

SEMAPA's debt was stable at EUR442 million at end-2018. It was made up of EUR120 million of bank loans, EUR160 million of bonds issued under SEMAPA's EMTN programme, EUR80 million of "Namensschuldverschreibung" German registered bonds and EUR80 million of commercial paper under the NeuCP programme.

Fitch considers that SEMAPA is subject to refinancing risk in accordance with both the short-term maturities of its debt and its business model. As liquidity management for development concessions is pooled, positive cash liquidity generated on certain projects reduces overall financial requirements.

Fitch believes that the diversification of SEMAPA's funding practices will enable it to cope with new projects entrusted to it. SEMAPA should benefit from Paris's reputation in financial markets, as the company has expressed its aim to plan its programmes in line with those carried out by Paris.

### Liquidity

SEMAPA has the freedom to place its cash where it wishes, unlike French LRGs. At end-2018, liquidity remained positive at EUR221 million. This amount was mainly due to the temporarily unused portion of loans previously contracted and fully mobilized. Liquidity management under concession is pooled and centralized, and budget monitoring is individualized by project.

Liquidity mainly consists of marketable securities such as interest-bearing bank accounts. SEMAPA has focused on short-term maturities. Fitch concludes that this limits the risk associated with changes in value.



Appendix A

<b>SEMAPA</b>					
<b>(EURm)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Income statement</b>					
<b>Operating revenues</b>	264.4	212.7	182.9	169.3	73.4
Staff expenses	-6.9	-6.7	-6.9	-6.7	-6.8
Amortization and depreciation	-0.3	-0.3	-0.4	-0.3	-0.2
Other operating revenues and expenditures	-254.0	-203.5	-173.1	-160.3	-63.9
Operating balance before revenue from public sector	3.2	2.2	2.5	2.0	2.5
<b>Revenue from public sector</b>	-	-	-	-	-
Operating balance after revenue from public sector	3.2	2.2	2.5	2.0	2.5
Interest revenue	1.1	1.1	0.2	0.1	0.1
Financial expenses	-3.8	-3.0	-2.5	-1.6	-2.4
<b>Operating balance after financing</b>	0.5	0.3	0.2	0.5	0.2
Surplus on disposal of fixed assets	-	-	-	-	-
Non-operating revenue and expenditure	0.0	2.5	-0.5	0.0	0.0
<b>Profit (loss) before taxation</b>	0.5	2.8	-0.3	0.5	0.2
Taxation	0.0	0.0	0.0	0.0	0.0
<b>Profit (loss) after taxation</b>	0.5	2.8	-0.3	0.5	0.2
Minority interests	-	-	-	-	-
<b>Net profit (loss)</b>	0.5	2.8	-0.3	0.5	0.2
<b>Balance sheet</b>					
<b>Assets</b>					
Tangible assets	3.5	2.9	2.8	2.5	2.3
Intangible assets	0.0	-	-	0.0	0.0
Other long-term assets	-	-	-	-	-
Long-term investments	0.5	0.5	0.5	0.5	0.6
Stock	253.9	239.8	197.0	183.0	216.7
Commercial debts	187.4	174.4	158.6	230.6	195.2
Other current assets	200.6	86.8	82.2	83.7	10.1
Cash and liquid investments	78.0	182.1	241.7	195.7	221.2
<b>Total assets</b>	723.9	686.5	682.8	696.0	646.1
<b>Liabilities</b>					
Long-term liabilities	9.2	12.3	12.1	3.2	1.0
Pensions	-	-	-	-	-
Long-term debt	385.2	430.7	406.4	441.1	441.5
Commercial debt	61.2	66.6	82.7	97.0	122.0
Other short-term liabilities	2.4	15.8	21.1	3.7	2.9
Short-term debt	260.7	153.2	152.6	142.6	70.3
Equity	0.5	0.5	0.5	0.5	0.5
Reserves	4.7	7.4	7.4	7.9	7.9
Minority interests	-	-	-	-	-
<b>Total liabilities</b>	723.9	686.5	682.8	696.0	646.1
<b>Debt</b>					
Short-term debt	0.0	30.0	105.0	221.1	131.6
Long-term debt	385.2	400.7	300.0	220.0	310.0
<b>Total debt</b>	385.2	430.7	405.0	441.1	441.6
Other Fitch-classified debt	0.0	-	-	-	-
<b>Total risk</b>	385.2	430.7	405.0	441.1	441.6
Cash	78.0	182.1	241.7	195.7	221.2
<b>Net risk</b>	307.2	248.6	163.3	245.4	220.4
Off-balance sheet liabilities	0.0	-	-	-	-
<b>Net overall risk</b>	307.2	248.6	163.3	245.4	220.4
% debt in foreign currency	-	-	-	-	-
% bonded debt	0.0	23.2	63.0	77.3	72.8
% fixed-rate date	-	-	-	-	-

Source: Fitch Ratings, SEMAPA

## Appendix B

### SEMAPA

	2014	2015	2016	2017	2018
<b>Cash flow statement (EURm)</b>					
Funds from operations	1.0	1.0	1.0	1.0	1.0
Other cash flow	-	-	-	-	-
Changes in working capital	1.0	1.0	1.0	1.0	1.0
Cash flow before net investment	-82.0	58.3	84.1	-80.6	25.0
Net investment expenditure	-0.3	1.1	-0.1	-0.1	-0.1
Cash flow before financing	-82.3	59.4	84.0	-80.7	24.9
New borrowing	100.0	150.1	185.0	60.0	140.7
Other cash financing	-	-	-	-	-
Debt repayment	-72.8	-104.5	-210.5	-50.0	-140.0
Cash flow after funding	-55.1	105.0	58.5	-70.7	25.6
<b>Ratios</b>					
<b>Profitability ratios (%)</b>					
Staff expenditure/operating revenue (including revenue from public sector)	2.8	3.2	4.6	4.1	5.9
Revenue from public sector/operating revenue (including revenue from public sector)	-	-	-	-	-
EBITDA/operating revenue (including revenue from public sector)	1	4.3	2.3	4.1	-1.2
<b>Balance sheet ratios (%)</b>					
Current assets/total assets	99.4	99.5	99.5	99.6	99.6
Current assets/total liabilities (excluding equity)	100.2	100.7	100.7	100.8	100.9
Return on invested capital	9.6	35.4	-3.8	6	2.4
Return on assets	0.1	0.4	0	0.1	0
<b>Debt ratios</b>					
Net debt/EBITDA (x)	128.0	28.3	48.0	36.1	-157.4
Long-term debt/operating revenue (including revenue from public sector) (%)	154.1	193.8	200.4	133.5	267.2
Total debt/EBITDA (x)	160.5	48.9	119.1	64.9	-315.4
Debt/equity (%)	7,407.7	5,451.9	5,126.6	5,251.2	5,257.1
EBITDA/gross financial expenditure (x)	-	-	-	-	-
Debt servicing/operating balance before revenue from public sector (%)	2,393.8	4,886.4	8,520	2,580	5,696
Debt servicing/operating balance after revenue from public sector (%)	2,393.8	4,886.4	8,520	2,580	5,696

n.a.: Not available

Source: Fitch Ratings, SEMAPA



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