

Much ado about an ailing minnow

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Robert Harley

While many Australian property groups are on the improve, one listed group, Melbourne development minnow Folkestone, has gone from bad to worse.

So bad that it's hard to understand why such a furious fight has erupted over its future between, in one corner, property veteran Greg Paramor, and in the other, Melbourne rich list investors Alex Waislitz and Bill Bowness.

The saga will reach its finale this Wednesday when investors vote on the Paramor plan for recapitalisation.

Folkestone is a Melbourne developer that long ago lost its way.

In the last half, the write-downs on its joint venture development projects were so bad that the net tangible asset backing has more than halved in the past year, to just 16.8¢.

"The current market conditions, together with Folkestone's limited capital base, limited cash reserves, upcoming debt expiries, the fact that its investments include joint ventures and minority interests, and lack of scale and liquidity, will continue to impact Folkestone's ability to deliver earnings growth and share price performance in the future," wrote the chairman at the half year.

Everyone agrees Folkestone needs more money, but it needs more than that. It needs new management and new direction.

Paramor and his colleagues Jonathan Sweeney and Adrian Harrington are proposing to raise \$20 million to \$100 million and take control of the company.

The focus would be on value-add and opportunistic development – which is where the arbitrage is – and growing a funds management platform.

After eight months and \$280,000 in costs, the board finally agreed to the proposal, only to find that leading shareholders Waislitz and Bowness were not happy.

They had held their shares through a massive destruction of value but were now unhappy that the Paramor plan would dilute their holding.

So Bell Potter came up with an alternative capital raising, a 2-for-1 underwritten renounceable rights issue to raise \$25 million.

Ironically, the raising could increase the Waislitz and Bowness holdings at the expense of smaller shareholders.

It certainly does not tick the box for new management or new strategy.

But the two board members not representing the Paramor camp, chairman Alistair Maitland and director Michael Parkinson, changed their support to the Waislitz/Bowness proposal.

Long-serving funds manager Erik Metanomski has written of "grave concerns" about the board's "level of impartiality and independence".

Last week Maitland and Parkinson put out an ASX release rejecting "any assertion of any corporate governance shortfall".

Paramor is hanging in. He thinks shareholders, including those who followed him into the stock, have been badly treated.

And he can see opportunities in the new world of property, where capital remains scarce, except for prime property, and particularly for development.

It's a tussle that could be repeated as other small listed and unlisted groups struggle to recapitalise and refocus.

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