

paragon AG

Electrifying performance

paragon is set to deliver 22%, 44% and 46% three-year CAGR in revenues, PBT and EPS respectively, driven predominantly by substantial growth from the group's move into electromobility and new product areas such as body kinematics. This is built on a strong core business in automotive electronics with a unique culture and development approach at the forefront of technological trends, many of which were exhibited by the group at IAA 2015. With few directly comparable peers that can match such growth, we use a DCF valuation approach yielding a €30.1/share fair value.

Strategy to rapidly expand non-automotive reach

Founded in 1988, paragon's core business has been built on a strategy of identifying emerging trends and developing systems ahead of, rather than in response to, requests from OEMs. This has led to significant success in automotive, accounting for 95% of 2014 revenues, 80% of which are derived from strong German OEMs. With the same R&D and systems approach being used to rapidly expand in electromobility, we forecast that 27% of revenue will come from non-automotive markets by 2017, supported by existing contracts and partnerships and providing higher growth and margin potential.

Trajectory highlighted in H1 results

H115 results highlighted the benefits of the group's growth strategy with revenues up 18% to €44.6m (H114: €37.8m), EBIT more than doubling to €3.8m (H114: €1.5m) and EPS rising to €0.46 (H114: €0.09), driven by growth across all divisions and an initial contribution from the February 2015 acquisition of SphereDesign. With significant contract wins in the period for starter batteries, intralogistics and body kinematics, the group has a 2015-19 order backlog of >€640m and 97% order cover for FY15 targets of c €100m revenue and 10% EBIT margin.

Valuation: Multiple growth drivers exist

paragon has multiple growth drivers to deliver enhanced shareholder value. With the opening of Voltabox Texas complete and delivery expected from the Chinese production facility in the coming months, we anticipate the growth trajectory to continue over the next three years. As this growth is delivered, the rating should rapidly compress. However, we feel that short-term ratings do not fully reflect this potential and therefore use a DCF approach to yield a fair value of €30.1 per share, assuming 10% margins and 2% terminal value at a 10% WACC.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	79.0	4.3	0.67	0.0	35.2	N/A
12/15e	99.3	7.9	1.29	0.0	18.3	N/A
12/16e	117.7	10.3	1.68	0.0	14.1	N/A
12/17e	141.8	12.9	2.10	0.0	11.2	N/A

Source: paragon AG, Edison Investment Research

Automotive electronics

Price €23.61

Market cap €97m

Share price graph



Share details

Code	PGN
Shares in issue	4.1m
Net debt (€m) at 30 June 2015	27.4

Business description

paragon designs and manufactures advanced automotive electronics solutions as a direct supplier to the automotive industry. Its products include sensors, acoustics, cockpit; electromobility and body kinematics. Production facilities are in Germany and the US, and production will soon begin in China.

Bull

- Automotive exposure geared to premium OEMs.
- Significant pipeline of new product introductions coming to market through R&D investment.
- Expansion into electromobility supported by contracts already received and opening of production facility in Texas.

Bear

- Market uncertainty caused by VW emission issues.
- Heavy investment year in 2015, easing from 2016.
- Highly reliant on a small number of key personnel.

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