

paragon

Premium opportunity

paragon supplies leading-edge components, modules, and systems to the car sector. The company is a renowned industry innovator and management expects revenues to grow by 10% a year over the next three years. The valuation looks anomalously low given the expected growth rates.

Niche operator

paragon was founded 25 years ago by current chairman and majority shareholder Klaus Dieter Frers. The company has grown to be a key innovator in the automotive sector. The bulk of sales are to the German premium car segment and straddle three established divisions: Cockpit (2012: 40% sales), Sensors (38%) and Acoustics (16%). The group also includes two high-growth divisions: Body Works Kinematics (5%) and Electromobility (<1%).

R&D-focused company

This is a research-driven business with R&D/sales at 9% (2012). Almost uniquely in this sector, two-thirds of sales are products that have been independently developed from scratch with the rest developed to customer specification. paragon has tangible competitive advantages including a holistic approach to design that allows products to integrate with OEM and third-party systems. It also has the benefit of experienced engineering and management teams with industry expert, Mr Frers, in the driving seat.

Recent financial performance

The EBITDA margin fell sharply to 12.1% in Q113 (2012: 19.4%) but cost management helped this to recover to 16.1% in Q2 (2012: 19%). Management expects revenues to hit €100m by 2016 (2013e: €75m), driven by demand for electric battery systems (Electromobility) and adjustable spoiler systems (Body Works Kinematics). Assuming constant margins, this implies a CAGR in EPS of 10% over the next three years. However, margins may improve as automated production lines are gradually rolled out across the product range. Management also expects to make small bolt-on acquisitions. The balance sheet is well capitalised (2012: net debt/equity = 4.4%) and strong, with intangibles constituting only 11% of total assets.

Valuation: Excellent value if margins stabilise

The company has a strong track record in delivering sales growth. Assuming margins stabilise at Q2 levels, the shares are attractively valued on consensus earnings and management's three-year growth forecast. Using 2013e earnings the P/E of c 6x applied to the 10% forecast EPS CAGR results in a PEG ratio of 0.6. On 2013e consensus, EV/EBITDA is c 3x, which compares to c 8x for MSCI Germany.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	67.1	7.5	1.30	0.00	6.9	N/A
12/12	70.4	6.7	1.13	0.25	7.9	2.8
12/13e	75.0	8.3	1.43	0.15	6.2	1.7
12/14e	79.2	9.0	1.54	0.18	5.8	2.0
Source: Thomson Reuters						

General industrials

Price €8.92

Market cap €37m

Share price performance



Share details

Code PGN
Shares in issue 4.1m
Net (debt)/cash (€) as at Jun '13 (5.75m)

Business description

paragon is a Germany-based technology company that develops, manufactures and sells advanced automotive electronic solutions. As a supplier of the automotive industry, it manufactures products for air quality, drive train, acoustics, stepper motors, media interfaces and cockpits.

Bull

- Valuation
- Research-driven business model
- Operates in growth niches

Bear

- Majority controlled by founder
- Narrow industry exposure
- Narrow customer base

Analyst

Graeme Kyle

industrials@edisongroup.com

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is not regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2013 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is/is not registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2013]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.