

paragon

Dynamic driving

Despite rapid growth, paragon's shares have performed poorly since the positive reaction to half year results in August, in part due to value attribution from Voltabox which has also slipped back. Recent acquisitions of SemVox by paragon and Navitas and ACCURATE by Voltabox do not warrant the reaction, and we expect Q318 results in November to underpin market expectations. On our forecasts, paragon is now trading on an undemanding FY19 P/E of just 9.4x and our DCF remains at €95 a share.

Technology innovator

paragon continues to identify trends ahead of its automotive OEM customers and leverages its strong engineering capabilities to provide customers with innovative solutions that address those factors. Since the IPO of 40% of Voltabox in October 2017, the organic growth strategy has continued to be supplemented by acquisitions, increasing the ability to supply system solutions and to extend market reach. Voltabox's rapid market development provides verification of the strategy and paragon continues to pursue other technology growth opportunities such as body kinematics, air quality and voice control. As these mature into full supply paragon should see strong growth in both its Mechanics (body kinematics) and Electronics (Interiors and Sensors) activities, as well as Electromobility (Voltabox).

Digital Assistance division created

paragon recently completed the €16.4m purchase of 82% of SemVox GmbH, a leading technology supplier of proactive assistants based on Artificial Intelligence and Machine Learning. It has mid single digit annual sales and is profitable. The business will be integrated with paragon's existing Interiors division (Cockpit and Acoustics) in a new facility in Limbach-Kirkel by the year end. Combined they will form paragon semvox GmbH, the new Digital Assistance division. It should enable paragon's automotive OEM customers to acquire complete solutions for speech assistance systems from a single source.

Valuation: potential warrants higher rating

While Voltabox is directly valued in the market, we feel the rest of paragon is receiving little recognition despite strong growth prospects. Rating paragon's (ex Voltabox) FY18e EBITDA in line with peers and adding back Voltabox at market value indicates a group value of €54 per share even after the recent share price declines. Our revenue and earnings forecasts remain broadly in line with guidance and consensus, and our capped DCF returns a value of €95 per share.

Edison estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/16	102.8	6.9	1.02	0.25	28.2	0.8
12/17	124.8	8.2	0.67	0.25	43.0	0.8
12/18e	178.5	13.3	1.88	0.25	15.3	0.8
12/19e	251.2	23.8	3.05	0.25	9.4	0.8

Source: Company reports, Edison Investment Research estimates

Automobiles and parts

Price €28.80
Market cap €130m

Share price graph



Share details

Code	PGN
Shares in issue	4.5m
Net cash (€m) at 30 June 2018	34.1

Business description

paragon designs and manufactures automotive electronics and solutions, selling directly to OEMs. Products include sensors, acoustics, cockpits and body kinematics. Production facilities are in Germany, the US and China. Following the IPO of Voltabox in October 2017, paragon owns 60%.

Bull

- Voltabox expanding rapidly with potential to grow its addressable market as the world electrifies.
- Increasing systems capability as acquisitions fill gaps in markets and technologies.
- Electronics expected to return to growth in 2019 as adoption of newer sensors outweighs run offs.

Bear

- Voltabox's growth and IPO has made it a major driver in perception of the parent, with other potentials possibly lacking recognition.
- Lifecycle transition period in Electronics constrains growth as sensors migrate to newer generations.
- Legal structure change to KGaA eliminates potential for unsolicited approaches.

Analysts

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