EDISON

# paragon

Automobiles and parts

## Growing pains should prove temporary

**paragon faces a challenging year, primarily due to growing pains at the Electromobility segment (Voltabox). The Automotive segments' FY19 sales are guided to be c €130m, near the top of the previous range. Group sales growth continues, albeit slower than expected, with margins reduced by an under-recovery of overheads and rationalisation and integration costs. FY19 guidance was greatly reduced in August. The order backlog of €2.1bn supports stronger growth in FY20, alongside improved profitability due to operational leverage and restructuring benefits in Mechanics. The current rating reflects concerns over the growth strategy following recent events. Restoring investor confidence should be a key management focus.**

## Innovative technology for auto and power systems

paragon seeks to identify trends ahead of its customers and leverages its strong engineering capabilities to provide innovative solutions that address those factors. The organic growth strategy continues and has been supplemented by acquisitions, increasing the ability to supply system solutions and extend market reach. Voltabox's market development in battery power systems reflects the strategy and paragon continues to pursue other technology growth opportunities such as body kinematics, air quality and digital assistance. As these mature into full supply, paragon should see growth in its Mechanics (body kinematics) and Electronics (interiors and sensors) activities, as well as Electromobility (Voltabox).

## Challenges should unwind next year

The lower sales for Voltabox arising from supply chain issues, a contract deferral and a resultant under-recovery of overheads was the main factor in lower guidance in August. The Mechanics segment (paragon movasys) also incurred excess project cost and integration charges, but overall the Automotive segments expect sales of c €130m with EBIT margins of +2% to +3%. FY19 group revenues are expected to be €200m to €210m (from €230m to €240m previously) with a negative EBIT margin of -1% to -2% (from c +8%). A recovery of EBIT margin is anticipated in FY20. The delay to sales at Voltabox should correct in FY20 and move it back to a profitable growth path. The Mechanics segment should also return to profit as overhead cost reduction in FY19 takes full effect and new programmes ramp up.

## Valuation: Delivering profitable growth is key

Clearly with a five-year order backlog of €2.1bn (cf Voltabox of €1.1bn), paragon has the potential for growth, with operating leverage expected to improve margins. If management starts to deliver profitable growth, then the rating should improve.

**Edison estimates**

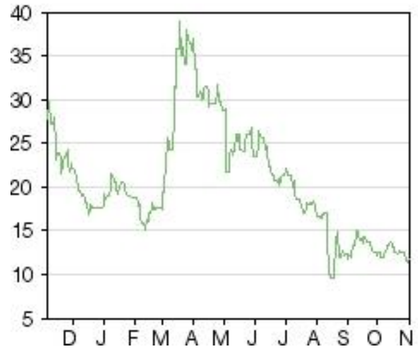
| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/17 | 124.8 | 5.9 | (0.09) | 0.25 | N/A | 2.1 |
| 12/18 | 187.4 | 14.8 | 1.45 | 0.25 | 8.1 | 2.1 |
| 12/19e | 200.1 | (5.3) | (0.43) | 0.25 | N/A | 2.1 |
| 12/20e | 233.4 | 9.5 | 1.39 | 0.25 | 8.5 | 2.1 |

Source: Company reports, Edison Investment Research

**Price** €11.8

**Market cap** €53m

**Share price graph**




**Share details**

| | |
|---|---|
| Code | PGN |
| Shares in issue | 4.5m |
| Net debt as at 30 June 2019 | €110.6m |

**Business description**

paragon designs and supplies automotive electronics and solutions, selling directly to OEMs, including sensors, interiors, digital assistance and body kinematics. Production facilities are in Germany, the US and China. Following the IPO in October 2017, paragon owns 60% of Voltabox (battery systems).

**Bull**

- $2.1bn order backlog offers potential for profitable growth at Voltabox and the automotive operations.
- Increased systems capability after acquisitions that filled gaps in markets and technologies.
- FY20 should see a recovery to positive margins at both Voltabox and at the group level.

**Bear**

- Voltabox issues have dented confidence in group's medium/long-term growth expectations.
- Automotive markets remain subdued which has reduced demand from a customer for Sensors .
- Disruption has reduced cash flow, which while improving will still be negative in FY19.

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