

paragon Group

Auto Parts / Germany

Integrating the sale of semvox

German automotive group with a Chinese focus - 08/12/2022

Change in Target Price

€ 15.4 vs 15.2	+0.88%
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paragon announced the sale of its AI subsidiary paragon semvox to VW's software company CARIAD for €40m (i.e. 1.3x the market cap of paragon at the time of the announcement, while the business unit accounted for c.8% of group revenues).

The divestment comes as a surprise, as AI represented huge growth potential for the group. Positively, the proceeds from the sale should help to alleviate the tight financial situation. Up until now, we had assumed that paragon would resort to a recapitalisation by the end of the year, as the group had said that it was considering a capital increase of €20-30m in its March 2022 presentation. The sale of semvox, although unexpected, should meet the upcoming debt maturities.

All in all, our update resulted in a modest increase in the target price, as the positive effect of the suppression of the previously planned capital increase was virtually offset by the negative effect of the loss in value linked to the sale of paragon semvox (huge growth potential).

Change in EPS

2022 : € 0.80 vs 0.64	+24.6%
2023 : € 1.13 vs 1.16	-2.64%

Our EPS forecast for FY22e increased on the back of a lower number of shares, as we have suppressed the planned capital increase in our forecasts and replaced it with the proceeds from the sale of semvox.

We have re-adjusted our FY23e margin estimate on a lower revenue basis (deconsolidation of semvox), and in line with Paragon's guidance (EBITDA margin at 12-15%, i.e. lower than our previous estimate of 16.5%). As a result, the FY23e EPS decreased.

Change in DCF

€ 28.0 vs 27.0	+3.57%
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Our DCF increased as the €40m cash inflow from the sale of paragon semvox replaced the previously planned capital increase in our forecasts. Thus, the valuation is now based on a lower number of shares. The FCF in connection with the afore-mentioned divestment should generate sufficient funds to repay the upcoming debt maturities (the April 2023 repayment of the CHF21m bond and the €5m partial repayment of the EUR bond).

Baader Europe

Buy	Upside : 196%
Target Price (6 months)	€ 15.4
Share Price	€ 5.20
Market Cap. €M	23.5
Price Momentum	GOOD
Extremes 12Months	3.74 ▶ 8.26
Fundamental Strength	0 / 10
Bloomberg	PGN GY Equity
Reuters	PGNG.DE


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Analyst : Zeineb ROUROU

Equity Sales EquitySales@baaderbank.de

Frankfurt	+49 69 1388 1357
London	+44 20 7054 7100
Munich	+49 89 5150 1850
Zurich	+41 43 388 9200
New York	+1 212 935 5150

PERF	1w	1m	3m	12m
paragon Group	10.4%	27.8%	-5.11%	-34.8%
Autos	-1.76%	3.76%	7.13%	-12.1%
SXXR Index	-0.84%	4.43%	6.19%	-6.82%

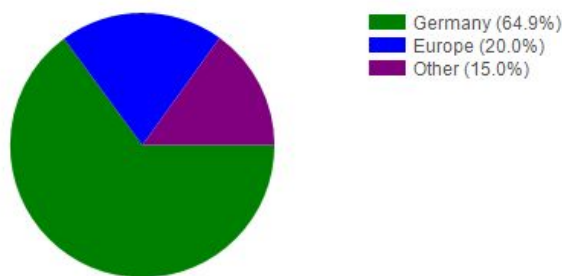
Sector Opinion	Overweight
Strongest upside	paragon Group
Worst potential	Renault

[Complete Sector Analysis](#)

Last updated: 08/12/2022	12/21A	12/22E	12/23E	12/24E
Adjusted P/E (x)	-15.0	6.48	4.59	2.61
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	8.08	5.30	3.03	2.18
Adjusted EPS (€)	-0.66	0.80	1.13	1.99
Growth in EPS (%)	n/a	n/a	41.2	75.9
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€M)	147	157	170	190
EBITDA/R margin (%)	13.6	15.1	15.0	16.0
Attributable net profit (€M)	-11.4	1.63	3.13	7.01
ROE (after tax) (%)	-138	66.6	72.3	68.0
Gearing (%)	3,703	6,696	1,065	335

[Company Valuation](#) - [Company Financials](#)

Sales by Geography



Consolidated P&L Accounts

	12/21A	12/22E	12/23E
Sales	€M 147	157	170
Change in sales	% 1.34	6.52	8.83
Change in staff costs	% -4.09	3.30	-2.17
EBITDA	€M 20.0	23.7	25.5
EBITDA(R) margin	% 13.6	15.1	15.0
Depreciation	€M -16.7	-14.0	-14.0
Underlying operating profit	€M 3.30	9.71	11.5
Operating profit (EBIT)	€M 0.78	7.71	9.54
Net financial expense	€M -6.12	-7.37	-5.07
of which related to pensions	€M	-0.07	-0.10
Exceptional items & other	€M		
Corporate tax	€M -0.16	-0.10	-1.34
Equity associates	€M		
Minority interests	€M 0.00	0.00	0.00
Adjusted attributable net profit	€M -2.98	3.63	5.13
NOPAT	€M 2.47	7.33	8.73

Cashflow Statement

	12/21A	12/22E	12/23E
EBITDA	€M 20.0	23.7	25.5
Change in WCR	€M -1.25	-1.76	2.38
Actual div. received from equity holdi...	€M 0.00	0.00	0.00
Paid taxes	€M -0.47	-0.10	-1.34
Exceptional items	€M		
Other operating cash flows	€M 0.18	5.00	0.00
Total operating cash flows	€M 18.4	26.8	26.6
Capital expenditure	€M -17.5	-12.5	-13.6
Total investment flows	€M 4.13	-4.21	26.4
Net interest expense	€M -6.12	-7.37	-5.07
Dividends (parent company)	€M 0.00	0.00	0.00
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M	0.00	0.00
Total financial flows	€M -24.4	-24.0	-30.7
Change in cash position	€M -4.04	-1.40	22.2
Free cash flow (pre div.)	€M -5.23	6.95	7.88

Per Share Data

	12/21A	12/22E	12/23E
No. of shares net of treas. stock (year...	Mio 4.53	4.53	4.53
Number of diluted shares (average)	Mio 4.53	4.53	4.53
Benchmark EPS	€ -0.66	0.80	1.13
Restated NAV per share	€		
Net dividend per share	€ 0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 28.0	35%	● Valeo
NAV/SOTP per share	€ 19.0	20%	● Continental
EV/Ebitda	€ 4.91	20%	● Faurecia
P/E	€ 6.75	10%	
Dividend Yield	€ 0.00	10%	
P/Book	€ 2.60	5%	
TARGET PRICE	€ 15.4	100%	

NAV/SOTP Calculation

Balance Sheet

	12/21A	12/22E	12/23E
Goodwill	€M 21.9	19.9	17.9
Total intangible	€M 76.4	68.2	32.3
Tangible fixed assets	€M 20.7	20.4	18.3
Financial fixed assets	€M 0.57	0.12	0.12
WCR	€M 2.96	4.72	2.33
Other assets	€M 8.41	8.61	7.50
Total assets (net of short term liab.)	€M 126	118	73.8
Ordinary shareholders' equity	€M 3.30	1.59	7.05
Quasi Equity & Preferred	€M		
Minority interests	€M		
Provisions for pensions	€M 2.93	3.08	2.98
Other provisions for risks and liabilities	€M		
Total provisions for risks and liabilities	€M 2.93	3.08	2.98
Tax liabilities	€M 5.69	5.88	4.71
Other liabilities	€M 0.00	8.00	8.00
Net debt (cash)	€M 114	99.1	51.1
Total liab. and shareholders' equity	€M 126	118	73.8

Capital Employed

	12/21A	12/22E	12/23E
Capital employed after depreciation	€M 118	109	66.3

Profits & Risks Ratios

	12/21A	12/22E	12/23E
ROE (after tax)	% -138	66.6	72.3
ROCE	% 2.10	6.73	13.2
Gearing (at book value)	% 3,703	6,696	1,065
Adj. Net debt/EBITDA(R)	x 6.60	4.84	2.52
Interest cover (x)	x 0.54	1.33	2.32

Valuation Ratios

	12/21A	12/22E	12/23E
Reference P/E (benchmark)	x -15.0	6.48	4.59
Free cash flow yield	% -11.7	29.5	33.5
P/Book	x 13.5	14.8	3.34
Dividend yield	% 0.00	0.00	0.00

EV Calculation

	12/21A	12/22E	12/23E
Market cap	€M 44.6	23.5	23.5
+ Provisions	€M 2.93	3.08	2.98
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00
+ Net debt at year end	€M 97.1	83.5	37.8
+ Leases debt equivalent	€M 17.3	15.6	13.3
- Financial fixed assets (fair value)	€M 0.57	0.12	0.12
+ Minority interests (fair value)	€M 0.00	0.00	0.00
= EV	€M 161	126	77.5
EV/EBITDA(R)	x 8.08	5.30	3.03
EV/Sales	x 1.10	0.80	0.46

Analyst : Zeineb Rourou, Changes to Forecasts : 08/12/2022.

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