

# paragon Group

Auto Parts / Germany

## H1 23: paragon on track

Earnings/sales releases - 21/08/2023

paragon Group published strong growth in revenue and EBITDA in the H1 23 thanks to the strong rebound for the automotive sector, already reaching the level of H1 22 despite the sale of paragon semvox. The financial profile is healthier thanks to bond and loan repayments. The company reaffirmed its guidance for 2023 against this strong backdrop.

### Fact

- Revenues in H1 23 increased by 7.3% to EUR 86.6 million (H1 22: EUR 80.7 million)
- Net gearing reduced to 2.6x, with CHF bond and interim financing repaid in full while the EUR bond was reduced by EUR 4.8 million.
- EBITDA of continuing operations increased by 26% to EUR 8.1 million (H1 22: EUR 6.4 million) while EBITDA from non-continuing operations increased by 206.3% to EUR 7.6 million (H1 22: EUR 2.5 million)
- Outlook for 2023 confirmed: approx. 170 million euros in revenue with EBITDA of between 20 and 25 million euros at group level

### Analysis

#### A better automotive environment

Growth in revenue was driven by the Mechanics (Kinematics) operating segment which increased by 16.5% to €31.2m thanks to higher car volumes (+18% in Europe, +13% in US, +9% in China) in H1 23 compared to H1 22, which had been affected by the chip shortage and Ukraine war. The Electronics business segment grew modestly by 2.7% to €55.9m impacted by a decline of 6.8% in Sensors to €23.4m following the discontinuation of a vehicle series in Q2 23. However, the new Power business experienced substantial growth of 813.5% to €3.8m due to an increased volume of lithium-ion batteries for an OEM, the launch of a new battery in Q2 23 and higher prices; the momentum should continue in H2 23.

Net income was down to €-5.6m from €-3.7m and was affected by an increase in personnel costs (€22.8m vs €21.2m previously) due to inflation and a higher number of employees and a sharp increase in finance costs (€-7.4m vs €-3m previously). However, taking into account the discontinuing operations, consolidated net income grew to €1.4m from €-2.7m thanks to a deconsolidation gain of €5.9m stemming from the price received higher than booked for paragon semvox.

Free Cash Flow declined by 153.2% to €-5.49m, negatively impacted by lower operating cash flow (€-5.4m versus €10.2m) due to an increase in working capital.

#### Reduced debt

The fresh money coming from the sale of paragon semvox was used to repay its CHF bond, the interim financing and part of the EUR bond extended by €4.8m. As a result, the net debt/equity ratio decreased to 2.6x, with net debt down to €73.7m from €102m. This reduction is good news as the interest rate on the EUR bond is dependent on the level of this gearing ratio. The company thus forecasts the interest rate on the EUR bond to be 7.5% in 2024 from 9.25% today.

#### Outlook confirmed

The outlook confirmation was underpinned by high customer orders for the

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|-------------------------|---------------------|
| <b>Buy</b>              | <b>Upside: 214%</b> |
| Target Price (6 months) | € 17.2              |
| Share Price             | € 5.48              |
| Market Cap. €M          | 24.8                |
| Price Momentum          | <b>UNFAVORABLE</b>  |
| Extremes 12Months       | 3.74 ▶ 6.30         |
| Sustainability score    | 2.9 /10             |
| Credit Risk             | BB ↗                |
| Fundamental Strength    | 0 /10               |
| Bloomberg               | PGN GY Equity       |
| Reuters                 | PGNG.DE             |


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| PERF          | 1w     | 1m     | 3m     | 12m   |
|---------------|--------|--------|--------|-------|
| paragon Group | 0.37%  | -2.14% | -5.52% | 40.5% |
| Autos         | -2.30% | -5.94% | -1.09% | 15.3% |
| STOXX 600     | -2.34% | -2.93% | -3.72% | 1.74% |

|                  |                    |
|------------------|--------------------|
| Sector Opinion   | <b>Underweight</b> |
| Strongest upside | paragon Group      |
| Worst potential  | BMW                |

[Complete Sector Analysis](#)

| Last updated: 05/07/2023     | 12/22A | 12/23E | 12/24E | 12/25E |
|------------------------------|--------|--------|--------|--------|
| Adjusted P/E (x)             | -2.65  | 6.29   | 2.64   | 2.10   |
| Dividend yield (%)           | 0.00   | 0.00   | 0.00   | 0.00   |
| EV/EBITDA(R) (x)             | 10.8   | 3.35   | 2.15   | 1.50   |
| Adjusted EPS (€)             | -1.84  | 0.87   | 2.08   | 2.61   |
| Growth in EPS (%)            | n/a    | n/a    | 139    | 25.7   |
| Dividend (€)                 | 0.00   | 0.00   | 0.00   | 0.00   |
| Sales (€M)                   | 160    | 170    | 188    | 207    |
| EBITDA/R margin (%)          | 7.21   | 14.2   | 16.7   | 16.6   |
| Attributable net profit (€M) | -3.37  | 1.94   | 7.41   | 9.83   |
| ROE (after tax) (%)          | -170   | 18.7   | 28.1   | 24.4   |
| Gearing (%)                  | ns     | 388    | 145    | 68.6   |

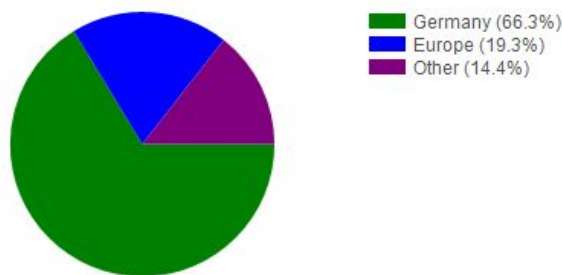
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coming months and strong growth in H1 23 that should offset the loss in revenue from the divestment of the Digital Assistance unit.

#### ■ **Impact**

Our model is under review to take into account the new figures published but we do not expect major adjustments given the guidance confirmation.

## Sales by Geography



## Consolidated P&amp;L Accounts

|   | 12/22A          | 12/23E      | 12/24E      |
|---|-----------------|-------------|-------------|
| Sales                                   | €M 160          | 170         | 188         |
| Change in sales                         | % 9.12          | 6.07        | 10.3        |
| Change in staff costs                   | % -8.07         | 9.80        | 11.1        |
| EBITDA                                  | €M 11.6         | 24.2        | 31.4        |
| <b>EBITDA(R) margin</b>                 | <b>% 7.21</b>   | <b>14.2</b> | <b>16.7</b> |
| Depreciation                            | €M -14.3        | -14.0       | -14.5       |
| Underlying operating profit             | €M -2.71        | 10.2        | 16.9        |
| <b>Operating profit (EBIT)</b>          | <b>€M -3.05</b> | <b>8.17</b> | <b>14.9</b> |
| Net financial expense                   | €M -7.69        | -5.40       | -4.31       |
| of which related to pensions            | €M              | -0.06       | -0.13       |
| Exceptional items & other               | €M              |             |             |
| Corporate tax                           | €M 2.06         | -0.83       | -3.18       |
| Equity associates                       | €M              |             |             |
| Minority interests                      | €M 0.00         | 0.00        | 0.00        |
| <b>Adjusted attributable net profit</b> | <b>€M -8.34</b> | <b>3.94</b> | <b>9.41</b> |
| NOPAT                                   | €M -2.04        | 7.68        | 12.8        |

## Cashflow Statement

|   | 12/22A         | 12/23E      | 12/24E      |
|---|----------------|-------------|-------------|
| EBITDA                                    | €M 11.6        | 24.2        | 31.4        |
| Change in WCR                             | €M 7.91        | -12.4       | -2.57       |
| Actual div. received from equity holdi... | €M 0.00        | 0.00        | 0.00        |
| Paid taxes                                | €M 0.00        | -0.83       | -3.18       |
| Exceptional items                         | €M             |             |             |
| Other operating cash flows                | €M -0.07       | 2.00        | 2.00        |
| Total operating cash flows                | €M 19.4        | 12.9        | 27.7        |
| Capital expenditure                       | €M -7.73       | -7.48       | -10.3       |
| Total investment flows                    | €M 0.59        | 32.5        | -10.3       |
| Net interest expense                      | €M -7.69       | -5.40       | -4.31       |
| 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        | 0.00        |
| Total financial flows                     | €M -1.89       | -63.1       | -4.18       |
| Change in cash position                   | €M 17.6        | -17.6       | 13.2        |
| <b>Free cash flow (pre div.)</b>          | <b>€M 3.99</b> | <b>0.04</b> | <b>13.0</b> |

## Per Share Data

|  |          | 12/22A       | 12/23E      | 12/24E      |
|--|----------|--------------|-------------|-------------|
| 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        |
| <b>Benchmark EPS</b>                       | <b>€</b> | <b>-1.84</b> | <b>0.87</b> | <b>2.08</b> |
| Restated NAV per share                     | €        |              |             |             |
| <b>Net dividend per share</b>              | <b>€</b> | <b>0.00</b>  | <b>0.00</b> | <b>0.00</b> |

## Valuation Summary

| Benchmarks         | Value  | Weight | Largest comparables |
|--------------------|--------|--------|---------------------|
| DCF                | € 29.0 | 35%    | ● Continental       |
| NAV/SOTP per share | € 17.3 | 20%    | ● Valeo             |
| EV/Ebitda          | € 11.0 | 20%    | ● Forvia            |
| P/E                | € 11.0 | 10%    |                     |
| Dividend Yield     | € 0.00 | 10%    |                     |
| P/Book             | € 5.67 | 5%     |                     |
| TARGET PRICE       | € 17.2 | 100%   |                     |

## NAV/SOTP Calculation

## Balance Sheet

|  | 12/22A         | 12/23E      | 12/24E      |
|--|----------------|-------------|-------------|
| Goodwill                                   | €M 5.75        | 5.75        | 5.75        |
| Total intangible                           | €M 43.1        | 37.9        | 34.5        |
| Tangible fixed assets                      | €M 15.5        | 14.2        | 13.4        |
| Financial fixed assets                     | €M 1.64        | 1.64        | 1.64        |
| WCR  | €M -14.9       | -2.51       | 0.06        |
| Other assets                               | €M 46.0        | 13.3        | 14.7        |
| Total assets (net of short term liab.)     | €M 107         | 79.1        | 78.1        |
| <b>Ordinary shareholders' equity</b>       | <b>€M 0.66</b> | <b>20.1</b> | <b>32.7</b> |
| Quasi Equity & Preferred                   | €M             |             |             |
| Minority interests                         | €M             |             |             |
| Provisions for pensions                    | €M 2.38        | 3.80        | 3.65        |
| Other provisions for risks and liabilities | €M             |             |             |
| Total provisions for risks and liabilities | €M 2.38        | 3.80        | 3.65        |
| Tax liabilities                            | €M 1.60        | 1.28        | 1.02        |
| Other liabilities                          | €M 0.00        | 0.00        | 0.00        |
| <b>Net debt (cash)</b>                     | <b>€M 102</b>  | <b>53.9</b> | <b>40.8</b> |
| Total liab. and shareholders' equity       | €M 107         | 79.1        | 78.1        |

## Capital Employed

|                                     | 12/22A  | 12/23E | 12/24E |
|-------------------------------------|---------|--------|--------|
| Capital employed after depreciation | €M 60.7 | 65.8   | 63.4   |

## Profits &amp; Risks Ratios

|                                |          | 12/22A        | 12/23E      | 12/24E      |
|--------------------------------|----------|---------------|-------------|-------------|
| <b>ROE (after tax)</b>         | <b>%</b> | <b>-170</b>   | <b>18.7</b> | <b>28.1</b> |
| ROCE                           | %        | -3.36         | 11.7        | 20.1        |
| <b>Gearing (at book value)</b> | <b>%</b> | <b>16,373</b> | <b>388</b>  | <b>145</b>  |
| Adj. Net debt/EBITDA(R)        | x        | 10.1          | 2.83        | 1.74        |
| Interest cover (x)             | x        | -0.35         | 1.91        | 4.04        |

## Valuation Ratios

|                                  |          | 12/22A       | 12/23E      | 12/24E      |
|----------------------------------|----------|--------------|-------------|-------------|
| <b>Reference P/E (benchmark)</b> | <b>x</b> | <b>-2.65</b> | <b>6.29</b> | <b>2.64</b> |
| Free cash flow yield             | %        | 18.1         | 0.18        | 52.5        |
| P/Book                           | x        | 33.4         | 1.23        | 0.76        |
| <b>Dividend yield</b>            | <b>%</b> | <b>0.00</b>  | <b>0.00</b> | <b>0.00</b> |

## EV Calculation

|   | 12/22A   | 12/23E      | 12/24E      |             |
|---|----------|-------------|-------------|-------------|
| Market cap                              | €M 22.1  | 24.8        | 24.8        |             |
| + Provisions                            | €M 2.38  | 3.80        | 3.65        |             |
| + Unrecognised actuarial losses/(gains) | €M 0.00  | 0.00        | 0.00        |             |
| + Net debt at year end                  | €M 86.7  | 39.4        | 26.9        |             |
| + Leases debt equivalent                | €M 15.3  | 14.6        | 13.8        |             |
| - Financial fixed assets (fair value)   | €M 1.64  | 1.64        | 1.64        |             |
| + Minority interests (fair value)       | €M 0.00  | 0.00        | 0.00        |             |
| = EV                                    | €M 125   | 80.9        | 67.6        |             |
| <b>EV/EBITDA(R)</b>                     | <b>x</b> | <b>10.8</b> | <b>3.35</b> | <b>2.15</b> |
| EV/Sales                                | x        | 0.78        | 0.48        | 0.36        |

Analyst : Alexandre DESPREZ, Changes to Forecasts : 05/07/2023.

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