

Greek Crisis Spreads to its Domestic Businesses

Summary

Paragon Shipping Inc. provides shipping transportation services worldwide. It engages in the ocean transportation of drybulk cargoes, including commodities, such as iron ore, coal, grain, and other materials. As of December 31, 2014, the company's fleet consisted of eight Panamax drybulk carriers, two Ultramax drybulk carriers, two Supramax drybulk carriers, and four Handysize drybulk carriers with an aggregate capacity of 980,380 dwt. Paragon Shipping Inc. was founded in 2006 and is based in Voula, Greece.

The company operates a fleet of modern and cost efficient drybulk vessels servicing ports and customers around the globe. The remaining newbuilding program consists of two Ultramax drybulk carriers and three Kamsarmax drybulk carriers with expected deliveries between the third quarter of 2015 and the first quarter of 2016.

Paragon Shipping Inc. has a current market capitalization of \$28.90 M with 24.81 M outstanding shares. Its daily average volume traded is 99,414 shares.

Key Indicators (Q1 2015)

Shares Outstanding	24.81 M
Revenue (FY 2014)	10.03 M
Gross Profit	0.84 M
Net Loss (basic/diluted)	-8.93 M
Cash and Short-term Inv	11.77 M
Total Debt	221.59 M

Performance (6 months)



Recent News

For a Greek based shipping company like Paragon Shipping, there has been heavy investor focus on the outcomes of the Greek Credit Crisis. The latest news suggests that companies that once enjoyed tax benefits such as no tax on profits from shipping operations and no tax on ship sales, will no longer enjoy these tax breaks. Greek ship-owners have already offered to voluntarily pay an additional €420 million (\$468 million) in tonnage tax from 2014 to 2017. Under fresh pressure by its creditors, Athens now says that isn't enough. It now plans not only to further increase the tonnage tax, but also gradually withdraw the special tax breaks. Greek owners operate almost 20% of the global fleet of merchant ships, and more than half of the European Union's fleet. The industry makes up 7.5% of the Greek economy and employs around 200,000 people. Several owners said that if the new increases come into force, they plan to set up operations in other shipping capitals such as London, Singapore and Dubai. Over the years, countries

PARAGON SHIPPING INC. ANALYST BRIEF REPORT

JULY 21, 2015

RATING:
SELL

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such as the U.K., Ireland and Cyprus have tried to lure Greek owners, moving to boost their dwindling national shipping registries.

This certainly spells trouble for Paragon Shipping, as the company will now be faced with two options; remain in Greece and suffer paying the new taxes imposed or move the company's headquarters to a different country with favorable tax laws. Both options will cost the company in the millions and even though the company has been generating revenue, the costs of this revenue are far too great to cover these costs.

Pros

- The only upside to Paragon is that they are generating revenue. Unfortunately, the company operates in a struggling industry, resources, and has been unable to grow revenues over the past year.

Cons

- The future for Paragon looks grim as new taxes are likely to be imposed and special tax breaks become withdrawn. It seems likely that the company will face similar troubles as the country in operates in with decreasing revenue, a decreasing net loss and a substantial debt obligation.
- Paragon reported approximately \$10 million in revenue for Q1 ended March 31st 2015. It also reported a COGS of \$9.2 million, giving a very weak 8% gross margin. With margins like this, the company will not be able to continue operating given its total debt of over \$220 million.

Verdict

The Greek Credit Crisis has affected the businesses that operate in Greece quite heavily. Paragon has taken on huge amounts of debt and has seen its revenues decrease by as much as 30%. Additionally, the company has seen its gross margins decrease as well leading to a bottom line deep in the red. There does not appear to be any upside to this Greek shipping company for the foreseeable future. Based on these points, the shares of Paragon Shipping Inc. are recommended as a "Sell" and not recommended to keep on a watch list until credit stability is maintained in Greece.

Sources:

1. <https://www.google.ca/finance?q=NASDAQ%3APRGN&ei=gmgTvej9LJWajAHp8IrQDg>
2. <http://www.reuters.com/finance/stocks/companyProfile?rpc=66&symbol=PRGN.O>
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5. <http://stockcharts.com/h-sc/ui?s=PRGN&p=D&b=5&g=0&id=p01208253009>

Risk Factors

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

EQUAL WEIGHT/HOLD

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Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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