

Avanti Communications

Final positioning for commercial relaunch

Avanti had a busy Q3 ahead of its April conversion to equity of its 2023 notes. Following the \$20.1m settlement due from the government of Indonesia at the end of July, it expects to complete further lines of funding to complement the restructuring. Meanwhile, the successful launch of HYLAS 4 just after the Q3 end maintains the schedule to bring the satellite into operational service towards the end of July 2018, thus significantly increasing the capacity of the fleet. The removal of financial constraint should support the company as it refines and implements its new strategy.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/15	85.2	(73.3)	(61.4)	0.0	N/A	NA
06/16	82.8	(67.0)	(49.3)	0.0	N/A	N/A
06/17	56.6	(172.9)	(104.5)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Busy Q3, but trading remains tough

Avanti reported revenue of \$31.3m in the nine months to 31 March 2018 (9M17: \$45.9m). Last year's revenue included \$8.5m of revenue from Artemis, which is now retired. Excluding this, the main reason for the drop in revenues was lower equipment sales as a result of the financial uncertainty, which should now reverse. Cost of sales and overheads were in line with company expectations at \$55.7m (9M17: \$58.3m). Net debt was \$774m at the end of Q318, before the debt to equity swap reduced this by \$557m on 26 April 2018. Allowing for a \$3m FX gain, the order backlog was broadly unchanged, rising from \$84.1m to \$87.9m, with no further provisions against backlog in the period. Avanti is to align its reporting calendar with other key businesses in the industry, and will move the year end from June to December this year. Management change at the company brought Kyle Whitehill as new CEO on 3 April, and Christopher McLaughlin appointed chief of corporate affairs, stepping down from his non-executive director board position.

Operationally on track

The successful launch of HYLAS 4 on 4 April 2018 has been followed by the completion of the first phase of in-orbit testing. The schedule is to move the satellite from its current position at 21.5E to the operational slot of 33.5W and bring it into operational service towards the end of July 2018, thus significantly increasing the fleet capacity to 47GHz. Today's \$10m contract for Viasat is the first for HYLAS 4 under the new CEO and is a clear indication Avanti is back in business. As already disclosed, all options are being considered to maximise value from HYLAS 3.

Valuation: A year of transition continues

The new CEO is likely to address strategic and commercial issues in due course. We note the benefits of the financial restructuring and the change of the year end, although for now we are not reintroducing forecasts. However, we remain encouraged that a revised equity story is in place, with the model basically unchanged and the launch of HYLAS 4 a potential major game changer.

Indonesian arbitration award
& HYLAS 4 contract win

Fixed satellite services

25 June 2018

Price **5.00p**

Market cap **£108m**

US\$1.33/£1

Net debt (\$m) at 31 March 2018 774

Shares in issue 2,163m

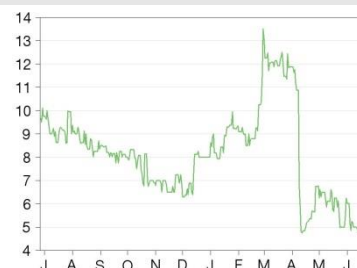
Free float 100%

Code AVN

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (14.6) (60.0) (50.8)

Rel (local) (11.6) (62.6) (51.9)

52-week high/low 13.5p 4.8p

Business description

Avanti Communications is a London-based, fixed satellite services provider. It sells satellite data communications services to service providers in its key markets of enterprise, broadband, carrier services and government. It has Ka-band capacity on four satellites.

Next events

Year end FY18 December 2018

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Exhibit 1: Financial summary

	\$m	2015	2016	2017
Year end 30 June		IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue		85.2	82.8	56.6
Cost of Sales		(83.8)	(86.0)	(104.7)
Gross Profit		1.4	(3.2)	(48.1)
EBITDA		12.5	4.6	(34.5)
Operating Profit (before amort. and except.)		(32.6)	(39.8)	(78.5)
Intangible Amortisation		(0.2)	(0.2)	(1.2)
Exceptionals		0.0	0.0	95.2
Other		0.0	0.0	0.0
Operating Profit		(32.8)	(40.0)	15.5
Net Interest		(40.5)	(27.0)	(93.2)
Profit Before Tax (norm)		(73.3)	(67.0)	(172.9)
Profit Before Tax (FRS 3)		(73.3)	(67.0)	(77.7)
Tax		0.0	(2.2)	12.0
Profit After Tax (norm)		(73.3)	(69.2)	(160.9)
Profit After Tax (FRS 3)		(73.3)	(69.2)	(65.7)
Average Number of Shares Outstanding (m)		119.0	139.4	153.5
EPS - normalised (c)		(61.4)	(49.3)	(104.5)
EPS - normalised fully diluted (c)		(61.4)	(49.3)	(104.5)
EPS - (IFRS) (c)		(61.4)	(49.3)	(42.5)
Dividend per share (c)		0.0	0.0	0.0
Gross Margin (%)		1.6	-3.9	-85.0
EBITDA Margin (%)		14.7	5.6	-61.0
Operating Margin (before GW and except.) (%)		-38.2	-48.1	-138.7
BALANCE SHEET				
Fixed Assets		721.5	804.5	711.9
Intangible Assets		11.0	10.8	9.3
Tangible Assets		691.0	775.1	671.8
Investments		19.5	18.6	30.8
Current Assets		160.3	137.8	95.9
Stocks		2.6	1.9	2.6
Debtors		17.8	39.3	22.8
Cash		122.2	56.4	32.7
Other		17.7	40.2	37.8
Current Liabilities		(36.6)	(86.1)	(72.4)
Creditors		(31.9)	(82.8)	(70.3)
Short term borrowings		(4.7)	(3.3)	(2.1)
Long Term Liabilities		(540.5)	(654.7)	(601.7)
Long term borrowings		(523.7)	(642.0)	(592.6)
Other long term liabilities		(16.8)	(12.7)	(9.1)
Net Assets		304.7	201.5	133.7
CASH FLOW				
Operating Cash Flow		(8.1)	(22.7)	136.5
Net Interest		(54.4)	(67.4)	(156.1)
Tax		0.0	(2.2)	12.0
Capex		(102.0)	(95.7)	(66.5)
Acquisitions/disposals		0.0	0.0	0.0
Financing		80.0	5.3	101.0
Dividends		0.0	0.0	0.0
Net Cash Flow		(84.5)	(182.7)	26.9
Opening net debt/(cash)		321.7	406.2	588.9
HP finance leases initiated		0.0	0.0	0.0
Other		0.0	0.0	(0.0)
Closing net debt/(cash)		406.2	588.9	562.0

Source: Company data, Edison Investment Research

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