

AAC Clyde Space

Q120 results

Starting to climb

Aerospace & defence

18 May 2020

Price **SEK3.3**
Market cap **SEK317m**

SEK12.0/£

Net cash (SEKm) at 31 March 2020 41.3

Shares in issue 96.2m

Free float 77%

Code AAC

Primary exchange Nasdaq FN Premier

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	7.1	(31.0)	(34.5)
Rel (local)	4.9	(13.3)	(32.1)

52-week high/low SEK5.57 SEK2.64

Business description

Headquartered in Sweden, AAC Clyde Space is a world leader in nanosatellite end-to-end solutions, subsystems and platforms after merging with Clyde Space in Scotland. The merged company also supplies a range of technology components to other small satellite manufacturers globally.

Next events

AGM 2 June 2020

Q2 FY20 results 27 August 2020

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AAC Clyde Space's Q1 report is encouraging, with a 60% increase in sales, modestly reduced EBITDA losses and a record order backlog of SEK183m. While the effects of COVID-19 lockdown measures are likely to be apparent from Q220, we expect these to be relatively limited so far. The management team is now working to deliver the increasing backlog, with rising activity through H220. AAC Clyde remains well positioned to participate in the growth of the New Space market given its leading positions in nanosatellites and subsystems.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/18	77.9	(38.3)	(0.50)	0.0	N/A	N/A
12/19	66.4	(38.2)	(0.45)	0.0	N/A	N/A
12/20e	129.8	(14.8)	(0.15)	0.0	N/A	N/A
12/21e	194.2	8.7	0.09	0.0	36.7	N/A

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

Q1 results demonstrate progress

A sharp increase in satellite platforms activity in Glasgow, including completion of two projects delayed from FY19, and healthy growth in the subsystems and components segment drove Q120 group net sales up 60% to SEK23.8m. Group EBITDA losses were reduced modestly to SEK6.2m as gross margin fell due to a higher proportion of third-party sales. The performance was said to be in line with management's plan as the refined growth strategy is progressively implemented. Management continues to indicate strong growth is expected in the current year, despite the unexpected emergence of the COVID-19 pandemic.

Encouraging development of the order backlog

The order backlog at 31 March stood at a record SEK183m despite the strong revenue performance during Q120. At the start of the year the company expected to convert SEK88m of the SEK169m backlog to revenues in FY20. With around SEK47m of new order intake year to date, we estimate order cover of our FY20 net sales expectation has increased to around 85%. While management will need to work hard on continued business development to meet expectations for the remainder of the year, the market seems to be continuing fairly normally despite the revised working arrangements under COVID-19 lockdowns. Management expects to deliver two satellites by Q320 with work commencing on another seven satellite platforms in Glasgow.

Valuation: Moving towards positive earnings

Management focus on cash flow continues, especially while the COVID-19 issue persists, with tighter controls on expenditure in place including delay of non-urgent investments. The balance sheet remains strong with SEK41.3m of net cash at 31 March 2020 and an undrawn SEK5.0m bank facility. Our forecasts remain largely unaltered and we still expect a positive EBITDA in FY21 as the volume ramp up gathers momentum.

Q120 results

As we have stated previously the timing of contract revenues and deliveries, especially in the satellite platform segment, can lead to quite lumpy quarterly performances. In part, the strong Q120 sales improvement reflects a return to more normal operational activity levels compared to 2019, which faced several project delays. The business mix led to a reduction in gross profitability with more third-party systems deliveries, but nevertheless the trends look favourable as anticipated volumes look set to increase as FY20 progresses. Key highlights of Q120 were:

- Net sales rose 60% to SEK23.8m (Q119 SEK14.9m) with a strong increase in satellite platform revenues at Clyde and healthy growth for subsystems for AAC in Sweden.
- Group EBITDA loss modestly reduced to SEK6.2m (Q119 SEK6.5m) as a slightly increased loss at Clyde was more than offset by a reduction in losses in Sweden.
- The loss before tax of SEK9.7m was 4.5% lower than in Q119.
- Net cash at the end of the period was SEK41.3m compared to SEK52.6m at the start of the year.
- The order backlog increased to a record period end SEK183m, a rise of SEK14m from the year end despite the strong revenue performance.

Exhibit 1: AAC Clyde Space Q120 results summary

Three months to March (SEKm)	Q119	Q120	% change
By business unit			
AAC (Sweden)	7.429	9.969	34.2%
Clyde (Scotland)	7.509	13.865	84.6%
Net sales	14.938	23.834	59.6%
By segment			
Satellite platforms	3.659	11.469	213.4%
Subsystems and components	11.279	12.365	9.6%
Net sales	14.938	23.834	59.6%
Other operating income	2.497	3.487	39.6%
R&D capitalised	0.927	1.785	92.6%
Group revenues	18.362	29.106	58.5%
EBITDA	(6.480)	(6.227)	-3.9%
Depreciation and amortisation	(3.451)	(2.901)	-15.9%
EBIT	(9.931)	(9.128)	-8.1%
Net financial interest	(0.158)	(0.576)	
Profit before tax	(10.161)	(9.704)	-4.5%
Taxation	0.081	0.221	172.8%
Profit after taxation	(10.080)	(9.483)	-5.9%

Source: Company reports

In terms of the cost analysis for the quarter, the increase in raw materials and consumables appears to reflect higher platform work executed in Q120. The activity includes two delayed projects for 2019 that were delivered in January. We believe the deferrals are in part the reason for higher expenses, as excess costs to complete would appear to have been likely.

Exhibit 2: AAC Clyde operating expenses

Three months to March (SEKm)	Q119	Q120	% change
Raw materials & subcontractors	(7.157)	(12.860)	79.7%
Personnel costs	(12.531)	(15.641)	24.8%
Other external expenses	(5.391)	(4.966)	-7.9%
Other operating expenses	0.237	(1.866)	
Total operating expenses	(24.842)	(35.333)	42.2%

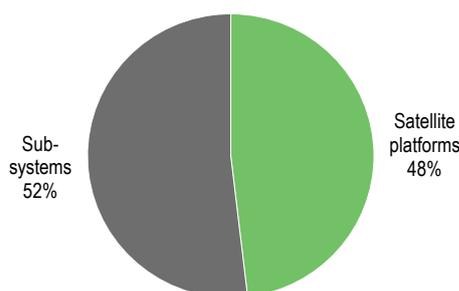
Source: Company reports

The increase in personnel costs in part reflects the increase in staff numbers, with 95 staff employed at the end of the quarter, the same as at the start of the year but higher than at 31 March

2019 (88 employees). Management struggled to recruit appropriately qualified engineering and production staff last year. One benefit from the current economic disruption could be that areas of demand for UK engineering personnel may fall, for example in the civil aerospace industry.

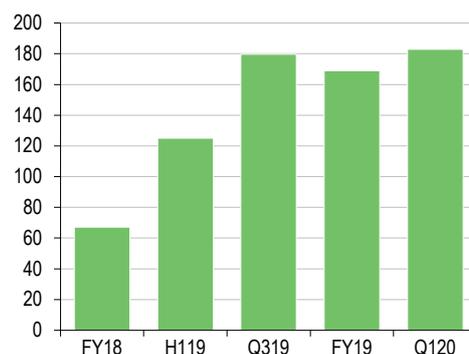
The order book continued to benefit from strong order intake as can be seen below. The bulk of the improvement has come from strong growth in platform sales since the start of FY19 many of which are entering into production in H220 for delivery next year.

Exhibit 3: AAC Clyde Space net sales split by segment activity, Q120



Source: Company reports

Exhibit 4: AAC Clyde Space order backlog development (SEKm)



Source: Company reports

We have modestly changed our adjusted EBIT and PBT estimates for FY20 and FY21 to reflect the change to the allocation of intangible amortisation between acquired purchase price allocation (PPA) and internally generated intangible assets. The adjustment was made after restating FY19 data following greater disclosure made available in the recently released 2019 report and accounts.

Exhibit 5: AAC Clyde Space estimates revisions

Year to December (SEKm)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
By business						
AAC	39.7	39.7	0.0%	50.4	50.4	0.0%
Clyde	90.1	90.1	0.0%	143.7	143.7	0.0%
Total net sales	129.8	129.8	0.0%	194.2	194.2	0.0%
By segment activity						
Satellite platforms	36.6	36.6	0.0%	76.9	76.9	0.0%
Subsystems	92.2	92.2	0.0%	115.2	115.2	0.0%
Licence and royalties income	1.0	1.0	0.0%	2.0	2.0	
Total net sales	129.8	129.8	0.0%	194.2	194.2	0.0%
Other operating income	2.0	2.0	0.0%	0.2	0.2	
Own work capitalised	2.9	2.9	0.0%	3.8	3.8	
Total group income	134.7	134.7	0.0%	198.2	198.2	0.0%
Raw materials and subcontractors	(48.0)	(48.0)	0.0%	(68.0)	(68.0)	0.0%
Personnel costs	(62.2)	(62.2)	0.0%	(75.1)	(75.1)	0.0%
Other external expenses	(25.6)	(25.6)	0.0%	(29.1)	(29.1)	0.0%
Other operating expenses	0.0	0.0		0.0	0.0	
EBITDA (company reported)	(1.2)	(1.2)	0%	26.0	26.0	0%
EBIT (Pre PPA amortisation)	(14.8)	(14.2)	(3.8%)	8.9	9.3	4.6%
Underlying PBT	(14.7)	(14.8)	0.4%	8.9	8.7	(2.3%)
EPS – underlying continuing (SEK)	(0.15)	(0.15)	0.4%	0.09	0.09	(2.3%)
DPS (SEK)	0.0	0.0		0.0	0.0	
Net cash/(debt)	25.7	25.1	(2.3%)	31.5	30.3	(3.9%)

Source: Edison Investment Research

Exhibit 6: Financial summary

	SEKm	2018	2019	2020e	2021e
Year end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		77.9	66.4	129.8	194.2
Own work capitalised and other operating income		11.3	14.1	4.9	4.0
Group income		89.2	80.6	134.7	198.2
EBITDA		(28.5)	(27.3)	(1.2)	26.0
Operating Profit (before amort. and except.)		(30.8)	(32.7)	(7.9)	18.1
Intangible Amortisation		(7.2)	(4.6)	(6.3)	(8.8)
Exceptionals		(5.2)	(2.9)	(2.9)	(1.4)
Other		0.0	0.0	0.0	0.0
Operating Profit		(43.2)	(40.2)	(17.1)	8.0
Net Interest		(0.3)	(0.8)	(0.5)	(0.6)
Profit Before Tax (norm)		(38.3)	(38.2)	(14.8)	8.7
Profit Before Tax (FRS 3)		(43.6)	(41.0)	(17.6)	7.4
Tax		0.9	0.5	0.9	(0.4)
Profit After Tax (norm)		(37.5)	(37.8)	(14.0)	8.3
Profit After Tax (FRS 3)		(42.6)	(40.6)	(16.7)	7.0
Average Number of Shares Outstanding (m)		75.4	84.8	96.2	96.2
EPS - fully diluted (SEK)		(0.50)	(0.45)	(0.15)	0.09
EPS - normalised (SEK)		(0.50)	(0.44)	(0.15)	0.09
EPS - (IFRS) (SEK)		(0.57)	(0.48)	(0.17)	0.07
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-36.6	-41.1	-0.9	13.4
Operating Margin (before GW and except.) (%)		-39.6	-49.3	-6.1	9.3
BALANCE SHEET					
Fixed Assets		396.8	436.9	435.2	432.9
Intangible Assets		392.6	418.6	422.4	426.1
Tangible Assets		4.2	4.1	1.9	(1.0)
Right of use asset			14.2	11.0	7.8
Investments		0.0	0.0	0.0	0.0
Current Assets		56.2	108.5	103.1	116.2
Stocks		6.5	13.1	22.7	27.2
Debtors		10.1	17.7	26.0	29.1
Cash		12.2	52.4	25.8	30.8
Other		27.3	25.2	28.6	29.1
Current Liabilities		(35.6)	(60.5)	(72.7)	(79.3)
Creditors		(35.5)	(60.5)	(72.7)	(79.3)
Short term borrowings		(0.2)	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(16.0)	(13.4)	(10.6)
Long term borrowings		(1.2)	(0.8)	(0.7)	(0.5)
Lease liabilities			(14.1)	(11.6)	(9.0)
Other long term liabilities		(1.2)	(1.1)	(1.1)	(1.1)
Net Assets		415.0	468.9	452.2	459.2
CASH FLOW					
Operating Cash Flow		(49.1)	(15.3)	(13.8)	20.8
Net Interest		(0.3)	(0.8)	0.1	0.0
Tax		0.8	0.4	0.7	(0.4)
Capex		(2.3)	(13.9)	(14.2)	(15.7)
Acquisitions/disposals		(377.4)	(3.0)	0.6	0.6
Financing		404.6	73.3	0.0	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(23.6)	40.7	(26.5)	5.2
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(25.1)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		(0.7)	0.1	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(25.1)	(30.3)
Net financial liabilities including lease liabilities			(37.5)	(13.5)	(21.3)

Source: Company reports, Edison Investment Research

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