EDISON

Avanti Communications

HYLAS 4 signals a boost to financials

Second interim results

Aerospace & defence

Avanti made good progress in the second six months of the current extended financial period. In addition, HYLAS 4 became commercially operational this month and there have been significant contract awards since launch, encouraging the belief that it should improve the financial outlook. The last reporting period reflected some uncertainty around the financial restructuring; however, this has been completed successfully. Avanti also received $20m cash from the Indonesian arbitration settlement in August. We await guidance for FY19 trading, including possible modest financing needs, before restoring forecasts.

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	N/A
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.

Positive shift in momentum

Avanti has released results for the second interim period of the current 18-month financial period ending 31 December 2018. Sales were up 23% in the six months to 30 June at $29.9m (6M to June 2017: $24.3m) and reported EBITDA was $4.7m (6M to June 2017: loss $26.2m) after the release of the $12.5m bad debt provision for the now settled Government of Indonesia arbitration. Adjusted EBITDA loss was significantly improved at $7.8m (6M to June 2017 loss: $12.3m) after reversing out the accounting treatment of the dispute from both periods. Gross cash at the end of June stood at $11.0m before receipt of the $20.1m cash settlement post the period end. Unaudited 12-month results met company guidance for the period, with sales declining 11.7% to $50.0m (FY17: $56.6m). Adjusted EBITDA for the 12-month period was almost unchanged at $19.3m (FY17: $19.0m).

HYLAS 4 bolsters commercial impetus

HYLAS 4 has been positioned at 33.5^{0}W and entered into commercial operation in September. Avanti has signed significant contracts with Comsat and Viasat since 30 June 2018, as well as a seven-year wholesale capacity agreement worth $84m. These contracts progress the revised strategy, which includes engaging with other operators, and significantly develop the governmental market. We feel this reflects the rehabilitation of Avanti following the financial restructuring under the new management team led by CEO Kyle Whitehill (joined 3 April 2018). Management indicates that while the future looks brighter, modest additional funding sources are likely to be required over the next 18 months. Cash flow and profits should start to improve as HYLAS 4 grows revenues across the relatively fixed cost base.

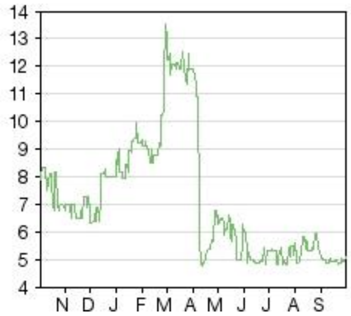
Valuation: Cash flow development remains key

The successful debt for equity swap and HYLAS 4 provide potential for equity upside, albeit heavily diluted. FY19 should indicate how rapidly cash generation can improve and what value to attribute to the $1.2bn network investment.

1 October 2018

Price	**5.10p**
Market cap	**£110m**
	US$1.30/£1
Net debt ($m) at 30 June 2018	398.1m
Shares in issue	2,163.3m
Free float	100%
Code	AVN
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.9)	(1.7)	(37.2)
Rel (local)	(3.3)	(0.3)	(38.8)
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 in GEO slots.

Next events

FY18 prelims	March 2019

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Avanti Communications is a research client of Edison Investment Research Limited

Second interim period results

The key highlights of the six months to 30 June 2018 were as follows:

- Revenues rose 23.3% to $29.9m (H217: $24.3m).
- Reported EBITDA of $4.7m (H217 EBITDA loss: $26.2m).
- Adjusted EBITDA loss of $7.8m (H217 EBITDA loss: $12.3m) following settlement of the Government of Indonesia arbitration in Avanti's favour, leading to a $12.5m reversal of a bad debt provision.
- Period-end gross cash of $11.0m (H217: $32.7m). $20.1m was subsequently received on 13 August 2018 from the arbitration settlement.
- Net debt of $398.1m following completion of the financial restructuring.

Significant recent contract awards

At the end of June 2018 the order backlog stood at $87m (FY17: $104m), reflecting the commercial inertia during the refinancing uncertainty. Since the period end, and following the successful launch and entry into commercial operation of HYLAS 4, this subsequently increased to $165m on 24 September 2018. Avanti has also established a strategic presence in Washington to focus on selling Mil-Ka capacity. The improvement in order backlog reflects recent contract wins including:

- A unique seven-year Master Distribution Agreement with Comsat across Avanti's satellite fleet, allowing a leader in satellite connectivity to the US DoD to offer advanced complete service packages to its customers focused on the Middle East and Africa.
- A capacity lease contract worth $10m with global communications company Viasat for global government applications, providing access to HYLAS 4's steerable Ka-band beams.
- A wholesale capacity lease deal received earlier this week with a major international satellite service provider. The deal is worth $84m over its term and Avanti will receive $12m per annum.

Financial restructuring completed

During Q318, the company obtained a commitment for a new $34.5m debt facility, which is expected to close before the end of October 2018. The report makes it clear that Avanti may require modest additional funding over the next 18 months, which could include additional second lien debt or equity finance. In our view, HYLAS 3 could be a significant source of additional finance.

As a reminder, the financial restructuring reduced the interest burden on existing debt lines substantially by $92.1m, to $36.6m.

Exhibit 1: Positive impact of Avanti Communications debt restructuring

$m	Super senior facility	2021 notes	2023 notes	Total
Pre-restructuring debt	100.0	323.3	557.0	980.3
Debt for equity			(557.0)	(557.0)
Post-restructuring debt	**100.0**	**323.3**	**0.0**	**423.3**
Previous cash interest rate	7.5%	12.5%	14.5%	
New cash interest rate	7.5%	9.0%	-	
Previous cash annual interest	7.5	40.4	80.8	128.7
New cash annual interest	**7.5**	**29.1**	**-**	**36.6**

Source: Avanti Communications

The high levels of network capital investment should complete in 2019, and coincide with improving operational cash flow as capacity fills, especially on HYLAS 4. Assuming the ongoing financing programme is achieved, it is the progress of the operational performance of the network that will determine the equity fair value.

Exhibit 2: 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 accounts, Edison Investment Research

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