

AAC Clyde Space

Strong progress despite supplier delays

FY21 preliminary results

Aerospace & defence

24 February 2022

Price **SEK2.06**

Market cap **SEK396m**

SEK12.82/£, SEK9.51/\$

Adjusted net cash (SEKm) at 31 Dec 2021 96.1
(excluding lease liabilities)

Shares in issue 192.2m

Free float 87%

Code AAC

Primary exchange Nasdaq First Growth Market

Secondary exchange OTCQX

AAC Clyde Space (AAC) made good progress in FY21 with sales up 83% to SEK180m, driven by the strong initial contributions of recent acquisitions. Continued supplier issues delayed project execution mainly at Clyde Space in Glasgow and led to a c SEK20m shortfall, leaving group sales 11% below our expectations. However, the adjusted EBITDA loss was better than we anticipated at SEK12.3m. In addition, the order backlog remained close to record levels at SEK407m and the year-end adjusted net cash balance was SEK96m. As the company starts to increase investment in FY22 to support its growth strategy, we expect a return to strong growth in Space Missions sales as space data as a service (SDaaS) revenues start to grow rapidly.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/20	98.4	(26.7)	(0.26)	0.0	N/A	N/A
12/21	180.0	(31.8)	(0.17)	0.0	N/A	N/A
12/22e	270.1	(10.5)	(0.05)	0.0	N/A	N/A
12/23e	377.1	7.2	0.03	0.0	68.7	N/A

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

FY21 progress in a challenging period

Supply chain issues continued in FY21 while AAC invested in the group's operational and management infrastructure to support future growth. While the primary shortfall in revenues was at Clyde Space, as the Q421 catch up in project revenues failed to materialise, the acquisitions also developed at different rates. Sales at Hyperion and SpaceQuest were sequentially flat in Q421, but this was offset by a very strong contribution from Omnisys. Overall, the adjusted FY21 EBITDA loss improved to SEK12.3m (FY20 loss of SEK17.5m) despite the investment in headcount in advance of revenues. We expect a positive EBITDA in FY22 as AAC executes the increasing number of projects and higher-margin SDaaS revenues increase. Year-end net cash balances before leases remained healthy at SEK96m although we expect to see increasing investment requirements as the company implements the growth strategy.

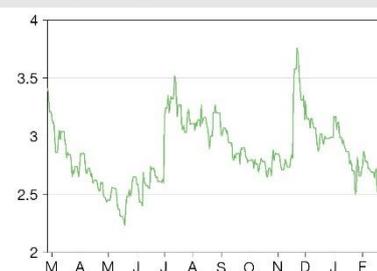
Strong growth targets retained

Management expects FY24 net sales of SEK500m, of which the emerging SDaaS activity should account for c 25%. Space Mission, Space Products and Advanced Sensors are also expected to show strong growth. As the company's plan to deploy its own satellite constellations to acquire data is executed over the remainder of the decade, the rate of growth should accelerate towards management's 2030 target for c SEK2.3bn of revenue with SEK1.3bn provided by SDaaS.

Valuation: increasing investment for growth

Space remains an area of focus for investors with a record \$12bn invested in the sector in 2021. AAC should be an interesting opportunity as growth accelerates although the level of investment to support development is also increasing. Our capped DCF valuation returns a value of SEK7.0 per share (from SEK7.3) with the decrease reflecting higher near-term investment levels.

Share price performance



% 1m 3m 12m

Abs (18.9) (40.8) (33.5)

Rel (local) (10.6) (30.8) (37.6)

52-week high/low SEK3.76 SEK2.18

Business description

Headquartered in Sweden, AAC Clyde Space is a world leader in nanosatellite end-to-end solutions, subsystems, platforms, services and components, including supply to third parties. It has production and development operations in Sweden, Scotland, the Netherlands and the United States as well as a start up in Africa.

Next events

FY21 annual report 28 April 2022

AGM and Q122 results 19 May 2022

Q222 results 25 August 2022

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FY21 results summary

AAC once again achieved strong growth in revenues in FY21, despite the ongoing supply chain issues that delayed some projects and the investment in the group to support the anticipated future growth. Performance was boosted by the first full year contribution from Hyperion Technologies and SpaceQuest and the initial eight-month contribution from Omnisys. The main highlights of the results were:

- Revenues were up 83% at SEK180.0m (FY20 SEK98.4m), with the acquisitions accounting for all except SEK6.9m of the increase. For the ongoing businesses, AAC Clyde in Sweden made good progress increasing revenues 48% to SEK 41.m while Clyde Space in Glasgow was affected by supplier issues and project delays, with revenues falling 9% and the catch up we anticipated in Q421 failing to materialise. The shortfall at Clyde Space was primarily responsible for the miss of management's FY21 guidance for revenues of c SEK200m and our own estimates.
- While in aggregate the SEK77.0m revenue contribution from acquisitions was close to our forecast of SEK79.2m, the mix was significantly different. Omnisys had a much stronger Q421 than we anticipated, while both SpaceQuest and Hyperion showed little progress.
- However, the adjusted EBITDA loss was reduced to SEK12.3m (FY20 loss SEK17.5m) and the reported EBITDA loss fell to SEK14.9m (FY20 loss SEK26.8m). The FY21 adjustment comprises the acquisition cost for Omnisys of SEK1.7m and the non-recurring personnel costs of SEK1.0m (FY20 aggregate SEK9.3m). The better-than-expected adjusted EBITDA loss was achieved despite significant investment in personnel costs and infrastructure to support future growth.

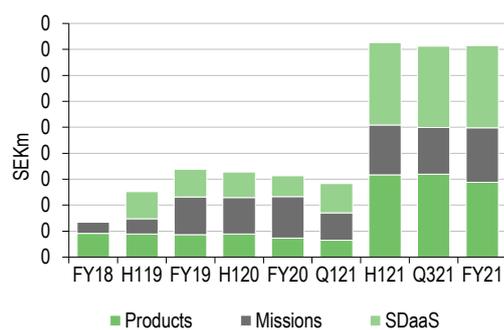
Exhibit 1: AAC Clyde Space FY21 results summary				
Year to December (SEKm)	FY19	FY20	FY21	% change FY21 vs FY20
By business				
AAC	26.4	28.0	41.4	48%
Clyde	40.1	68.0	61.5	-10%
Hyperion		2.4	13.9	n.m.
SpaceQuest		0.0	19.2	
Omnisys			43.8	
Total group net sales	66.4	98.4	180.0	83%
By activity				
SDaaS	-	3.1	12.8	-
Space Missions	20.4	51.6	57.5	12%
Space Products	45.9	43.7	108.2	147%
Licence and royalties' income	0.1	0.0	1.4	
Total group net sales	66.4	98.4	180.0	83%
Other operating income	11.2	12.7	17.2	35%
Own work capitalised	3.0	8.3	13.6	64%
Total group income	80.6	119.5	210.8	76%
Raw materials and subcontractors	(27.4)	(50.3)	(83.2)	66%
Personnel costs	(51.8)	(59.4)	(106.0)	78%
Other external expenses	(23.7)	(19.5)	(30.4)	56%
Other operating expenses	(5.0)	(7.8)	(3.5)	-55%
EBITDA (company adjusted)	(27.3)	(17.5)	(12.3)	-30%
EBIT (pre amortisation of acquired intangibles)	(37.4)	(25.5)	(27.7)	9%
Underlying PBT	(38.2)	(26.7)	(31.8)	19%
EPS – underlying continuing (SEK)	(0.45)	(0.26)	(0.17)	-35%
Adjusted net cash / (debt)	51.6	62.2	96.1	55%

Source: AAC accounts, Edison Investment Research adjustments

- AAC Clyde in Sweden made a reported EBITDA loss of SEK14.3m (FY20 loss SEK21.6m), which includes all the non-recurring costs in both years. The adjusted loss was SEK11.7m versus EBITDA losses of SEK12.3m in FY20 and SEK13.7m for FY19.
- Clyde Space saw its EBITDA loss increase to SEK10.7m (FY20 EBITDA loss SEK5.6m) as a result of the project delays, although it once again reported a small positive EBITDA contribution of almost SEK1.6m in Q421 (Q420 SEK2.0m). The performance highlights the lumpy nature of project work.
- Among the acquisitions, Omnisys made a strong initial EBITDA contribution of SEK5.4m including a Q421 profit of SEK1.7m. Hyperion improved its FY21 EBITDA contribution to SEK0.8m (FY20 SEK0.4m for seven weeks) despite a Q420 loss of SEK1.8m. SpaceQuest generated SEK5.3m for the year with a small positive EBITDA in Q421 of SEK0.4m (FY20 nil). The AAC Space Africa Q321 start up did not generate any revenue but incurred losses at the EBITDA level of SEK1.3m, mainly in Q421.
- The underlying loss before tax, which also excludes intangible amortisation, increased to SEK31.8m from SEK26.2m in FY20, reflecting high levels of depreciation and amortisation due to continued investment in project development work and the acquisitions.
- Year-end adjusted net cash (excluding lease liabilities) improved SEK96.1m (FY20 SEK62.2m). The movement reflected the SEK100m fund-raising made at the time of the Omnisys acquisition less the initial cash consideration, an operating cash outflow of SEK35.5m (FY20 outflow SEK17.4m) and capital expenditure totalling SEK29.2m (FY20 SEK20.3m).

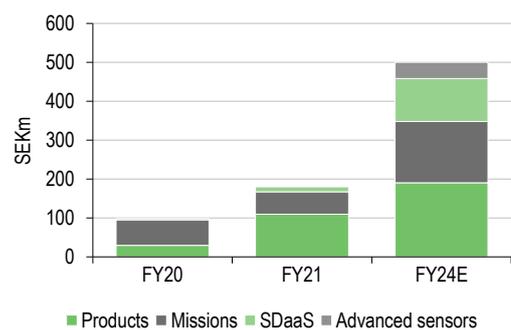
The order backlog at the year end was SEK407m, more than double the SEK156m at FY20. The backlog increased marginally in Q421 reflecting a good level of intake during the period. At the year end the backlog for Space Missions increased to a record c SEK105m versus c SEK79m at the previous year end. The SDaaS backlog remained at the record high level of around SEK158m, which was first achieved following the Wyvern contract award in H121. We expect growth to continue in FY22 as more clients are signed up for the various projects in development. Although slightly reduced during H221, the Space Products year-end backlog of c SEK144m was still approximately 4x the level of FY20, largely due to the acquisitions.

Exhibit 2: AAC order backlog development by activity (FY21 SEK407.2m)



Source: AAC reports

Exhibit 3: Revenue development by activity to reach SEK500m target in FY24



Source AAC

As at the start of FY22, AAC is working on 10 confirmed satellite launches. It is also preparing to start development of its own constellation of satellites with the initial 12 in the project pipeline. We expect this to grow toward 100 in operation by 2030.

Earnings revisions

Despite the record backlog for Space Missions, we are taking a more cautious approach to revenue development at Clyde Space as we had expected some of the delays would be recovered in FY22.

We have also reduced our outlook for SpaceQuest given the lower than anticipated FY21 revenue base, although we do expect good growth as SDaaS revenues improve and new project work recovers. Omnisys will make a full year contribution, which will add another four months of revenues. Both Hyperion and AAC Clyde in Sweden are expected to make good progress.

We also anticipate a significant increase in capitalised development work as the company starts to invest more heavily in its own constellation projects alongside third-party projects.

We introduce FY23 forecasts, where we expect to see continued strong revenue growth and an improvement in EBITDA margin as the proportion of services activity and higher volumes across the group's activities drive positive operational gearing. Our estimates should be considered against management's revenue targets of SEK500m for FY24 and SEK2.3bn by 2030.

Exhibit 4: AAC Clyde Space earnings revisions

Year to Dec (SEKm)	2021			2022e			2023e
	Prior	Prelim	% change	Prior	New	% change	New
By business							
AAC	41.3	41.4	48%	50.2	56.9	13.5%	82.4
Clyde	81.6	61.5	-10%	130.5	100.8	(22.8%)	151.1
Hyperion	19.2	13.9	n.m.	23.1	24.4	5.8%	29.3
SpaceQuest	30.0	19.2		49.0	28.8	(41.1%)	40.4
Omnisys	30.0	43.8		40.0	59.2	48.0%	74.0
Total group net sales	202.1	180.0	83%	292.7	270.1	(7.7%)	377.1
By activity							
SDaaS	18.3	12.8		39.6	30.3	(23.6%)	70.1
Space Missions	62.9	57.5	12%	106.2	95.6	(10.0%)	129.0
Space Products	119.6	108.2	147%	144.9	142.2	(1.8%)	176.0
Licence and royalties' income	1.4	1.4		2.0	2.0	0.0%	2.0
Total group net sales	202.1	180.0	83%	292.7	270.4	(7.7%)	377.1
Other operating income	7.3	17.2	35%	7.3	7.3		7.3
Own work capitalised	15.1	13.6	64%	14.8	34.5		37.9
Total group income	224.5	210.8	76%	314.9	311.9	(0.9%)	422.4
Raw materials and subcontractors	(91.0)	(83.2)	66%	(111.2)	(121.6)	9.3%	(162.2)
Personnel costs	(107.2)	(106.0)	78%	(131.1)	(137.8)	5.1%	(163.0)
Other external expenses	(34.4)	(30.4)	56%	(49.0)	(45.2)	(7.7%)	(62.2)
Other operating expenses	(7.3)	(3.5)	-55%	0.0	0.0		0.0
EBITDA (company adjusted)	(15.3)	(12.3)	-30%	23.5	7.3	(69.0%)	35.0
EBIT (pre PPA amortisation)	(26.9)	(27.7)	9%	10.6	(7.3)	n.m.	10.9
Underlying PBT	(31.9)	(31.8)	19%	8.2	(10.5)	n.m.	7.2
EPS – underlying continuing (SEK)	(0.17)	(0.17)	-34%	0.04	(0.05)	n.m.	0.03
DPS (SEK)	0.0	0.0		0.0	0.0		0.0
Adjusted net cash / (debt)	102.6	96.1	55%	108.5	22.5	(79.2%)	(16.7)

Source: Company reports, Edison Investment Research estimates

Exhibit 5: Financial summary

	SEKm	2019	2020	2021	2022e	2023e
Year end December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Net sales		66.4	98.4	180.0	270.1	377.1
Own work capitalised and other operating income		14.1	21.1	30.9	41.8	45.2
Group income		80.6	119.5	210.8	311.9	422.4
EBITDA		(27.3)	(17.5)	(12.3)	7.3	35.0
Operating Profit (before amort. and except.)		(32.7)	(22.2)	(21.8)	0.5	27.5
Intangible Amortisation		(4.6)	(3.3)	(5.9)	(7.8)	(16.6)
Exceptionals		(2.9)	(12.1)	(10.9)	(10.0)	(10.0)
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		(40.2)	(37.5)	(38.6)	(17.3)	0.9
Net Interest		(0.8)	(1.3)	(4.2)	(3.2)	(3.7)
Profit Before Tax (norm)		(38.2)	(26.7)	(31.8)	(10.5)	7.2
Profit Before Tax (FRS 3)		(41.0)	(38.8)	(42.8)	(20.5)	(2.8)
Tax		0.5	0.5	3.3	1.0	0.1
Profit After Tax (norm)		(37.8)	(26.4)	(29.4)	(10.0)	6.8
Profit After Tax (FRS 3)		(40.6)	(38.3)	(39.5)	(19.5)	(2.7)
Average Number of Shares Outstanding (m)		84.8	102.3	173.8	196.1	203.8
EPS - fully diluted (SEK)		(0.45)	(0.26)	(0.17)	(0.05)	0.03
EPS - normalised (SEK)		(0.44)	(0.26)	(0.17)	(0.05)	0.03
EPS - (IFRS) (SEK)		(0.48)	(0.37)	(0.23)	(0.10)	(0.01)
Dividend per share (SEK)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		-41.1	-17.8	-6.8	2.7	9.3
Operating Margin (before GW and except.) (%)		-49.3	-22.5	-12.1	0.2	7.3
BALANCE SHEET						
Fixed Assets		436.9	523.0	681.0	739.0	761.5
Intangible Assets		418.6	494.3	639.5	689.5	700.8
Tangible Assets		4.1	16.2	29.2	40.6	55.1
Right of use asset		14.2	12.5	12.2	8.9	5.6
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		108.5	113.3	199.4	138.8	138.0
Stocks		13.1	12.8	13.2	45.9	64.1
Debtors		17.7	9.5	23.0	43.2	60.3
Cash		52.4	62.4	96.1	22.5	(16.7)
Other		25.2	28.5	67.0	27.1	30.3
Current Liabilities		(60.5)	(56.1)	(131.3)	(117.5)	(144.5)
Creditors		(60.5)	(56.1)	(131.3)	(117.5)	(144.5)
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(16.0)	(14.4)	(11.9)	(9.7)	(7.0)
Long term borrowings		(0.8)	(0.3)	0.0	(0.0)	(0.0)
Lease liabilities		(14.1)	(12.9)	(10.3)	(7.8)	(5.2)
Other long-term liabilities		(1.1)	(1.2)	(1.6)	(1.9)	(1.8)
Net Assets		468.9	565.8	737.1	750.7	748.1
CASH FLOW						
Operating Cash Flow		(15.3)	(14.2)	(34.5)	(23.1)	19.9
Net Interest		(0.8)	(0.7)	(3.4)	(2.4)	(3.0)
Tax		0.4	0.4	2.4	0.5	(0.4)
Capex		(13.9)	(17.2)	(26.9)	(49.3)	(56.6)
Acquisitions/disposals		(3.0)	(6.2)	(27.7)	(32.6)	0.8
Financing		73.3	49.2	122.7	33.3	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		40.7	11.4	32.7	(73.6)	(39.3)
Opening net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(62.2)	(96.1)	(22.5)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.1	(0.8)	1.3	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(51.6)	(62.2)	(96.1)	(22.5)	16.7
Net financial liabilities including lease liabilities		(37.5)	(49.3)	(85.8)	(14.8)	21.9

Source: Company reports, Edison Investment Research estimates

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