

AAC Clyde Space

Preferred supplier status for constellation

NSLComm order FY19
estimates revision

Aerospace & defence

30 January 2020

Price **SEK4.72**

Market cap **SEK454m**

SEK 12.5/£1

Net cash (SEKm) at 30 Sept 2019 58.8

Shares in issue 96.2m

Free float 89%

Code AAC

Primary exchange Nasdaq FN Premier

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.5) 4.8 46.6

Rel (local) (7.8) (1.6) 18.7

52-week high/low SEK6.02 SEK2.62

Business description

Based 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

Preliminary results 20 February 2020

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Two significant contracts in the last week continue to support the growth potential of AAC Clyde despite a variety of challenges it faced during 2019, from which we expect the company to recover in 2020. We are reducing our FY19 estimates following Q319 results that did not meet the CEO's expectations, and an apparent absence of platform deliveries and launches in Q419 that was below our own assumption. The company is expected to announce FY19 preliminary results on 20 February and we will update our estimates again then.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/17	13.3	(27.3)	(0.75)	0.0	N/A	0.0
12/18	77.9	(38.0)	(0.49)	0.0	N/A	0.0
12/19e	72.9	(36.8)	(0.41)	0.0	N/A	0.0
12/20e	129.8	(7.7)	(0.07)	0.0	N/A	0.0

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

NSLComm follow-on order another milestone

Apart from its scale and 'space-as-a-service' nature, the announcement of a SEK15m (US\$1.6m) order for a second 6U satellite for NSLComm of Israel was also significant in two other respects. The new satellite, NSLSat-2, should be delivered in Q321 and is expected to be the first of NSLComm's proposed operational constellation. It is in our view the first constellation order for AAC Clyde, as it has also been appointed 'preferred supplier' to NSLComm for its proposed constellation. Together with other subsystems orders announced since Q319 worth around SEK18m, we would expect some increase in the current order backlog, which stood at a record SEK180m at 30 September 2019. However, due to FX and timing, there may be a modest dip reported at the end of 2019.

FY19 estimates reduced

We are reducing our FY19 estimates following Q319 results that did not meet the CEO's expectations and an apparent absence of platform deliveries and launches in Q419, which was also below our expectations. As a reminder, in absolute terms the turnover of the group remains relatively nascent and the platforms business is made up of proportionately large contracts where the timing of revenue recognition can have a major effect. Our FY20 estimates are broadly unchanged, except for a mix change in revenues to reflect some platform activity catch-up offset by lower licence fee income. We have also increased our depreciation and amortisation charge, which we had previously underestimated.

Valuation: Preparing for growth

While the company faced several challenges in 2019, we remain of the view that AAC Clyde is entering a significant growth phase that should rapidly move the company into earnings and improve cash flows. We will update our valuation following the release of FY19 numbers.

Recent developments

There have been further positive order developments since the start of Q419, including:

- A SEK11.3m order to supply two sets of Sirius satellite subsystems from a major European satellite manufacturer for an undisclosed mission, to be delivered by the end of H120.
- A SEK6.4m (\$0.7m) contract for the US Air Force Academy for components for its FalconSat programme to be delivered in Q320.
- A SEK5.4m (\$0.6m) contract was announced on 24 January 2020 for the supply of the proven standardised Starbuck Mini power system for US-based Intuitive Machines' lunar landing mission spacecraft, expected to be launched in 2021.
- The SEK15.4m order from NSLComm for NSLSat-2.

A new executive management team has been formed to support AAC Clyde in its growth phase. John Charlick, COO since February 2019 (having rejoined Clyde in 2015) and Ross Lang, the UK head of finance (joined 2014) have been appointed to the executive team. They add to the existing executive team: Luis Gomes, CEO and acting VP of business development; Mats Thideman, CFO and deputy CEO; Craig Clark, chief strategy officer; and Andrew Strain, chief technology officer,

Earnings revisions

Q319 results showed positive progress compared to H119, but delays to projects left them below management's expectations. We had hoped that Q419 would see some catch-up, even if a repeat of the strong Q418 performance was unlikely. We still expect an increase in longer-term project contract revenues in Q419, but now assume that in the absence of any launches or deliveries in Q419 only four AAC Clyde satellites were launched during 2019. That is the same as in Q319 and we had expected two more deployments in Q419.

Exhibit 1: AAC Clyde Space earnings revisions						
Year to Dec (SEKm)	2019e			2020e		
	Prior	New	% change	Prior	New	% change
<u>By business</u>						
AAC	34.1	28.1	(17.6%)	45.8	39.7	(13.3%)
Clyde	53.1	44.8	(15.6%)	84.0	90.1	7.3%
Total group revenue	87.2	72.9	(16.4%)	129.8	129.8	0.0%
<u>By activity</u>						
Satellite platforms	17.4	16.6	(5.0%)	30.5	36.6	20.0%
Subsystems	66.7	56.1	(15.9%)	91.3	91.3	(3.4%)
Licence & royalties income	3.0	0.2		8.0	1.9	(76.3%)
Total group revenue	87.2	72.9	(16.4%)	129.8	129.8	0.0%
Other operating income	7.0	9.0		2.0	2.0	
Own work capitalised	2.0	2.6		2.1	2.9	
Total group income	96.2	84.4	(12.2%)	133.9	134.7	0.6%
Raw materials & subcontractors	(30.5)	(28.4)	(6.9%)	(44.1)	(44.1)	0.0%
Personnel costs	(56.8)	(56.8)	0.0%	(65.1)	(65.1)	0.0%
Other external expenses	(18.7)	(23.3)	24.4%	(23.4)	(23.4)	0.0%
Other operating expenses	(3.7)	(3.7)		0.0	0.0	
EBITDA (company reported)	(13.6)	(27.9)	104%	1.3	2.1	58%
EBIT (pre PPA amortisation)	(20.2)	(36.3)	80.2%	(4.0)	(6.9)	72.3%
Underlying PBT	(20.2)	(36.8)	82.3%	(3.9)	(7.7)	97.7%
EPS - underlying continuing (SEK)	(0.22)	(0.41)	82.3%	(0.04)	(0.07)	97.7%
Net cash/(debt)	67.4	53.6	(20.5%)	60.0	42.9	(28.5%)

Source: Edison Investment Research

The result is a delay in revenue recognition leading to a reduction in our revenue estimates for both platforms and associated subsystems. The Q418 subsystems result was very strong, especially for

Sweden, and while strong sequential progress is expected in Q419, we do not expect it to match the very strong Q418 revenues driven by Sirius sales to Japan.

Our FY20 revenue estimate is unchanged, although the mix has altered to reflect a catch-up in satellite platforms revenues offset by lower licence income. Group total income is increased by modestly higher capitalised R&D. As a result, we slightly increase our EBITDA expectation. However, we had previously underestimated depreciation and amortisation and have increased this by around SEK4m to a more appropriate level. This has the effect of reducing EBIT, PBT and net income accordingly, although there is no impact on cash flows.

Exhibit 2: Financial summary

	SEKm	2017	2018	2019e	2020e
Year end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		13.3	77.9	72.9	129.8
Own work capitalised and other operating income		4.2	11.3	11.6	4.9
Group income		17.5	89.2	84.4	134.7
EBITDA		(21.4)	(28.5)	(27.9)	2.1
Operating Profit (before amort. and except.)		(21.7)	(30.8)	(32.0)	(3.4)
Intangible Amortisation		(5.6)	(6.9)	(4.4)	(3.5)
Exceptionals		0.0	(5.2)	(4.8)	(1.0)
Other		0.0	0.0	0.0	0.0
Operating Profit		(27.3)	(42.9)	(41.1)	(7.9)
Net Interest		(0.0)	(0.3)	(0.4)	(0.8)
Profit Before Tax (norm)		(27.3)	(38.0)	(36.8)	(7.7)
Profit Before Tax (FRS 3)		(27.3)	(43.3)	(41.5)	(8.7)
Tax		(0.0)	0.9	2.1	0.9
Profit After Tax (norm)		(27.3)	(37.2)	(34.9)	(7.0)
Profit After Tax (FRS 3)		(27.3)	(42.3)	(39.5)	(7.8)
Average Number of Shares Outstanding (m)		36.4	75.4	85.5	96.2
EPS - fully diluted (SEK)		(0.75)	(0.49)	(0.41)	(0.07)
EPS - normalised (SEK)		(0.75)	(0.49)	(0.41)	(0.07)
EPS - (IFRS) (SEK)		(0.75)	(0.56)	(0.46)	(0.08)
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-161.1	-36.6	-38.2	1.6
Operating Margin (before GW and except.) (%)		-163.3	-39.6	-43.9	-2.6
BALANCE SHEET					
Fixed Assets		16.3	396.8	403.2	397.4
Intangible Assets		15.9	392.6	386.0	384.3
Tangible Assets		0.4	4.2	2.7	0.5
Right of use asset				14.5	12.6
Investments		0.0	0.0	0.0	0.0
Current Assets		46.0	46.4	101.2	116.2
Stocks		1.9	6.5	6.0	10.5
Debtors		3.6	10.1	10.5	19.5
Cash		37.2	12.2	68.6	60.2
Other		3.3	17.5	16.0	26.0
Current Liabilities		(16.4)	(25.8)	(24.8)	(41.4)
Creditors		(14.4)	(25.7)	(24.8)	(41.4)
Short term borrowings		(2.0)	(0.2)	0.0	0.0
Long Term Liabilities		(1.0)	(2.5)	(30.8)	(31.1)
Long term borrowings		0.0	(1.2)	(15.0)	(17.3)
Lease liabilities				(14.5)	(12.6)
Other long term liabilities		(1.0)	(1.3)	(1.3)	(1.2)
Net Assets		44.9	414.9	448.9	441.1
CASH FLOW					
Operating Cash Flow		(24.9)	(49.1)	(28.9)	(6.6)
Net Interest		(0.0)	(0.3)	(0.4)	(0.8)
Tax		(0.0)	0.8	1.8	0.8
Capex		(4.0)	(2.3)	(3.3)	(4.1)
Acquisitions/disposals		(9.5)	(377.4)	0.0	0.0
Financing		0.1	404.6	73.5	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(38.4)	(23.6)	42.7	(10.7)
Opening net debt/(cash) excluding lease liabilities		(73.5)	(35.2)	(10.9)	(53.6)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.1	(0.7)	0.0	(0.0)
Closing net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(53.6)	(42.9)
Net financial liabilities including lease liabilities				(39.1)	(30.3)

Source: Company reports. Edison Investment Research

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