

AAC Clyde Space

H122 results

Expecting a busy second half

AAC Clyde Space continued to be constrained by the supply chain issues that have persisted across the space industry in Q222. These have delayed project completions and deliveries and constrained revenue as milestones are deferred. However, with SEK145m of its robust SEK400m order backlog expected to be delivered in H222, including delivery for launch of a number of satellites, prospects remain encouraging. These should support the rapid acceleration of higher-margin Space Data as a Service (SDaaS) revenues from FY23 that are key to the growth strategy, driving sustained earnings and cash flow expansion.

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	0.0
12/21	180.0	(27.0)	(0.14)	0.0	N/A	0.0
12/22e	242.6	(21.2)	(0.10)	0.0	N/A	0.0
12/23e	372.0	11.5	0.05	0.0	39.4	0.0

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

Q222 supply chain constraints persist

Revenues grew by 8% in H122 to SEK90.7m and by just 5% in Q222, including a full six-month contribution from Omnisys, which was consolidated for two months in H121, as well as a modest initial contribution from AAC Space Africa. Supply chain issues affecting the entire industry persisted, delaying deliveries and creating uncertainty over lead times for new projects. Personnel costs and external expenses developed in advance of revenue growth due to the deferrals. H122 reported group EBITDA loss was SEK10.8m compared to a loss of SEK3.9m (loss of SEK2.2m before acquisition costs) in H121. The delays also affected operating cash flow as inventory built ahead of deliveries, which should unwind in H222 as delivery milestones are achieved. Order intake almost matched sales and the backlog of SEK400.2m remained robust.

Stronger H222 deliveries expected

The company had been expecting to deliver 10 satellites in FY22 and most, if not all, should be delivered in H222. These satellites include several for its own constellations that should quickly start to deliver recurring SDaaS revenues, which should build rapidly from next year as the fleet grows. We are maintaining our sales estimates with only a relatively small number of infill contracts required in H222. However, there remains a risk that some further deferral of milestones could occur, pushing revenues into FY23. With lower other income than we expected, our FY22 EBITDA estimate is now a loss of SEK8.3m, previously a small positive.

Valuation: Reflects uncertainty over execution

The pressure on the share price reflects the uncertainty created by the deferral of activity. As this unwinds and earnings and cash flows improve from FY23 we would expect earnings multiples to start to normalise and the shares to start to trend towards our capped DCF valuation, which is unchanged at SEK 7.8 per share.

Aerospace and defence

31 August 2022
Price **SEK1.47**
Market cap **SEK292m**

SEK10.67/\$1, SEK12.49/£1

Adjusted net cash (SEKm) at 30 June 2022 46.5
(excluding leases)

Shares in issue 199.0m

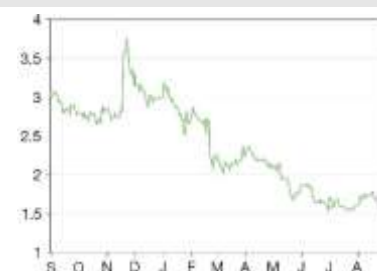
Free float 87%

Code AAC

Primary exchange Nasdaq First North Premier
Growth Market

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs (8.3) (19.0) (52.0)

Rel (local) (1.8) (10.7) (37.4)

52-week high/low SEK3.76 SEK1.47

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

Q322 results 24 November 2022

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H122 results

The performance of the group in Q222 saw net sales increase by 5% to SEK49.5m (Q221: SEK47.4m). Growth continued to be constrained by the industry-wide supply chain disruption that continued to defer project completions and deliveries. Omnisys was consolidated from 1 May 2021, but despite an extra month in Q222 its net sales were 7% lower at SEK14.5m (Q221: SEK15.5m). Hyperion sales were little changed at SEK4.6m, while SpaceQuest generated SEK8.8m (Q221: SEK5.4m) with healthy improvements in both SDaaS and Space Products revenues. Clyde Space in Glasgow continued to experience delays in Space Missions projects and net sales fell 24% to SEK11.1m (Q221: SEK14.5m). AAC Clyde Space in Sweden improved net sales to SEK8.9m (Q221: SEK7.4m).

Exhibit 1: AAC Clyde Space H122 results summary

SEKm	H121	H122	H122 v H121
AAC Clyde Space	19.8	19.8	0%
Clyde Space	31.6	25.2	(20%)
Hyperion	8.0	6.8	(15%)
SpaceQuest	9.4	14.4	54%
Omnisys	15.5	22.7	47%
AAC Space Africa		1.7	
Net sales	84.2	90.7	8%
SDaaS	8.3	8.2	(1%)
Space Missions	24.3	22.5	(7%)
Space Products	50.2	60.0	19%
Licence income	1.4	0.0	(100%)
Net sales	84.2	90.7	8%
Other operating income	6.4	9.9	54%
Development work capitalised	5.4	10.9	101%
Group income	96.0	111.4	16%
Raw materials & subcontractors	(35.3)	(30.8)	(13%)
Personnel costs	(48.0)	(68.1)	42%
Other external expenses	(11.8)	(19.6)	66%
EBITDA adjusted	0.9	(7.0)	n.m.
Other operating expenses	(3.2)	(3.7)	17%
Acquisition expenses	(1.7)	0.0	(100%)
EBITDA reported	(3.9)	(10.8)	173%
Depreciation and Amortisation	(9.8)	(13.4)	36%
EBIT	(13.8)	(24.1)	75%
PBT	(14.5)	(18.8)	30%
Net income	(13.6)	(17.5)	29%
EPS (SEK)	(0.08)	(0.09)	13%
Net cash at period end	101.40	46.51	(54%)
Lease liabilities	(17.6)	(12.7)	(28%)
Total net financial assets	83.8	33.8	(60%)

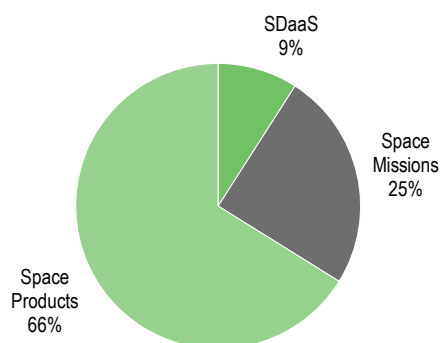
Source: Company reports

All of the businesses acquired since the pandemic made improved Q222 EBITDA contributions. Omnisys generated SEK5.1m (Q221: SEK3.5m), SpaceQuest SEK3.3m (Q221: SEK2.0m) and Hyperion SEK1.3m (Q221: SEK1.2m). The EBITDA loss at Clyde Space was marginally lower at SEK4.0m (Q221: SEK4.3m) following a difficult Q122 performance. Excluding acquisition costs of SEK1.7m in Q221, AAC Clyde Space in Sweden modestly reduced its EBITDA loss to SEK7.3m from SEK4.1m a year earlier. AAC Clyde Space, which commenced operations in Q321, made a small Q222 EBITDA loss of SEK0.3m. Overall the reported EBITDA loss was SEK3.2m compared to a loss of SEK3.5m in Q221 (loss of SEK1.8m before acquisition costs).

Key highlights of H122 were:

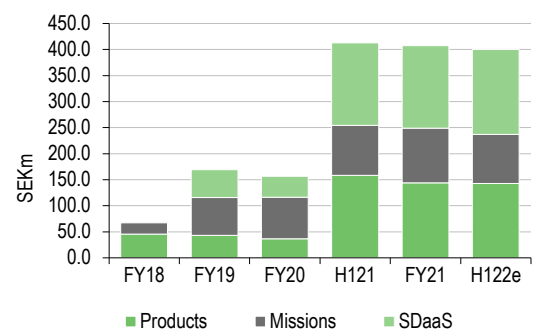
- Group net sales rose 8% to SEK90.7m (H121: SEK84.2m). SDaaS sales were broadly stable at SEK8.2m, which should start to accelerate as new satellites are deployed from H222. Space Products grew 19% to SEK60.0m (H121: SEK50.2m), mainly reflecting the full half-year contribution from Omnisys. Space Missions' performance continued to be the main casualty of the supply chain constraints and deferred project deliveries caused by delays from subsystems suppliers, with sales falling 7% to SEK22.5m (H121: SEK24.3m).
- Group EBITDA loss more than doubled to SEK10.8m (H121: SEK3.9m), reflecting the slightly improved Q222 performance following a significant decline in Q122. SpaceQuest and Omnisys both increased their contribution in H122 to SEK4.2m (H121: SEK3.2m) and SEK5.1m (H121: SEK3.5m), respectively. Hyperion made a positive yet smaller contribution of SEK0.8m (H121: SEK1.8m) following its Q122 loss. Clyde Space saw its EBITDA loss more than double to SEK10.0m (H121: SEK4.8m) despite the sequential improvement in Q222 over Q122. AAC Clyde Space in Sweden also saw its EBITDA loss increase to SEK9.5m (H121 loss: SEK5.8m before acquisition costs of SEK1.7m).
- The increased EBITDA losses largely reflected an increase of SEK20.1m in personnel expenses and SEK6.2m in other external expenses as the company absorbed the full half-year addition of Omnisys costs while continuing to invest in a larger organisation to deliver the anticipated growth.
- The loss before tax of SEK18.8m was 30% higher than in H121 (SEK14.5m) despite benefiting from a SEK6.0m improvement in net financial income.
- Adjusted net cash (excluding leases) in H122 was SEK46.5m compared to SEK95.5m at the start of the year. The operating cash outflow was SEK32.2m in Q222 (Q221: SEK5.9m), largely reflecting higher working capital due to a SEK10.8m R&D tax credit claim (subsequently received in August) as well as an increase in accrued revenues in ongoing projects where prepayments have already been received and not yet invoiced milestones in delayed projects. For H122 the outflow increased to SEK25.2m compared to SEK14.9m in H121, but we expect a significant improvement in working capital performance in H222 as project milestones are met.
- The order backlog remained robust at SEK400m with healthy order intake keeping pace with invoiced sales. Of the backlog, SEK145m should be recognised as revenue in H222, and management thus expects FY22 revenues to exceed SEK236m allowing for further in-year book and deliver orders. We retain our sales expectations at SEK243m although there remains a risk some project deliveries could slip into FY23.

Exhibit 2: AAC Clyde Space net sales split by segment activity, H122 SEK90.7m



Source: Company reports

Exhibit 3: AAC Clyde Space order backlog development (SEK400.2m at H122)



Source: Company reports , NB: split estimated by EIR

Earnings revisions

We maintain our external revenue estimates, although this requires the numerous H222 project milestones to finally be met. However, we have reduced current year work capitalised expectations for FY22 by almost 30% reflecting some delay to anticipated build rates. We have rebalanced some expenses to reflect performance at the half year, with higher employee expenses offsetting lower other external expenses than we expected. As a result, we now expect an EBITDA loss of SEK8.3m instead of near break-even result previously. Favourable one-off value adjustments relating to deferred considerations in financial interest items leaves the underlying loss before tax slightly better at SEK21.2m.

Exhibit 4: AAC Clyde Space earnings revisions

Year to Dec (SEKm)	2022E			2023E		
	Prior	New	% change	Prior	New	% change
By Business						
AAC	40.9	40.9	0.0%	77.4	77.4	0.0%
Clyde	91.1	91.1	0.0%	139.5	139.5	0.0%
Hyperion	19.5	19.5	0.0%	23.4	23.4	0.0%
SpaceQuest	26.9	26.9	0.0%	37.7	37.7	0.0%
Omnisys	59.2	59.2	0.0%	74.0	74.0	0.0%
AAC Clyde Africa	5.0	5.0		20.0	20.0	
Total group net sales	242.6	242.6	0.0%	372.0	372.0	0.0%
By activity						
SDaaS	30.3	30.3	0.0%	70.1	70.1	0.0%
Space Missions	83.6	83.6	0.0%	112.9	112.9	0.0%
Space Products	126.7	126.7	0.0%	187.0	187.0	0.0%
Licence & royalties income	2.0	2.0	0.0%	2.0	2.0	0.0%
Total group net sales	242.6	242.6	0.0%	372.0	372.0	0.0%
Other operating income	7.3	7.3	0.0%	7.3	7.3	0.0%
Own work capitalised	33.5	23.5	(29.9%)	37.8	37.8	0.0%
Total group income	283.4	273.4	(3.5%)	417.0	417.0	0.0%
Raw materials & subcontractors	(106.8)	(99.5)	(6.8%)	(163.7)	(156.2)	(4.5%)
Personnel costs	(129.9)	(136.2)	4.8%	(160.5)	(165.0)	2.8%
Other external expenses	(46.1)	(46.1)	0.0%	(61.4)	(63.2)	3.0%
Other operating expenses	0.0	0.0		0.0	0.0	
EBITDA (company adjusted)	0.6	(8.3)	-	31.5	32.5	3.4%
EBIT (Pre PPA amortisation)	(17.3)	(25.5)	47.8%	10.0	12.4	24.0%
Underlying PBT	(21.6)	(21.2)	(1.6%)	5.0	11.5	132.8%
EPS - underlying continuing (SEK)	(0.10)	(0.10)	(1.6%)	0.02	0.05	132.8%
Adjusted net cash / (debt)	22.9	31.5	37.6%	(7.9)	4.6	-

Source: 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	242.6	372.0
Own work capitalised and other operating income		14.1	21.1	30.9	30.8	45.1
Group income		80.6	119.5	210.8	273.4	417.0
EBITDA		(27.3)	(17.5)	(12.4)	(8.3)	32.5
Operating Profit (before amort. and except.)		(32.7)	(22.2)	(21.9)	(18.5)	20.6
Intangible Amortisation		(4.6)	(3.3)	(0.9)	(7.0)	(8.2)
Exceptionals		(2.9)	(12.1)	(15.8)	(10.0)	(10.0)
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		(40.2)	(37.5)	(38.6)	(35.5)	2.4
Net Interest		(0.8)	(1.3)	(4.2)	4.3	(0.8)
Profit Before Tax (norm)		(38.2)	(26.7)	(27.0)	(21.2)	11.5
Profit Before Tax (FRS 3)		(41.0)	(38.8)	(42.8)	(31.2)	1.5
Tax		0.5	0.5	3.3	1.6	(0.1)
Profit After Tax (norm)		(37.8)	(26.4)	(24.9)	(20.2)	11.0
Profit After Tax (FRS 3)		(40.6)	(38.3)	(39.5)	(29.7)	1.5
Average Number of Shares Outstanding (m)		84.8	102.3	173.8	198.0	203.8
EPS - fully diluted (SEK)		(0.45)	(0.26)	(0.14)	(0.10)	0.05
EPS - normalised (SEK)		(0.44)	(0.26)	(0.14)	(0.10)	0.05
EPS - (IFRS) (SEK)		(0.48)	(0.37)	(0.23)	(0.15)	0.01
Dividend per share (SEK)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		-41.1	-17.8	-6.9	-3.4	8.7
Operating Margin (before GW and except.) (%)		-49.3	-22.5	-12.2	-7.6	5.5
BALANCE SHEET						
Fixed Assets		436.9	523.0	681.0	715.0	728.6
Intangible Assets		418.6	494.3	639.5	664.4	668.9
Tangible Assets		4.1	16.2	26.4	40.0	53.5
Right of use asset		14.2	12.5	15.1	10.6	6.1
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		108.5	113.3	193.4	136.5	160.9
Stocks		13.1	12.8	13.2	41.2	63.2
Debtors		17.7	9.5	23.0	38.8	59.5
Cash		52.4	62.4	96.1	32.1	8.3
Other		25.2	28.5	61.1	24.4	29.8
Current Liabilities		(60.5)	(56.1)	(129.2)	(105.5)	(146.2)
Creditors		(60.5)	(56.1)	(128.5)	(105.5)	(142.5)
Short term borrowings		0.0	0.0	(0.6)	0.0	(3.7)
Long Term Liabilities		(16.0)	(14.4)	(16.6)	(14.0)	(9.7)
Long term borrowings		(0.8)	(0.3)	0.0	(0.6)	0.0
Lease liabilities		(14.1)	(12.9)	(15.1)	(11.5)	(8.0)
Other long term liabilities		(1.1)	(1.2)	(1.5)	(1.8)	(1.7)
Net Assets		468.9	565.8	728.6	732.0	733.6
CASH FLOW						
Operating Cash Flow		(15.3)	(14.6)	(37.3)	(43.3)	16.4
Net Interest		(0.8)	(0.2)	(0.2)	5.2	0.1
Tax		0.4	0.4	2.1	1.1	(0.6)
Capex		(13.9)	(17.2)	(29.2)	(27.8)	(43.8)
Acquisitions/disposals		(3.0)	(6.2)	2.6	(32.4)	0.9
Financing		73.3	49.2	94.1	33.3	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		40.7	11.4	32.0	(64.0)	(26.9)
Opening net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(62.2)	(95.5)	(31.5)
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)	(95.5)	(31.5)	(4.6)
Net financial liabilities including lease liabilities		(37.5)	(49.3)	(80.4)	(20.0)	3.4

Source: Company reports, Edison Investment Research estimates

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