

AAC Clyde Space

Gathering momentum for FY24 lift-off

Q323 update and order flow

Aerospace and defence

14 December 2023

Price **SEK33.8**

Market cap **SEK193m**

SEK13.02/£1, SEK10.26/\$1

Adjusted net cash (SEKm) at 30 Sept 2023 c.5.0
(excluding leases SEK17.3m)

Shares in issue 5.7m

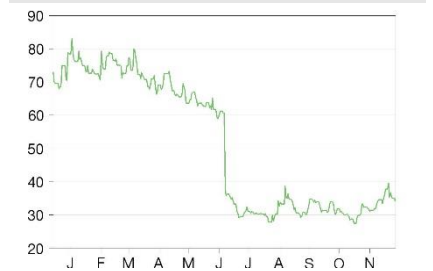
Free float 88%

Code AAC

Primary exchange Nasdaq First North
Premier Growth Market

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs (5.0) 7.0 (56.8)

Rel (local) (13.3) (1.0) (59.1)

52-week high/low SEK83.05 SEK27.50

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, the United States and Africa.

Next events

FY23 prelims 15 February 2024

FY23 annual report 25 April 2024

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AAC Clyde Space's (AAC's) Q323 report was encouraging, although it benefited from a large element of licence income without which the underlying progress was disappointing. The reason for that was summer shutdowns at suppliers and customers with some key revenue recognition deferred. However, since the start of Q423 there has been a tremendous order inflow worth around SEK200m. Much of this will start in FY24, supporting the significant acceleration of revenues towards the SEK500m targeted. That should accompany improving profitability and cash flows and lead to a reversal of recent declines in the share price.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/21	180.0	(27.0)	(7.17)	0.0	N/A	N/A
12/22	196.7	(17.7)	(4.18)	0.0	N/A	N/A
12/23e	277.5	(3.9)	(0.76)	0.0	N/A	N/A
12/24e	468.2	23.3	3.88	0.0	8.7	N/A

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

Q323 performance constrained by delays

Five of AAC's six business units saw a weaker year-on-year trading performance in Q323. The positive news was that the licence income received from a customer, which has little cost attached, more than compensated at the EBITDA level for both the quarter and the year to date. We have tempered our expectations for Q423 performance despite the recent positive newsflow and have reduced our FY23 revenue estimate by 16.0% and group income by 13%. We still anticipate a much stronger FY24 performance although a weaker mix with lower space data as a service (SDaaS) revenues than previously forecast.

Encouraging surge in order intake in recent weeks

At Q323 the order book remained reasonably robust at SEK434m, but the book-to-bill ratio has not looked indicative of substantial growth in FY24 until the last few weeks. A slew of orders has been announced worth in aggregate around SEK200m, which should leave the year-end backlog in excess of SEK550m. Because of the delays to some of AAC's owned satellite launches we think the ramp up of SDaaS revenues will be slower in FY24. That was not helped by the recent loss of the Kelpie-2 satellite for ORBCOMM, although mitigation is being sought. The lower FY24 SDaaS revenue should be largely recovered from new work secured including the initial revenues from the Omnisys's SEK137m contract for Square Kilometre Array (SKA), which will run to 2027.

Valuation: Moving to financial sustainability

The recent 50 for 1 share consolidation has clearly adjusted the per share figures but the underlying share price trend has been lower. With our expectation that the company should move towards a self-sustaining funding status in FY24, we feel the outlook is more positive than is reflected in the valuation. Our adjusted DCF value on our lower estimates is SEK287/share (SEK293/share previously).

Q323 more challenging than expected

Assisted by licence income

The Q323 report maintained good progress with revenues rising 23% to SEK56.1m (Q322 SEK45.7m) and a positive EBITDA contribution of SEK6.7m (Q322 EBITDA loss of SEK7.7m). The improvements were driven by the receipt of licence income. AAC Clyde Space in Sweden booked SEK26.2m of revenues during the quarter, adding to the SEK6.1m booked in H1223, which directly drops through to the profitability. The associated cash is planned to be received successively, completing in H124. Licence income is an important and cash positive revenue stream but it remains variable at present and we do not expect it to be a significant driver of attaining management's FY24 and FY30 revenue targets.

Excluding the licence income, the trading performance during the quarter was more challenging than we had anticipated. Group revenues were down 28% at SEK30.0m (Q322 SEK41.9m), with year-on-year revenue declines in five of the six business units, including AAC Clyde Space in Sweden. Only Hyperion recorded an improvement. The performance was caused by delays to component supply and projects exacerbated by summer shutdowns, with deliveries and revenue recognition deferred, reducing the overhead coverage.

As a result, the EBITDA loss excluding licence income worsened to SEK19.5m (Q322 SEK11.5m) year-on-year and was substantially worse than the SEK2.1m EBITDA loss generated in H123 (adjusted for licence income of SEK6.1m).

Overall, the group loss before tax was SEK2.4m (Q322 SEK12.8m). Gross cash finished Q323 at SEK22.7m after receipt of the SEK35.9m net proceeds from the fund-raising. Adjusted net cash (excluding leases) was cSEK6m allowing for overdraft utilisation.

Exhibit 1: Q323 results summary

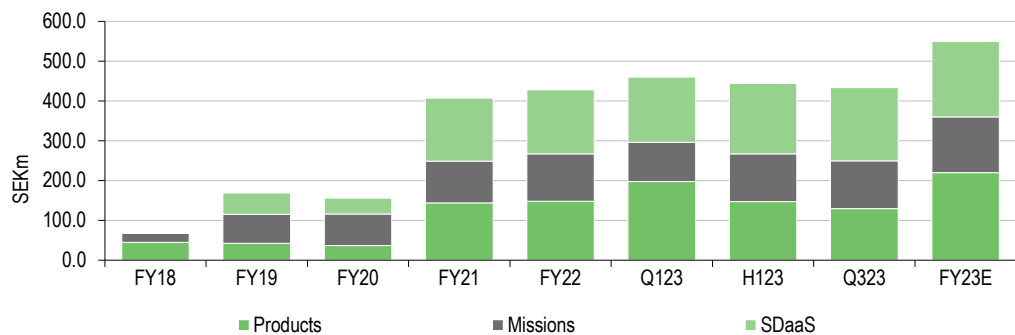
SEKm unless stated	2022			2023			Change		
	H122	Q322	9M22	H123	Q323	9M23	H123/H122	Q323/Q322	9 months
AAC Clyde	19.8	12.1	31.90	28.5	32.0	60.4	44%	164%	89%
Clyde	25.2	12.0	37.17	25.8	9.9	35.7	2%	(17%)	(4%)
Hyperion	6.8	2.8	9.62	30.6	4.7	35.3	351%	66%	267%
SpaceQuest	14.4	8.1	22.52	20.7	6.4	27.1	44%	(21%)	20%
Omnisys	22.7	9.6	32.32	43.2	3.1	46.2	90%	(68%)	43%
AAC Space Africa	1.7	1.1	2.84	1.0	0.1	1.1	(41%)	(89%)	(60%)
Net sales	90.7	45.7	136.4	149.8	56.1	205.9	65%	23%	51%
SDaaS	8.2	4.4	12.6	9.1	4.7	13.8	10%	8%	10%
Space missions	22.5	11.7	34.2	14.5	5.6	20.1	(35%)	(53%)	(41%)
Space products	60.0	25.8	85.8	120.1	19.7	139.8	100%	(24%)	63%
Licence income	0.0	3.8	3.8	6.1	26.2	32.2			
Net sales	90.7	45.7	136.4	149.8	56.1	205.9	65%	23%	51%
Other operating income	9.9	5.7	15.5	12.8	6.4	19.2	30%	13%	24%
Development work capitalised	10.9	4.8	15.7	15.3	5.7	21.0	41%	18%	34%
Group income	111.5	56.1	167.6	177.9	68.2	246.1	60%	21%	47%
Raw materials and subcontractors	(30.8)	(18.1)	(48.9)	(65.5)	(9.0)	(74.5)	113%	(50%)	52%
Personnel costs	(68.1)	(32.7)	(100.9)	(82.5)	(38.9)	(121.4)	21%	19%	20%
Other external expenses	(19.6)	(11.6)	(31.2)	(22.9)	(10.3)	(33.2)	17%	(11%)	7%
Other operating expenses	(3.7)	(1.4)	(5.2)	(3.1)	(3.3)	(6.3)	(18%)	129%	22%
EBITDA reported	(10.8)	(7.7)	(18.5)	3.97	6.7	10.7	N/M	N/M	N/M
Depreciation and amortisation	(13.4)	(6.9)	(20.3)	(14.8)	(7.7)	(22.5)	11%	11%	11%
EBIT	(24.1)	(14.6)	(38.7)	(10.9)	(1.0)	(11.8)	(55%)	(93%)	(89%)
PBT	(18.8)	(12.8)	(31.6)	(10.6)	(2.4)	(13.0)	(44%)	(81%)	(59%)
Net income	(17.50)	(11.6)	(29.1)	(11.1)	(2.5)	(13.6)	(36%)	(79%)	(53%)
EPS (SEK)*	(4.5)	(3.0)	(7.5)	(2.5)	(0.5)	(3.0)	(44%)	(83%)	(60%)
Adjusted net cash at period end	46.5		25.0	13.0		22.7	(72%)		(9%)

Source: Company reports, * adjusted for share consolidation

For the nine-month period ending September 2023 group revenues were up 51% at SEK205.9m (9M22 SEK136.4m), and EBITDA was SEK10.7m (9M22 EBITDA loss SEK34.0m). PBT improved to a loss of SEK13.0m (9M22 SEK31.6m) again helped by the SEK28.4m increase in licence income booked during the period. Nevertheless, despite the weaker third quarter trading there was an underlying improvement in performance.

The order backlog was stable at SEK433.6m at the end of Q323 (FY22 SEK427.8m).

Exhibit 2: AAC Clyde Space order backlog development by segment



Source: Company reports, Edison Investment Research estimates

Outlook

Q423 proving to be a very busy period

Activity has picked up noticeably in Q324 with a raft of deliveries and a significant increase in order intake, with some significant new business won.

High levels of activity in the current quarter

The cutting-edge weather sensor payload was delivered by Omnisys to OHB Sweden for the Arctic Weather Satellite (AWS) in mid-October, deferred from Q323. The project has been one of the largest for the group with AAC Clyde Space also supplying a Starbuck power system and a Sirius command and data handling system for the 129kg satellite. Revenues will continue to be booked through next year when the satellite is due for launch and the AWS is expected to be a forerunner of a potential future constellation for monitoring weather and climate change.

Three new satellites were delivered to, integrated with, launched and deployed on SpaceX's Transporter 9 mission on 11 November 2023. Two satellites form part of AAC's own fleet and should start delivering data in 2024 with the other supplied to KP Labs. The three satellites were:

- Ymir-1, designed and built by AAC Clyde in Sweden as part of the VHF Data Exchange System (VDES) being developed with its partners in AOS (ORBCOMM and Saab) to develop a maritime communications system.
- EPICHyper-3, a 6U satellite that joins the already deployed EPICHyper-1 and EPICHyper-2 launched earlier in 2023. These provide hyperspectral Earth observation data for Canadian company Wyvern for the agricultural sector under the SDaaS contract.
- Intuition-1, Earth observation satellite built for KP Labs based on the 6U EPIC VIEW platform and hosting its innovative cutting-edge hyperspectral instrument, which should provide high quality and actionable data for the agricultural sector.

Order backlog significantly enhanced

Since the end of Q323 AAC has been awarded a significant number of new contracts worth an aggregate of over SEK200m. Hopefully the order activity reflects the increasing confidence and financial capability of customers and should continue into FY24. We expect the year end order backlog to be around SEK550m, allowing for the sharp increase in sales anticipated in Q423. The order intake includes:

- **3 October 2023:** AAC Clyde Space received a SEK12.1m order for a 3U satellite for delivery in Q424 with a VDES payload for AOS for maritime communications.
- **7 November 2023:** Clyde Space won a c SEK8.8m replacement order for the new Amber Phoenix satellite for Horizon Technologies to replace the IOD-3 satellite lost at launch in January 2023; it should be delivered during Q324.
- **24 November 2023:** AAC Clyde Space won an order worth c SEK13.4m for a Starbuck Mini power system for an existing customer to be delivered in Q125.
- **27 November 2023:** AAC Clyde Space won an order worth c SEK6.4m for a Starbuck Mini power system for a customer to be delivered in Q424.
- **1 December 2023:** Omnisys won a SEK137m contract to supply radio astronomy receivers for the SKA Observatory which is building two radio telescopes in South Africa and Australia. Omnisys will commence preparatory work in FY24 and then sequentially deliver 80 receiver dishes that weigh more than 180kg and are over one meter wide to the SKA-Mid telescope in South Africa until Q127.
- **4 December 2023:** AAC Clyde Space announced the award of a SEK25.5m order from Iota Technology for an end-to-end satellite mission to support its winning magnetometer payload proposition in the MagQuest competition to measure the Earth's magnetic field. It is planned for launched in Q425.

We still wait for significant additional data orders to be secured but these should appear after the initial SDaaS satellites start to provide data for evaluation by potential customers. With 12 of AAC's own satellites expected to be in orbit by the end of FY24 and several already launched, we expect that to gather momentum in FY24.

Loss of Kelpie-2

On 22 November 2023, AAC announced the total loss of the Kelpie-2 3U satellite after the failure of its antenna to deploy following its launch in June 2023. It was the second of two satellites being supplied to deliver automatic identification system data under an SDaaS agreement with ORBCOMM of the US. Its sister satellite Kelpie-1 was successfully launched in January 2023. The satellite was insured and AAC is in discussion with its insurers with regards to recovery to mitigate financial losses. It is also seeking ways to provide data via alternative resources for the data customer, which may include using one of its other owned satellites. It is another reminder of the inherent technical risk of space.

Share consolidation

AAC initiated a 50 for 1 share consolidation during November 2023 reducing the share count to c 5.7m shares and adjusting the share price, EPS and other per share metrics by a factor of 50. It does not affect the finances or economics in any other way.

Earnings revisions

We have reflected the weaker than expected Q323 trading in our revised estimates. The improved mix of very high-margin licence income mitigates the impact on our FY23 EBITDA expectation resulting from the reduced revenues, including relatively high-margin SDaaS sales due to delays.

Our revenues fall by 16% and EBITDA is reduced 36% to SEK10.6m. The adjusted net cash position is slightly reduced due to lower profitability and as some of the licence payments are planned to be received in H124.

For FY24 we have reduced our SDaaS revenues but now expect a stronger performance from Omnisys due to the SKA contract. Overall, we reduce our revenue estimate by 3% to SEK468m, slightly below management's longstanding SEK500m ambition. Our EBITDA falls 26% to SEK52.5m and the EPS expectation reduces to SEK3.88/share.

Exhibit 3: AAC Clyde Space estimates revisions						
SEKm	2023e			2024e		
	Prior	New	% change	Prior	New	% change
By Business						
AAC Clyde Space	69.0	72.6	5.2%	89.9	82.3	(8.4%)
Clyde	79.6	51.0	(36.0%)	179.3	177.6	(1.0%)
Hyperion	56.6	51.2	(9.6%)	62.3	56.3	(9.6%)
SpaceQuest	40.8	36.1	(11.5%)	53.1	51.0	(3.8%)
Omnisys	78.4	62.7	(20.0%)	90.1	94.0	4.3%
AAC Space Africa	3.9	3.9		6.9	6.9	0.0%
Total group net sales	328.4	277.5	(15.5%)	481.6	468.2	(2.8%)
By activity						
SDaaS	35.0	19.0	(45.7%)	101.0	40.0	(60.4%)
Space Missions	41.0	32.5	(20.6%)	79.8	113.6	42.4%
Space Products	236.3	193.7	(18.0%)	290.9	304.6	4.7%
Licence & royalties income	16.1	32.2	100.5%	10.0	10.0	0.0%
Total group net sales	328.4	277.5	(15.5%)	481.6	468.2	(2.8%)
Other operating income	20.3	26.3		3.0	3.0	
Own work capitalised	35.3	30.3		53.2	52.3	
Total group income	384.0	334.1	(13.0%)	537.8	523.5	(2.7%)
Raw materials & subcontractors	(142.9)	(106.7)	(25.3%)	(197.5)	(204.9)	3.8%
Personnel costs	(165.4)	(165.4)	(0.0%)	(190.3)	(190.3)	0.0%
Other external expenses	(52.5)	(41.7)	(20.7%)	(72.2)	(68.7)	(4.9%)
Other operating expenses	(6.6)	(9.7)	47.9%	(6.7)	(7.0)	4.1%
EBITDA (company adjusted)	16.7	10.6	(36.4%)	71.0	52.5	(26.2%)
EBIT (adjusted)	(0.8)	(5.6)	571.1%	40.3	22.8	(43.4%)
Underlying PBT	0.8	(3.9)	N/M	40.3	23.3	(42.2%)
EPS - underlying continuing (SEK)	0.14	(0.76)	N/M	6.71	3.88	(42.2%)
Adjusted net cash / (debt)	46.6	36.5	(21.7%)	78.9	61.5	(22.0%)

Source: Edison Investment Research estimates. Note: *Adjusted for share consolidation

Valuation

Due to the lower share count the per share DCF value increases by a factor of 50. The value based on our revised estimates drops to SEK287/share from SEK293/share previously. Assuming our estimates are achieved next year the FY24e P/E is currently 8.7x, which in our view implies significant potential for investors as cash generation improves. The sensitivity of our DCF model to WACC and terminal growth rates is shown below:

Exhibit 4: AAC DCF sensitivity to WACC and terminal growth rate (SEK/share)									
WACC	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
Terminal growth rate									
0%	545	467	407	359	319	287	260	237	217
1%	627	526	451	393	346	309	278	252	229
2%	741	604	507	435	379	335	299	269	244
3%	912	714	583	490	420	366	323	289	260

Source: Edison Investment Research estimates

Exhibit 5: Financial summary

	SEKm	2020	2021	2022	2023e	2024e
Year end December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Net sales		98.4	180.0	196.7	277.5	468.2
Own work capitalised and other operating income		21.1	30.9	52.5	56.6	55.3
Group income		119.5	210.8	249.2	334.1	523.5
EBITDA		(17.5)	(12.4)	(24.5)	10.6	52.5
Operating Profit (before amort. and except).		(22.2)	(21.9)	(34.9)	(2.6)	36.1
Intangible Amortisation		(3.3)	(0.9)	(0.7)	(3.0)	(13.3)
Exceptionals		(12.1)	(15.8)	(26.0)	(17.5)	(17.5)
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		(37.5)	(38.6)	(61.6)	(23.1)	5.3
Net Interest		(1.3)	(4.2)	17.9	1.7	0.5
Profit Before Tax (norm)		(26.7)	(27.0)	(17.7)	(3.9)	23.3
Profit Before Tax (FRS 3)		(38.8)	(42.8)	(43.7)	(21.4)	5.8
Tax		0.5	3.3	2.6	1.1	(0.3)
Profit After Tax (norm)		(26.4)	(24.9)	(16.4)	(3.705)	22.2
Profit After Tax (FRS 3)		(38.3)	(39.5)	(41.1)	(20.3)	5.5
Average Number of Shares Outstanding (m)		2.0	3.5	3.9	2.9	5.7
EPS - fully diluted (SEK)		(12.89)	(7.17)	(4.18)	(1.28)	3.88
EPS - normalised (SEK)		(12.89)	(7.17)	(4.18)	(1.28)	3.88
EPS - (IFRS) (SEK)		(18.72)	(11.36)	(10.44)	(7.02)	0.97
Dividend per share (SEK)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		-17.8	-6.9	-12.5	3.8	11.2
Operating Margin (before GW and except.) (%)		-22.5	-12.2	-17.7	-0.9	7.7
BALANCE SHEET						
Fixed Assets		523.0	681.0	728.6	743.8	771.9
Intangible Assets		494.3	639.5	665.5	660.3	666.7
Tangible Assets		16.2	26.4	46.4	66.7	90.3
Right of use asset		12.5	15.1	16.8	16.8	14.8
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		113.3	193.4	152.8	136.2	191.8
Stocks		12.8	13.2	20.2	27.7	44.5
Debtors		9.5	23.0	24.5	30.5	48.9
Cash		62.4	96.1	52.1	44.6	65.6
Other		28.5	61.1	56.0	33.4	32.9
Current Liabilities		(56.1)	(129.2)	(170.2)	(155.1)	(237.3)
Creditors		(56.1)	(128.5)	(170.2)	(155.1)	(237.3)
Short term borrowings		0.0	(0.6)	0.0	0.0	0.0
Long Term Liabilities		(14.4)	(16.6)	(17.8)	(27.8)	(23.7)
Long term borrowings		(0.3)	0.0	0.0	(8.1)	(4.0)
Lease liabilities		(12.9)	(15.1)	(16.5)	(18.5)	(18.5)
Other long term liabilities		(1.2)	(1.5)	(1.2)	(1.2)	(1.1)
Net Assets		565.8	728.6	693.5	697.1	702.7
CASH FLOW						
Operating Cash Flow		(14.6)	(37.3)	(13.2)	(14.6)	92.9
Net Interest		(0.2)	(0.2)	18.3	3.7	2.5
Tax		0.4	2.1	1.3	0.2	(1.2)
Capex		(17.2)	(29.2)	(40.9)	(42.8)	(71.2)
Acquisitions/disposals		(6.2)	2.6	(43.7)	2.0	2.0
Financing		49.2	94.1	33.4	35.9	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		11.4	32.0	(44.7)	(15.6)	25.0
Opening net debt/(cash) excluding lease liabilities		(51.6)	(62.2)	(95.5)	(52.1)	(36.5)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(0.8)	1.3	1.3	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(62.2)	(95.5)	(52.1)	(36.5)	(61.5)
Net financial liabilities including lease liabilities		(49.3)	(80.4)	(35.6)	(18.0)	(43.0)

Source: Company reports, Edison Investment Research estimates

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