

AAC Clyde Space

H120 results

Improving despite COVID constraints

Aerospace & defence

2 September 2020

Price **SEK3.22**
Market cap **SEK310m**

SEK11.59/£

Adjusted net cash (SEKm) at 30 June 2020 34.9

Shares in issue 96.2m

Free float 77%

Code AAC

Primary exchange Nasdaq First North Premier

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.9 (22.4) (10.9)

Rel (local) 0.3 (29.1) (22.9)

52-week high/low SEK5.57 SEK2.64

Business description

Headquartered 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

Q320 results 26 November 2020

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The performance in H120 was encouraging, especially given the global disruption caused by the pandemic in Q220. However, external challenges that arose, such as delays or deferral of orders by customers and disruption to the supply chain for key components and subsystems, are expected to weigh on H220 and could persist into FY21. We are reducing our net sales estimates for FY20 and FY21 by 12% and 24%, respectively, which still represents strong growth in both years, although deferring the estimate of positive EBITDA beyond FY21.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/18	77.9	(38.3)	(0.50)	0.0	N/A	N/A
12/19	66.4	(38.2)	(0.45)	0.0	N/A	N/A
12/20e	113.9	(15.1)	(0.15)	0.0	N/A	N/A
12/21e	147.6	(13.8)	(0.14)	0.0	N/A	N/A

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

Improved performance despite COVID

Despite the impact of the pandemic, Q220 again delivered year-on-year improvements in revenues and at all earnings levels. Net sales grew by 34% to SEK42.4m for H120 and EBITDA losses reduced by 27% to SEK8.7m (H119: SEK14.2m). While internal operational performance during lockdown was robust, aided by mitigation measures, COVID-19 did lead to some supply chain disruption and customer order deferrals in the period, but nevertheless the performance remained encouraging. While the order backlog fell 10% to SEK164m (Q120: SEK182m), this was largely due to a stronger SEK, and before the recent SEK17m collaborative project with Saab and ORBCOMM.

Potential challenges for 2021

H220 activity levels appear encouraging given three anticipated platform deployments and ongoing work on five other satellites. However, delays to some new customer orders and project milestones caused by late receipt of subsystems and components from suppliers lead us to reduce our net sales assumptions for FY20 by 12% to SEK114m and increase the EBITDA loss to SEK5.0m. Although supported by the healthy H120 order backlog, management notes the challenges to achieving positive EBITDA in FY21 if current conditions persist. Much will depend on the timing of anticipated new projects. We have reduced our FY21 net sales estimates by 24% to SEK147.6m and deferred the achievement of positive EBITDA to FY22.

Valuation: Still in early growth phase

The company recently announced that its shares can now be traded on the OTCQX market in the US, providing more direct access for US investors, as one of AAC Clyde Space's strategic goals is to increase its operational US presence. Our capped DCF, using zero terminal growth and a calculated WACC of just under 12%, currently returns a value of SEK6.0 per share on our reduced estimates.

H120 results

Despite the COVID-19 disruption, which saw management respond quickly with mitigation measures, the performance of the group in Q220 remained quite robust despite some disruption to supply chain and order intake. Increasing revenue recognition as projects progressed in the engineering and development phase in Q220 meant platform sales remained stable sequentially compared to Q120, whereas the impact of lockdown led to lower sequential sales of subsystems to customers as assembly work was curtailed. As in Q120, the business mix led to a reduction in Q220 gross margin to 47% (Q219: 58%), with more third-party systems deliveries and a lower share of standard products. Given the lockdown, the performance was quite robust. We expect some improvement as assembly activity levels increase in H220, both internally and at customers following the easing of lockdown measures, alongside an increasing flow of major project work as execution against orders in the backlog continues.

Exhibit 1: AAC Clyde Space H120 results summary

Six months to June (SEKm)	H119	H120	% change
By operation			
AAC	13.8	14.8	7%
Clyde	17.9	27.6	54%
Net sales	31.7	42.4	34%
By activity	7.9	23.3	197%
Satellite platforms			
Subsystems	23.7	19.1	(20%)
Licence income	0.1	0.0	(100%)
Net sales	31.7	42.4	34%
Other operating income	5.4	5.8	9%
Development work capitalised	1.5	4.9	231%
Group income	38.5	53.1	38%
Raw materials & subcontractors	(14.2)	(22.6)	59%
Personnel costs	(24.9)	(28.9)	16%
Other external expenses	(11.2)	(10.3)	(9%)
EBITDA adjusted	(11.9)	(8.7)	(27%)
Other operating expenses	(2.3)	(5.1)	120%
EBITDA reported	(14.2)	(13.7)	(3%)
Depreciation and amortisation	(6.6)	(5.7)	(13%)
EBIT	(20.8)	(19.5)	(6%)
PBT	(21.3)	(20.3)	(4%)
Net income	(21.1)	(20.0)	(5%)
EPS (SEK)	(0.29)	(0.21)	(28%)
Net cash at period end	72.9	34.9	(52%)
Lease liabilities	(12.7)	(9.3)	(26%)
Total net financial assets/(liabilities)	60.2	25.6	(58%)

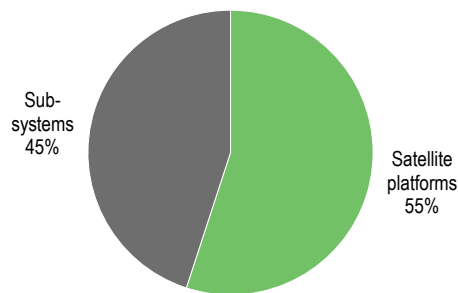
Source: Company reports

Key highlights of H120 were:

- Group net sales rose 34% to SEK42.4m (H119: SEK31.7m). Platform and satellites accounted for 55% of group net sales compared to 25% in H120.
- Satellite platform revenues grew strongly at Clyde Space in Glasgow as projects progressed. It was partially offset by a 20% reduction in subsystems net sales, with 8% growth for AAC in Sweden to SEK14.8m (H119: SEK13.7m) more than offset by a SEK5.7m fall in subsystems sales at Clyde Space, which may be partly attributable to supply disruption as well as lower platform assembly work during lockdown.
- Group EBITDA loss modestly reduced to SEK13.7m (H119: SEK14.2m) as a slightly increased loss at Clyde of SEK8.3m (H119 loss: SEK7.7m) was more than offset by a reduction in losses in Sweden to SEK5.5m (H119 loss: SEK6.4m).

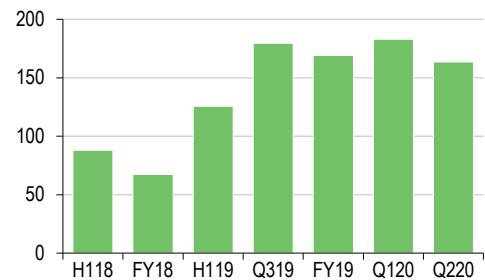
- The loss before tax of SEK21.3m was 4.4% lower than in H119.
- Adjusted net cash (excluding leases) at H120 was SEK34.9m compared to SEK52.6m at the start of the year.
- The order backlog of SEK164m was 3% lower than at the start of the year, in part reflecting deliveries during H120 broadly matching order intake as customers delayed order placement due to the pandemic. The primary reason for the decline from the record Q120 level of SEK182m was a strengthening of the Swedish krona of around 7% against both the US dollar and sterling.

Exhibit 2: AAC Clyde Space net sales split by segment activity, H120



Source: Company reports

Exhibit 3: AAC Clyde Space order backlog development (SEKm)



Source: Company reports

Major orders received in Q220 were

- SEK4m order from Moog of the US to develop solar panels for its Small Launch Orbital Manoeuvring Vehicle (SL-OMV), a CubeSat transit and deployment system.
- A SEK2m order extension from Loft Orbital to include power systems for two satellites.
- An order for a 6U satellite from Orbital Micro Systems worth SEK7m.

A SEK27m grant was received during the period from Scottish Enterprise to support the development of the next generation of nano and small satellites.

So far in Q220, the company has announced a collaborative project with Saab and existing customer ORBCOMM in the maritime communication domain worth SEK17m, of which SEK12.2m is a grant from the Swedish Transport Administration. This covers the initial EPIC 3U satellite in the project that is due to launch in mid-2022, which will be the first to be built in a new assembly facility being installed in Sweden, increasing AAC Clyde Space's manufacturing capacity.

The company has also recently announced the receipt of a SEK3.7m order from two existing Japanese customers for Sirius avionics subsystems for delivery in Q420 and continuing the success of AAC's supply to the country's small satellite industry.

Outlook

While the order book remains relatively stable given the lumpy nature of the platforms business and the still relatively small revenue scale of AAC Clyde Space as a group, infill orders that we had anticipated to add to H220 revenues appear to have been at least partially deferred. Management still expects to book increased platform sales in H220 as three satellites are due for launch and work on five other platform projects gathers pace reaching milestones and allowing revenue recognition. We also anticipate strong recovery in subsystems sales from the depressed levels seen in Q220.

While we still expect strong growth in FY20 with acceleration in revenues through H220 as the New Space returns to the 'new normal' activity levels, we are reducing our group net sales estimates by 12%. Overall group income falls by just 2%, reflecting increased levels of capitalised development work, as well as increased other operating income primarily reflecting the R&D tax credit. With costs and cash flow remaining a key focus due to the pandemic, we expect only a modest 2% reduction in net income for FY20. We now anticipate a slightly higher level of adjusted net cash at the year end.

In addition, we note management's comment that if current conditions persist, then FY21 guidance for positive EBITDA and operating cashflow in FY21 is at risk. As the stable order book is encouraging, we have therefore taken a more cautious approach to net sales growth, reducing group income by 19% against our previous estimate, with the group income growth rate reduced to 22% compared to 50% previously. We now expect a small EBITDA loss and negative net income compared to a previously positive contribution to retained profit.

Exhibit 4: AAC Clyde Space estimates revisions

Year to Dec (SEKm)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
<u>By Business</u>						
AAC	39.736	30.209	(24.0%)	50.420	38.762	(23.1%)
Clyde	90.1	83.7	(7.1%)	143.7	108.8	(24.3%)
Total group net sales	129.8	113.9	(12.2%)	194.2	147.6	(24.0%)
<u>By activity</u>						
Satellite platforms	36.6	59.2	61.6%	76.9	78.1	1.6%
Subsystems	92.2	54.8	(40.6%)	115.2	68.5	(40.6%)
Licence & royalties income	1.0	0.0	(100.0%)	2.0	1.0	
Total group net sales	129.8	113.9	(12.2%)	194.2	147.6	(24.0%)
Other operating income	2.0	10.0	400.0%	0.2	6.5	
Own work capitalised	2.9	7.5	162.8%	3.8	5.9	
Total group income	134.7	131.4	(2.4%)	198.2	160.0	(19.3%)
Raw materials & subcontractors	(48.0)	(46.7)	(2.7%)	(68.0)	(62.0)	(8.8%)
Personnel costs	(62.2)	(62.2)	(0.0%)	(75.1)	(75.1)	0.0%
Other external expenses	(25.6)	(22.5)	(12.2%)	(29.1)	(25.1)	(13.9%)
Other operating expenses	0.0	(5.0)		0.0	0.0	
EBITDA (company reported)	(1.2)	(5.0)	306%	26.0	(3.7)	n.m.
EBIT (Pre PPA amortisation)	(14.2)	(14.5)	2.1%	9.3	(13.2)	n.m.
Underlying PBT	(14.8)	(15.1)	2.0%	8.7	(13.8)	n.m.
EPS - underlying continuing (SEK)	(0.15)	(0.15)	6.3%	0.09	(0.14)	n.m.
DPS (SEK)	0.0	0.0		0.0	0.0	
Adjusted net cash/(debt) (excluding leases)	25.1	30.6	22.2%	30.3	21.5	(29.0%)

Source: Edison Investment Research estimates

Exhibit 5: Financial summary

	SEKm	2018	2019	2020e	2021e
Year-end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		77.9	66.4	113.9	147.6
Own work capitalised and other operating income		11.3	14.1	17.5	12.4
Group income		89.2	80.6	131.4	160.0
EBITDA		(28.5)	(27.3)	(5.0)	(3.7)
Operating Profit (before amort. and except.)		(30.8)	(32.7)	(10.4)	(9.3)
Intangible Amortisation		(7.2)	(4.6)	(4.1)	(3.8)
Exceptionals		(5.2)	(2.9)	(2.2)	(2.0)
Other		0.0	0.0	0.0	0.0
Operating Profit		(43.2)	(40.2)	(16.7)	(15.1)
Net Interest		(0.3)	(0.8)	(0.5)	(0.6)
Profit Before Tax (norm)		(38.3)	(38.2)	(15.1)	(13.8)
Profit Before Tax (FRS 3)		(43.6)	(41.0)	(17.3)	(15.7)
Tax		0.9	0.5	0.2	0.8
Profit After Tax (norm)		(37.5)	(37.8)	(14.9)	(13.1)
Profit After Tax (FRS 3)		(42.6)	(40.6)	(17.1)	(15.0)
Average Number of Shares Outstanding (m)		75.4	84.8	96.2	96.2
EPS - fully diluted (SEK)		(0.50)	(0.45)	(0.15)	(0.14)
EPS - normalised (SEK)		(0.50)	(0.44)	(0.15)	(0.14)
EPS - (IFRS) (SEK)		(0.57)	(0.48)	(0.18)	(0.16)
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-36.6	-41.1	-4.4	-2.5
Operating Margin (before GW and except.) (%)		-39.6	-49.3	-9.2	-6.3
BALANCE SHEET					
Fixed Assets		396.8	436.9	433.8	429.7
Intangible Assets		392.6	418.6	419.9	420.0
Tangible Assets		4.2	4.1	3.0	1.9
Right of use asset			14.2	11.0	7.8
Investments		0.0	0.0	0.0	0.0
Current Assets		56.2	108.5	88.5	95.7
Stocks		6.5	13.1	19.4	20.7
Debtors		10.1	17.7	20.5	22.1
Cash		12.2	52.4	25.8	30.8
Other		27.3	25.2	22.8	22.1
Current Liabilities		(35.6)	(60.5)	(62.7)	(69.2)
Creditors		(35.5)	(60.5)	(62.7)	(69.2)
Short term borrowings		(0.2)	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(16.0)	(7.8)	(19.4)
Long term borrowings		(1.2)	(0.8)	4.8	(9.3)
Lease liabilities			(14.1)	(11.6)	(9.0)
Other long-term liabilities		(1.2)	(1.1)	(1.1)	(1.1)
Net Assets		415.0	468.9	451.8	436.9
CASH FLOW					
Operating Cash Flow		(49.1)	(15.3)	(13.1)	(3.1)
Net Interest		(0.3)	(0.8)	0.1	0.0
Tax		0.8	0.4	0.2	0.7
Capex		(2.3)	(13.9)	(8.6)	(7.3)
Acquisitions/disposals		(377.4)	(3.0)	0.6	0.6
Financing		404.6	73.3	0.0	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(23.6)	40.7	(21.0)	(9.1)
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(30.6)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		(0.7)	0.1	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(30.6)	(21.5)
Net financial liabilities including lease liabilities			(37.5)	(19.1)	(12.5)

Source: Company accounts, Edison Investment Research

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