

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

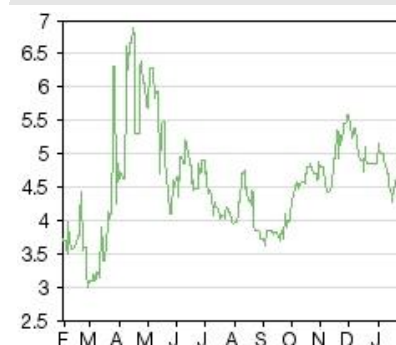
Free float 89%

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

Analyst

Andy Chambers +44 (0)20 3681 2525

industrials@edisongroup.com

[Edison profile page](#)

**AAC Clyde Space is a research
client of Edison Investment
Research Limited**

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

General disclaimer and copyright

This report has been commissioned by AAC Clyde Space and prepared and issued by Edison, in consideration of a fee payable by AAC Clyde Space. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2020. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia