

# **AAC Clyde Space**

Starting to climb

AAC Clyde Space's Q1 report is encouraging, with a 60% increase in sales, modestly reduced EBITDA losses and a record order backlog of SEK183m. While the effects of COVID-19 lockdown measures are likely to be apparent from Q220, we expect these to be relatively limited so far. The management team is now working to deliver the increasing backlog, with rising activity through H220. AAC Clyde remains well positioned to participate in the growth of the New Space market given its leading positions in nanosatellites and subsystems.

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	129.8	(14.8)	(0.15)	0.0	N/A	N/A
12/21e	194.2	8.7	0.09	0.0	36.7	N/A

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

# Q1 results demonstrate progress

A sharp increase in satellite platforms activity in Glasgow, including completion of two projects delayed from FY19, and healthy growth in the subsystems and components segment drove Q120 group net sales up 60% to SEK23.8m. Group EBITDA losses were reduced modestly to SEK6.2m as gross margin fell due to a higher proportion of third-party sales. The performance was said to be in line with management's plan as the refined growth strategy is progressively implemented. Management continues to indicate strong growth is expected in the current year, despite the unexpected emergence of the COVID-19 pandemic.

# **Encouraging development of the order backlog**

The order backlog at 31 March stood at a record SEK183m despite the strong revenue performance during Q120. At the start of the year the company expected to convert SEK88m of the SEK169m backlog to revenues in FY20. With around SEK47m of new order intake year to date, we estimate order cover of our FY20 net sales expectation has increased to around 85%. While management will need to work hard on continued business development to meet expectations for the remainder of the year, the market seems to be continuing fairly normally despite the revised working arrangements under COVID-19 lockdowns. Management expects to deliver two satellites by Q320 with work commencing on another seven satellite platforms in Glasgow.

# Valuation: Moving towards positive earnings

Management focus on cash flow continues, especially while the COVID-19 issue persists, with tighter controls on expenditure in place including delay of non-urgent investments. The balance sheet remains strong with SEK41.3m of net cash at 31 March 2020 and an undrawn SEK5.0m bank facility. Our forecasts remain largely unaltered and we still expect a positive EBITDA in FY21 as the volume ramp up gathers momentum.

Q120 results

Aerospace & defence

18 May 2020

Price SEK3.3

Market cap SEK317m

SEK12.0/£

Net cash (SEKm) at 31 March 2020 41.3

Shares in issue 96.2m

Free float 77%
Code AAC

Primary exchange Nasdaq FN Premier

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	7.1	(31.0)	(34.5)
Rel (local)	4.9	(13.3)	(32.1)
52-week high/low	SE	K5.57	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**

AGM 2 June 2020 Q2 FY20 results 27 August 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



## Q120 results

As we have stated previously the timing of contract revenues and deliveries, especially in the satellite platform segment, can lead to quite lumpy quarterly performances. In part, the strong Q120 sales improvement reflects a return to more normal operational activity levels compared to 2019, which faced several project delays. The business mix led to a reduction in gross profitability with more third-party systems deliveries, but nevertheless the trends look favourable as anticipated volumes look set to increase as FY20 progresses. Key highlights of Q120 were:

- Net sales rose 60% to SEK23.8m (Q119 SEK14.9m) with a strong increase in satellite platform revenues at Clyde and healthy growth for subsystems for AAC in Sweden.
- Group EBITDA loss modestly reduced to SEK6.2m (Q119 SEK6.5m) as a slightly increased loss at Clyde was more than offset by a reduction in losses in Sweden.
- The loss before tax of SEK9.7m was 4.5% lower than in Q119.
- Net cash at the end of the period was SEK41.3m compared to SEK52.6m at the start of the year.
- The order backlog increased to a record period end SEK183m, a rise of SEK14m from the year end despite the strong revenue performance.

Three months to March (SEKm)	Q119	Q120	% change
By business unit			
AAC (Sweden)	7.429	9.969	34.2%
Clyde (Scotland)	7.509	13.865	84.6%
Net sales	14.938	23.834	59.6%
By segment			
Satellite platforms	3.659	11.469	213.4%
Subsystems and components	11.279	12.365	9.6%
Net sales	14.938	23.834	59.6%
Other operating income	2.497	3.487	39.6%
R&D capitalised	0.927	1.785	92.6%
Group revenues	18.362	29.106	58.5%
EBITDA	(6.480)	(6.227)	-3.9%
Depreciation and amortisation	(3.451)	(2.901)	-15.9%
EBIT	(9.931)	(9.128)	-8.1%
Net financial interest	(0.158)	(0.576)	
Profit before tax	(10.161)	(9.704)	-4.5%
Taxation	0.081	0.221	172.8%
Profit after taxation	(10.080)	(9.483)	-5.9%

In terms of the cost analysis for the quarter, the increase in raw materials and consumables appears to reflect higher platform work executed in Q120. The activity includes two delayed projects for 2019 that were delivered in January. We believe the deferrals are in part the reason for higher expenses, as excess costs to complete would appear to have been likely.

Exhibit 2: AAC Clyde operating expenses						
Three months to March (SEKm)	Q119	Q120	% change			
Raw materials & subcontractors	(7.157)	(12.860)	79.7%			
Personnel costs	(12.531)	(15.641)	24.8%			
Other external expenses	(5.391)	(4.966)	-7.9%			
Other operating expenses	0.237	(1.866)				
Total operating expenses	(24.842)	(35.333)	42.2%			
Source: Company reports						

The increase in personnel costs in part reflects the increase in staff numbers, with 95 staff employed at the end of the quarter, the same as at the start of the year but higher than at 31 March

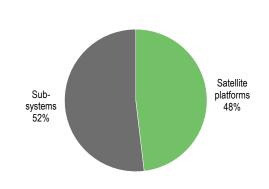


2019 (88 employees). Management struggled to recruit appropriately qualified engineering and production staff last year. One benefit from the current economic disruption could be that areas of demand for UK engineering personnel may fall, for example in the civil aerospace industry.

The order book continued to benefit from strong order intake as can be seen below. The bulk of the improvement has come from strong growth in platform sales since the start of FY19 many of which are entering into production in H220 for delivery next year.

Exhibit 3: AAC Clyde Space net sales split by segment activity, Q120

Exhibit 4: AAC Clyde Space order backlog development (SEKm)





Source: Company reports Source: Company reports

We have modestly changed our adjusted EBIT and PBT estimates for FY20 and FY21 to reflect the change to the allocation of intangible amortisation between acquired purchase price allocation (PPA) and internally generated intangible assets. The adjustment was made after restating FY19 data following greater disclosure made available in the recently released 2019 report and accounts.

Year to December (SEKm)	2020e	2020e		2021e	2021e	
	Prior	New	% change	Prior	New	% change
By business	_	_	_	_	_	_
AAC	39.7	39.7	0.0%	50.4	50.4	0.0%
Clyde	90.1	90.1	0.0%	143.7	143.7	0.0%
Total net sales	129.8	129.8	0.0%	194.2	194.2	0.0%
By segment activity						
Satellite platforms	36.6	36.6	0.0%	76.9	76.9	0.0%
Subsystems	92.2	92.2	0.0%	115.2	115.2	0.0%
Licence and royalties income	1.0	1.0	0.0%	2.0	2.0	
Total net sales	129.8	129.8	0.0%	194.2	194.2	0.0%
Other operating income	2.0	2.0	0.0%	0.2	0.2	
Own work capitalised	2.9	2.9	0.0%	3.8	3.8	
Total group income	134.7	134.7	0.0%	198.2	198.2	0.0%
Raw materials and subcontractors	(48.0)	(48.0)	0.0%	(68.0)	(68.0)	0.0%
Personnel costs	(62.2)	(62.2)	0.0%	(75.1)	(75.1)	0.0%
Other external expenses	(25.6)	(25.6)	0.0%	(29.1)	(29.1)	0.0%
Other operating expenses	0.0	0.0		0.0	0.0	
EBITDA (company reported)	(1.2)	(1.2)	0%	26.0	26.0	0%
EBIT (Pre PPA amortisation)	(14.8)	(14.2)	(3.8%)	8.9	9.3	4.6%
Underlying PBT	(14.7)	(14.8)	0.4%	8.9	8.7	(2.3%)
EPS – underlying continuing (SEK)	(0.15)	(0.15)	0.4%	0.09	0.09	(2.3%)
DPS (SEK)	0.0	0.0		0.0	0.0	
Net cash/(debt)	25.7	25.1	(2.3%)	31.5	30.3	(3.9%)

AAC Clyde Space | 18 May 2020



	SEKm	2018	2019	2020e	2021
Year end December		IFRS	IFRS	IFRS	IFR
PROFIT & LOSS					
Net sales		77.9	66.4	129.8	194.
Own work capitalised and other operating income		11.3	14.1	4.9	4.
Group income		89.2	80.6	134.7	198.
EBITDA		(28.5)	(27.3)	(1.2)	26.
Operating Profit (before amort. and except).		(30.8)	(32.7)	(7.9)	18.
ntangible Amortisation		(7.2)	(4.6)	(6.3)	(8.8)
Exceptionals		(5.2)	(2.9)	(2.9)	(1.4
Other		0.0	0.0	0.0	0.0
Operating Profit		(43.2)	(40.2)	(17.1)	8.8
Net Interest		(0.3)	(0.8)	(0.5)	(0.6
Profit Before Tax (norm)		(38.3)	(38.2)	(14.8)	8.
Profit Before Tax (FRS 3)		(43.6)	(41.0)	(17.6)	7.4
. ´ ´		0.9	0.5	0.9	(0.4
Profit After Tax (norm)		(37.5)	(37.8)	(14.0)	`8.3
Profit After Tax (FRS 3)		(42.6)	(40.6)	(16.7)	7.
Average Number of Shares Outstanding (m)		75.4	84.8	96.2	96.
EPS - fully diluted (SEK)		(0.50)	(0.45)	(0.15)	0.0
EPS - normalised (SEK)					0.0
EPS - (IFRS) (SEK)		(0.50)	(0.44)	(0.15)	0.0
		(0.57) 0.0	0.46)		0.0
Dividend per share (SEK)		0.0	0.0	0.0	0.
EBITDA Margin (%)		-36.6	-41.1	-0.9	13.4
Operating Margin (before GW and except.) (%)		-39.6	-49.3	-6.1	9.:
BALANCE SHEET					
Fixed Assets		396.8	436.9	435.2	432.
ntangible Assets		392.6	418.6	422.4	432.
Tangible Assets		4.2	4.1	1.9	(1.0
Right of use asset		4.2	14.2	11.0	7.8
nvestments		0.0	0.0	0.0	0.0
Current Assets		56.2	108.5	103.1	116.
Stocks		6.5	13.1	22.7	27.
Debtors		10.1	17.7	26.0	27.
Debiois Cash		12.2	52.4	25.8	30.
Dasii Other		27.3	25.2	28.6	29.
Current Liabilities		(35.6)	(60.5)	(72.7)	(79.3
Creditors		(35.5)	(60.5)	(72.7)	
					(79.3
Short term borrowings		(0.2)	0.0	0.0	
Long Term Liabilities Long term borrowings		(2.4)	(16.0)	(13.4)	(10.6
Lease liabilities		(1.2)	(0.8)	(0.7)	(0.5
		(4.0)	(14.1)	(11.6)	(9.0
Other long term liabilities		(1.2)	(1.1)	(1.1)	(1.1
Net Assets		415.0	468.9	452.2	459.
CASH FLOW					
Operating Cash Flow		(49.1)	(15.3)	(13.8)	20.
Net Interest		(0.3)	(0.8)	0.1	0.
Гах		0.8	0.4	0.7	(0.4
Capex		(2.3)	(13.9)	(14.2)	(15.7
Acquisitions/disposals		(377.4)	(3.0)	0.6	0.
Financing		404.6	73.3	0.0	0.
Dividends		0.0	0.0	0.0	0.
Net Cash Flow		(23.6)	40.7	(26.5)	5.
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(25.1
HP finance leases initiated		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)	(25.1)	(30.3
Net financial liabilities including lease liabilities		, ,	(37.5)	(13.5)	(21.3



#### 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 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

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).

#### 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 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.