

AAC Clyde Space

FY19 results

Strong growth anticipated in New Space

FY19 proved to be a more challenging year than management expected originally. Encouragingly, order intake reached record levels and FY20 has started strongly. The project delays and resourcing issues now appear to have been addressed. Management expects strong revenue growth and a reduced EBITDA loss in FY20, with a positive result and free cash inflow in FY21. The new executive team are clearly focused on a robust delivery of the innovative solutions driving an increasingly high quality backlog.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/18	77.9	(38.0)	(0.49)	0.0	N/A	0.0
12/19	66.4	(38.7)	(0.45)	0.0	N/A	0.0
12/20e	129.8	(14.7)	(0.15)	0.0	N/A	0.0
12/21e	194.2	8.9	0.09	0.0	52.4	0.0

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

FY19 project delays appear to be resolved

Despite a record order intake, FY19 was more challenging than expected as project delays and staffing levels constrained performance and increased costs. Delivery of the two platforms affected slipped into January 2020 and are now completed. The resultant FY19 EBITDA loss of SEK27.3m was broadly in line with our recently reduced expectations, although the cost splits reflected the revised staffing levels and extra costs incurred to complete the projects. Net cash of SEK51.6m (excluding lease liabilities of SEK14.1m) also finished FY19 close to our estimate. The order backlog at the year end was up by more than 150% to SEK169m.

Strength of backlog with improving quality

The company has SEK88m of current-year revenues already under contract. This represents just under half of the order backlog at the end of January 2020, which stood at SEK185m following additional orders. The sales cover alone would deliver record revenues and a more than 30% increase on FY19. We expect the required uplift to meet our FY20 revenue forecast to come from further subsystems orders for delivery in FY20, as well as continued platform orders which will add to revenue recognition during the design and construction phases. We are now estimating higher material costs following the performance although some of the proportionate increase may have been due to resolving the project delays. The inflation in employee costs per head has been lower than expected, although we expect staff numbers to continue to rise as workload increases. Our FY21 forecast is introduced with further strong growth anticipated as the small satellite market develops. Our expectation of a positive EBITDA and cash flow reflects management indications.

Valuation: Anticipated growth not yet reflected

We have updated our capped DCF estimates to a FY20 basis which now returns a fair value of SEK8.6 per share (previously SEK8.4). If management successfully executes the growth plan, earnings-based metrics should prove undemanding.

Aerospace & defence

25 February 2020

Price **SEK4.62**
Market cap **SEK444m**

SEK 12.6/£

Net cash (SEKm) at 31 December 2019 51.6

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	(4.4)	(11.3)	47.3
Rel (local)	(4.0)	(16.9)	25.1

52-week high/low SEK6.02 SEK2.62

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

Q119 report 5 May 2020

AGM 28 May 2020

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Earnings revisions

While we maintain our revenue expectations for the current year, we now anticipate slightly higher material costs which leaves the EBITDA at a small loss of SEK1.2m compared to our previous expectation of a SEK2.0m profit. The prospects for FY21 are for further strong top line growth as both platform and revenues continue to expand. The resultant profitable EBITDA should drive positive operational and net cash flows.

Exhibit 1: AAC Clyde Space earnings revisions							
Year to December (SEKm)	2019e	2019		2020e	2020e		2021e
	Prior	Actual	% change	Prior	New	% change	New
By business	-	-	-	-	-	-	-
AAC	28.1	26.4	(6.1%)	39.736	39.736	0.0%	50.420
Clyde	44.8	40.1	(10.6%)	90.1	90.1	0.0%	143.7
Total group revenue	72.9	66.4	(8.8%)	129.8	129.8	0.0%	194.2
By activity	-	-	-	-	-	-	-
Satellite platforms	16.6	20.4	23.1%	36.6	36.6	0.0%	76.9
Subsystems	56.1	45.9	(18.2%)	91.3	92.2	1.0%	115.2
Licence and royalties income	0.2	0.1		1.9	1.0	(47.4%)	2.0
Total group revenue	72.9	66.4	(8.8%)	129.8	129.8	0.0%	194.2
Other operating income	9.0	11.2	24.4%	2.0	2.0	0.0%	0.2
Own work capitalised	2.6	3.0	16.6%	2.9	2.9	0.0%	3.8
Total group income	84.4	80.6	(4.6%)	134.7	134.7	0.0%	198.2
Raw materials and subcontractors	(28.4)	(27.4)	(3.4%)	(44.1)	(48.0)	8.8%	(68.0)
Personnel costs	(56.8)	(51.8)	(8.9%)	(65.1)	(62.2)	(4.4%)	(75.1)
Other external expenses	(23.3)	(23.7)	1.4%	(23.4)	(25.6)	9.7%	(29.1)
Other operating expenses	(3.7)	(5.0)	33.7%	0.0	0.0	0.0%	0.0
EBITDA (company reported)	(27.9)	(27.3)	(2%)	2.0	(1.2)	(160%)	26.0
EBIT (pre PPA amortisation)	(36.3)	(37.8)	4.0%	(6.9)	(14.8)	114.4%	8.9
Underlying PBT	(36.8)	(38.7)	5.1%	(7.7)	(14.7)	90.3%	8.9
EPS – underlying continuing (SEK)	(0.41)	(0.45)	10.3%	(0.07)	(0.15)	100.8%	0.09
DPS (SEK)	0.0	0.0		0.0	0.0		0.0
Net cash/(debt)	53.6	51.6	(3.7%)	42.9	25.7	(40.1%)	31.5

Source: Company data, Edison Investment Research

Exhibit 2: Financial summary

	SEKm	2018	2019	2020e	2021e
Year end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		77.9	66.4	129.8	194.2
Own work capitalised and other operating income		11.3	14.1	4.9	4.0
Group income		89.2	80.6	134.7	198.2
EBITDA		(28.5)	(27.3)	(1.2)	26.0
Operating Profit (before amortisation and except).		(30.8)	(32.7)	(7.3)	18.7
Intangible Amortisation		(6.9)	(5.1)	(7.5)	(9.8)
Exceptionals		(5.2)	(2.4)	(2.4)	(1.9)
Other		0.0	0.0	0.0	0.0
Operating Profit		(42.9)	(40.2)	(17.1)	7.0
Net Interest		(0.3)	(0.8)	0.1	0.0
Profit Before Tax (norm)		(38.0)	(38.7)	(14.7)	8.9
Profit Before Tax (FRS 3)		(43.3)	(41.0)	(17.1)	7.0
Tax		0.9	0.5	0.9	(0.4)
Profit After Tax (norm)		(37.2)	(38.2)	(14.0)	8.5
Profit After Tax (FRS 3)		(42.3)	(40.6)	(16.2)	6.7
Average Number of Shares Outstanding (m)		75.4	84.8	96.2	96.2
EPS - fully diluted (SEK)		(0.49)	(0.45)	(0.15)	0.09
EPS - normalised (SEK)		(0.49)	(0.45)	(0.15)	0.09
EPS - (IFRS) (SEK)		(0.56)	(0.48)	(0.17)	0.07
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-36.6	-41.1	-0.9	13.4
Operating Margin (before GW and except.) (%)		-39.6	-49.2	-5.6	9.6
BALANCE SHEET					
Fixed Assets		396.8	436.9	435.1	431.9
Intangible Assets		392.6	418.6	421.7	423.8
Tangible Assets		4.2	4.1	1.9	(1.0)
Right of use asset			14.2	11.6	9.1
Investments		0.0	0.0	0.0	0.0
Current Assets		56.2	108.5	89.6	87.8
Stocks		6.5	13.1	22.7	27.2
Debtors		10.1	17.7	26.0	29.1
Cash		12.2	52.4	26.4	32.4
Other		27.3	25.2	28.6	29.1
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	0.0
Long Term Liabilities		(2.4)	(16.0)	0.6	19.0
Long term borrowings		(1.2)	(0.8)	(0.8)	(0.9)
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	452.7	459.4
CASH FLOW					
Operating Cash Flow		(49.1)	(16.2)	(12.6)	22.0
Net Interest		(0.3)	(0.8)	0.1	0.0
Tax		0.8	0.4	0.7	(0.4)
Capex		(2.3)	(13.1)	(14.2)	(15.7)
Acquisitions/disposals		(377.4)	(2.8)	0.0	0.0
Financing		404.6	73.3	0.0	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(23.6)	40.8	(25.9)	5.9
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(25.7)
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)	(25.7)	(31.5)
Net financial liabilities including lease liabilities			(37.5)	(14.1)	(22.5)

Source: Company reports; Edison Investment Research estimates

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