EDISON

AAC Clyde Space

Q123 results

Strong progress delivered in Q123

Aerospace and defence

AAC Clyde Space (AAC) has reported very strong progression in Q123, in part due to booking deferred revenues from FY22. Nevertheless, given the strength of both sales and EBITDA development taken together with a significant increase in the order backlog, our expectations of a transitional year for the company appear to be on track. With several more self-owned space data as a service (SDaaS) satellites expected to be launched in FY23, the development of the high-margin revenue stream should accelerate as the year progresses, improving cash flow. We maintain our estimates for FY23 and FY24, with both our DCF value of SEK8.2/share and a single-digit FY24 P/E of just 6.4x suggesting significant potential for investors.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/21	180.0	(27.0)	(0.14)	0.0	N/A	N/A
12/22	196.7	(23.8)	(0.11)	0.0	N/A	N/A
12/23e	355.1	0.6	0.00	0.0	N/A	N/A
12/24e	483.6	44.9	0.21	0.0	6.4	N/A

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

Q123 sees momentum build

While the Q123 performance was probably aided by an element of catch up of deferred deliveries from FY22, it appears that underlying momentum is finally starting to pick up following the supply chain challenges. Sales revenue was up 80% and own work capitalised also strengthened, further reflecting the continuing investment in AAC's own satellite assets to deliver SDaaS growth. All of the subsidiaries improved sales contributions, although Hyperion was exceptionally strong, and together with SpaceQuest and Omnisys delivered strong EBITDA performances. While AAC Clyde Space in Sweden and Clyde Space in Glasgow were more muted, we expect these to improve as the year progresses.

A year of transition is underway

By the end of the year AAC should have a deployed fleet of 11 owned satellites delivering an increased amount of high-margin SDaaS for customers. In addition, the order intake has been very positive so far this year, especially for Space Products, with much of the intake for current year delivery. The resultant order backlog at the end of Q123 is therefore another record high at SEK460m, up 7% since the start of the year despite the acceleration in quarterly sales. With the near-term financing needs met by expanding the overdraft facility to SEK30m from SEK5m previously, FY23 should see the group transition to profitability with improving cash flows as data sales increase.

Valuation: Moving to more positive metrics

As we mentioned in our last note the execution of the growth strategy that management expects to deliver SEK500m of revenues in 2024 is becoming increasingly relevant for valuation purposes. The progress in FY23 should progressively focus attention on the undemanding nature of AAC's earnings and cash based ratings.

25 April 2023

Price	**SEK1.35**
Market cap	**SEK276m**
	SEK10.3/$1, SEK12.8/£1
Adjusted net cash (SEKm) at 31 March 2023 (excluding leases of c SEK16.5m)	27.6
Shares in issue	204.8m
Free float	89%
Code	AAC
Primary exchange	Nasdaq First North Premier Growth Market
Secondary exchange	OTCQX

Share price performance

%	1m	3m	12m
Abs	(7.0)	(9.8)	(37.9)
Rel (local)	(13.5)	(10.0)	(36.7)
52-week high/low		SEK2.15	SEK1.22

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 and the United States, as well as a start-up in Africa.

Next events

AGM	25 May 2023
H123 results	24 August 2023

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Q123 delivers strong sales growth, positive EBITDA

The strong development of revenues and the positive EBITDA performance in Q123 was very encouraging in our view, following the challenges faced throughout FY22, largely due to supply chain constraints. Even if one assumed that all of the SEK13m Q422 sales shortfall was recovered during the period, underlying Q123 sales would still have been almost 50% higher year on year. The pace of deliveries picked up for Space Products and was accompanied by strong order intake, and activity for Space Missions is clearly healthy although masked by the development of satellites to support delivery of SDaaS services to its customers. While these high-margin SDaaS revenues are still restricted to SpaceQuest during Q123, the delivery of additional satellites should see these start to accelerate from Q223, especially at Clyde Space in Scotland. The failure of the first UK satellite launch in early January had no financial effect on the group despite the loss of Amber-1 satellite as well as delivered subsystems for other projects.

Exhibit 1: AAC Clyde Space Q123 results summary

£ months to 31 March (SEKm)	Q122	Q123	Q123 vs Q122
By business			
AAC	10.84	11.38	*5%*
Clyde	14.13	14.38	*2%*
Hyperion	2.20	15.77	*617%*
SpaceQuest	5.64	12.35	*119%*
Omnisys	8.29	19.11	*131%*
AAC Space Africa	0.06	0.92	*n,m.*
Total group net sales	**41.16**	**73.90**	***80%***
By activity			
SDaaS	4.01	4.52	*13%*
Satellite platforms	11.77	7.26	*(38%)*
Subsystems	25.38	62.12	*145%*
Total group net sales	**41.16**	**73.90**	***80%***
Other operating income	6.10	4.51	*(26%)*
Development work capitalised	5.34	8.69	*63%*
Total group income	**52.59**	**87.11**	***66%***
Raw materials and subcontractors	(15.27)	(31.82)	*108%*
Personnel costs	(32.56)	(40.06)	*23%*
Other external expenses	(8.52)	(11.48)	*35%*
Other operating expenses	(3.86)	(2.03)	*(47%)*
EBITDA reported	**(7.62)**	**1.71**	***n.m.***
Depreciation and Amortisation	(7.01)	(7.14)	*2%*
EBIT	**(14.63)**	**(5.43)**	***(63%)***
PBT	**(12.49)**	**(5.91)**	***(53%)***
Net income	**(11.72)**	**(6.46)**	***(45%)***
EPS (SEK)	**(0.06)**	**(0.03)**	***(50%)***
Adjusted net cash* (excluding leases) at period end	88.9	27.6	*(69%)*

Source: Company reports. Note: *Gross cash less drawn overdraft.

- Q123 revenues were up 80% at SEK73.9m (Q122: SEK41.2m), with all of the group subsidiaries making positive progress. We believe this was also aided by an element of catch up from revenues deferred from last year due to supply chain issues that led to project delays.
- Both AAC Clyde in Sweden and Clyde Space in Glasgow made only modest progress, with revenues rising 5% and 2%, respectively. However, it should be noted that activity at these operations is higher than third-party revenues indicate as the operations are building an increased number of satellites for the group's own SDaaS offering.
  - In Q123 the first of two 3U satellites to provide AIS (automatic identification system) SDaaS to ORBCOMM, Kelpie-1, was deployed. It will start to generate data revenues in Q223, when Kelpie-2 is also expected to be launched.

– The first of three 6U Epic VIEW satellites for delivering hyperspectral imagery data to the Canadian company Wyvern was also shipped during Q123. The satellite, EPICHyper-1, was subsequently successfully deployed on 15 April 2023 and the other two satellites to service the SEK100m contract should be deployed by the year end.

- Hyperion, SpaceQuest and Omnisys all showed strong progress, with aggregate revenues rising by 193% to SEK47.2m (Q122: SEK16.1m). Hyperion was exceptionally strong, increasing revenues by SEK13.5m to SEK15.8m as it moved from a development phase into customer supply. SpaceQuest and Omnisys also more than doubled their contributions. The smaller South African start-up, AAC Space Africa, also made progress and contributed SEK0.9m during the period.
- We note that all of the five main subsidiaries delivered sales between SEK10m and SEK20m.
- EBITDA in Q123 turned positive at SEK1.71m (Q122 loss: SEK7.62m). There were no acquisition-related adjustments in either period. The improved performance reflected improved coverage of the additional investment in personnel costs and infrastructure during 2022 to support future revenue growth.

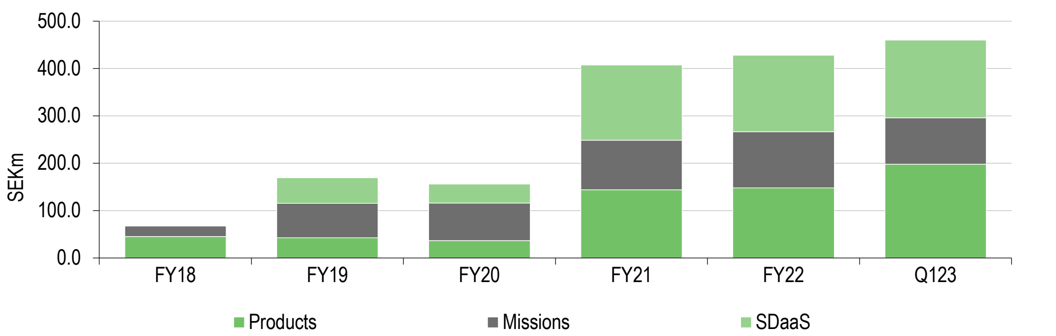
Exhibit 2: AAC Clyde Space EBITDA by subsidiary

SEKm	Q122	Q123	Change
AAC Clyde Space	(2.22)	(3.83)	*73%*
Clyde Space	(5.94)	(5.55)	*-7%*
Hyperion	(0.54)	5.01	*NM*
SpaceQuest	0.87	3.50	*305%*
Omnisys	1.30	3.28	*152%*
AAC Space Africa	(1.11)	(0.69)	*-38%*
Total	**(7.65)**	**1.71**	***NM***

Source: Company reports

- AAC Clyde Space in Sweden delivered an increased loss and Clyde Space only modestly reduced its loss. There were substantial improvements at Hyperion, SpaceQuest and Omnisys, which achieved EBITDA margins of 31.7%, 28.3% and 17.2%, respectively.
- In February, AAC Clyde Space expanded its existing overdraft facility from SEK5m to SEK30m. The move should provide sufficient liquidity for working capital to an appropriate level for increasing level of activity as AAC delivers against its order backlog. Having drawn SEK11.5m of the facility, gross cash and cash equivalents at the period end were SEK39.1m (FY22: SEK52.1m). Adjusted net cash was thus SEK27.6m (excluding lease liabilities of c SEK16.5m).

Exhibit 3: AAC Clyde Space order backlog development



Source: Company reports

- As well as the positive trading performance, the group also continued its strong order intake during the quarter. This was reflected in the order backlog, which despite the higher revenues booked, increased by 7% during Q123 to a new record of SEK460m, driven by the strong Space Products order intake during the period.

Since our last note in March, new business wins have continued. Business won during Q123 includes:

- A follow-on order worth SEK2.6m from Space Forge, which also lost a demonstration platform on the Virgin launch. The second platform should be deployed in H223.
- Participation through AAC Hyperion as part of a consortium selected by the European Defence Fund to develop Naucrates, a satellite weighing less than 100kg to be placed in geosynchronous equatorial orbit (GEO) for space situational awareness.
- A contract worth c SEK6.1m for reaction wheels to be used on a number of small satellites from a US blue-chip company.
- AAC SpaceQuest is to procure and resell c SEK16.6m of products to another US blue-chip company over the next 12 months.
- A significant order for satellite subsystems worth c SEK23.8m from a US development company supplying spacecraft and other multi-mission systems to be delivered in FY23.

Outlook

We have not changed our estimates for FY23 or FY24 as we are encouraged by the momentum seen in Q123. We expect revenues to accelerate as AAC deploys more self-owned and operated SDaaS satellites to increase its fleet for SpaceQuest customers, ORBCOMM, Wyvern as well as the new VDES maritime communications system. By the year end 11 AAC satellites will be delivering SDaaS to customers, compared to five at the beginning of FY23. These satellites should generate revenues from around one month after deployment after a short period of commissioning. The high margins SDaaS provides should see a rapid acceleration to sustainable financing with the extended overdraft supporting near-term liquidity requirements.

Valuation

In terms of valuation, our capped DCF has improved modestly to SEK8.2 per share from SEK8.0 previously. Unlike many of its peers in the space tech segment, AAC appears to be moving towards self-sustaining cash generation from next year. If it does achieve this, the extreme valuation gap should start to erode, with the undemanding FY24 P/E multiple on our estimates likely to be subject to a positive rerating.

The sensitivity of the value to terminal growth rates and WACC is shown in Exhibit 4 below, with the WACC calculated at 12%. The returned value is SEK8.2/share (SEK8.0/share previously).

Exhibit 4: AAC Clyde Space 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 value growth rate									
0%	16.0	13.6	11.8	10.3	9.2	**8.2**	7.4	6.7	6.1
1%	18.4	15.4	13.1	11.3	9.9	8.8	7.9	7.1	6.4
2%	21.8	17.6	14.7	12.5	10.9	9.5	8.4	7.6	6.8
3%	26.8	20.9	16.9	14.1	12.0	10.4	9.2	8.1	7.3

Source: Edison Investment Research estimates

Exhibit 5: Financial summary

SEKm	2020	2021	2022	2023e	2024e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales	98.4	180.0	196.7	355.1	483.6
Own work capitalised and other operating income	21.1	30.9	47.0	45.3	56.3
Group income	119.5	210.8	243.7	400.4	540.0
EBITDA	(17.5)	(12.4)	(30.0)	21.9	71.5
Operating Profit (before amort. and except).	(22.2)	(21.9)	(40.5)	8.3	56.4
Intangible Amortisation	(3.3)	(0.9)	(1.2)	(10.7)	(13.6)
Exceptionals	(12.1)	(15.8)	(25.4)	(16.7)	(16.7)
Other	0.0	0.0	0.0	0.0	0.0
Operating Profit	(37.5)	(38.6)	(67.0)	(19.2)	26.1
Net Interest	(1.3)	(4.2)	17.9	3.1	2.1
Profit Before Tax (norm)	(26.7)	(27.0)	(23.8)	0.6	44.9
Profit Before Tax (FRS 3)	(38.8)	(42.8)	(49.1)	(16.1)	28.2
Tax	0.5	3.3	2.6	0.8	(1.4)
Profit After Tax (norm)	(26.4)	(24.9)	(22.5)	0.6	42.7
Profit After Tax (FRS 3)	(38.3)	(39.5)	(46.5)	(15.3)	26.8
Average Number of Shares Outstanding (m)	102.3	173.8	196.9	204.8	204.8
EPS - fully diluted (SEK)	(0.26)	(0.14)	(0.11)	0.00	0.21
EPS - normalised (SEK)	(0.26)	(0.14)	(0.11)	0.00	0.21
EPS - (IFRS) (SEK)	(0.37)	(0.23)	(0.24)	(0.07)	0.13
Dividend per share (SEK)	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)	-17.8	-6.9	-15.2	6.2	14.8
Operating Margin (before GW and except.) (%)	-22.5	-12.2	-20.6	2.3	11.7
BALANCE SHEET					
Fixed Assets	523.0	681.0	728.6	740.1	765.1
Intangible Assets	494.3	639.5	665.5	660.9	669.0
Tangible Assets	16.2	26.4	48.6	65.0	82.4
Right of use asset	12.5	15.1	14.6	14.1	13.7
Investments	0.0	0.0	0.0	0.0	0.0
Current Assets	113.3	193.4	152.8	142.7	191.6
Stocks	12.8	13.2	20.2	35.5	45.9
Debtors	9.5	23.0	24.5	39.1	50.5
Cash	62.4	96.1	52.1	25.5	61.2
Other	28.5	61.1	56.0	42.7	33.9
Current Liabilities	(56.1)	(129.2)	(170.2)	(198.5)	(245.1)
Creditors	(56.1)	(128.5)	(170.2)	(198.5)	(245.1)
Short term borrowings	0.0	(0.6)	0.0	0.0	0.0
Long Term Liabilities	(14.4)	(16.6)	(17.8)	(18.1)	(18.6)
Long term borrowings	(0.3)	0.0	0.0	0.0	0.0
Lease liabilities	(12.9)	(15.1)	(16.5)	(17.0)	(17.4)
Other long term liabilities	(1.2)	(1.5)	(1.2)	(1.2)	(1.1)
Net Assets	565.8	728.6	693.5	666.3	693.0
CASH FLOW					
Operating Cash Flow	(14.6)	(37.3)	(13.7)	17.1	100.5
Net Interest	(0.2)	(0.2)	18.8	4.0	3.0
Tax	0.4	2.1	1.3	(0.0)	(2.2)
Capex	(17.2)	(29.2)	(40.9)	(48.6)	(66.4)
Acquisitions/disposals	(6.2)	2.6	(43.6)	0.9	0.9
Financing	49.2	94.1	33.3	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	11.4	32.0	(44.7)	(26.6)	35.8
Opening net debt/(cash) excluding lease liabilities	(51.6)	(62.2)	(95.5)	(52.1)	(25.5)
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)	(25.5)	(61.2)
Net financial liabilities including lease liabilities	(49.3)	(80.4)	(35.6)	(8.5)	(43.8)

Source: Company reports, Edison Investment Research estimates

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