

AAC Clyde Space

xSPANCION commitment confirmed

Rights issue outcome

Aerospace and defence

AAC Clyde Space has confirmed the acceleration of the xSPANCION satellite project following completion of the capital raise, which has provided SEK35.9m of net new funds. This will provide liquidity to proceed with the final phase to build out 10 satellites, the first four of which are to be added to AAC's own SDaaS fleet by the end of 2024. By that time we would expect AAC to be generating positive EBITDA and net cash flow as it continues to grow the high-margin data revenue streams.

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	(17.7)	(0.08)	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	0.15	0.0	4.0	N/A

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

Rights issue outcome

The rights issue was 66% covered with a subscription ratio of 45%, guarantee subscriptions of 19% and non-rights subscriptions of 2%. While take-up of 45% may seem disappointing given the deep discount, we feel that this may reflect investors' understandable caution towards space investments and the segment's performance over the last 18 months. With AAC yet to reach positive EBITDA, perceived risk remains high, although modest positive EBITDA is expected this year as higher-margin SDaaS revenues accelerate. The company is set to receive SEK35.9m in new funds for working capital to support growth, replacing the bridge facility that had been utilised while the share offer was undertaken. Liquidity has also been aided by passing the significant Critical Design Review milestone for the Arctic Weather Satellite (AWS) in early July and the receipt of annual R&D tax credits. AAC is supplying some SEK160m of payload and systems content to the AWS under various contracts.

xSPANCION Phase 3B supports SDaaS growth

On 26 July, AAC announced the agreement to move to the final SEK103.4m Phase 3B of the SEK225.6m xSPANCION programme to develop an innovative satellite constellation service. As with the entire project, the final phase is co-funded by the UK Space Agency through the European Space Agency's Pioneer Partnership Projects. The final phase will see the construction of 10 satellites, the first four of which will be deployed in FY24 within the framework of the contract and used by AAC to support its SDaaS activity. Beyond the contract, the remaining six platforms are to be offered to customers to deploy their own payloads.

Valuation: Significant potential for successful delivery

With no changes to our underlying estimates, our DCF-based fair value stands at SEK6.1/share compared to SEK8.2/share before the rights issue. Management expects positive EBITDA in FY23 as SDaaS revenues accelerate, which we believe should lead to AAC generating self-sustaining positive cash flows from FY24.

31 July 2023

Price **SEK0.61**

Market cap **SEK172m**

SEK10.5/\$, SEK13.5/£

Adjusted net cash (SEKm) at 31 March 2023 27.6
(excluding lease liabilities of c SEK16.5m)

Shares in issue 284.2m

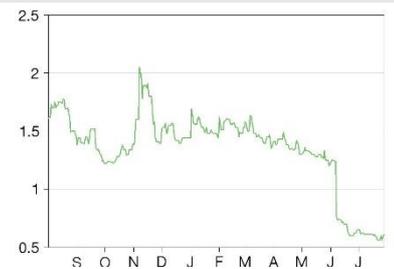
Free float 93%

Code AAC

Primary exchange Nasdaq First North
Premier Growth Market

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs (2.4) (52.5) (60.2)

Rel (local) (3.9) (51.9) (62.2)

52-week high/low SEK2.01 SEK0.56

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, the United States and Africa.

Next events

Q223 results 30 August 2023

Q323 results 23 November 2023

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Earnings revisions

The effect of the rights issue on our earnings estimates is shown in Exhibit 1 below. As we previously indicated, there is no change to our expectations for the underlying trading performance of the group in either FY23 or FY24. The dilution to EPS is not as severe as it would have been had the issue been fully subscribed, but at 27.9% remains significant. We expect the company to finish the year with adjusted net cash of c SEK64m.

Exhibit 1: AAC Clyde Space earnings adjustments						
SEKm	2023e			2024e		
	Prior	New	% change	Prior	New	% change
<i>By business</i>						
Total group net sales	355.1	355.1	0.0%	483.6	483.6	0.0%
Other operating income	7.3	7.3		3.0	3.0	
Own work capitalised	38.0	38.0		53.3	53.3	
Total group income	400.4	400.4	0.0%	540.0	540.0	0.0%
EBITDA (company adjusted)	21.9	21.9	0.0%	71.5	71.5	0.0%
EBIT (adjusted)	(2.5)	(2.5)	(0.0%)	42.8	42.8	0.0%
Underlying PBT	0.6	0.6	(0.0%)	44.9	44.9	(0.0%)
EPS – underlying continuing (SEK)	0.00	0.00	(19.5%)	0.21	0.15	(27.9%)
Adjusted net cash	25.5	63.5	149.3%	61.2	99.2	62.1%

Source: Edison Investment Research estimates

Valuation: Dilution but still significant potential

Our capped DCF valuation falls to SEK6.1/share compared to SEK8.2/share before the rights issue and SEK5.3/share had there been full subscription. The WACC applied continues to reflect our assumed cost of equity of 12%. We feel that the capital raise should be sufficient for AAC to move towards a self-financing situation in FY24, which should allow the risk assumption to moderate. Exhibit 2 below provides a sensitivity of the calculated DCF value to both WACC assumptions and terminal growth rates.

Exhibit 2: DCF sensitivity analysis to WACC and terminal growth rate (SEK/share)									
WACC	Terminal growth rate								
	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
0%	11.8	10.1	8.7	7.7	6.8	6.1	5.5	5.0	4.6
1%	13.5	11.3	9.7	8.4	7.4	6.6	5.9	5.3	4.8
2%	16.0	13.0	10.9	9.3	8.1	7.1	6.3	5.7	5.1
3%	19.7	15.4	12.5	10.5	9.0	7.8	6.9	6.1	5.5

Source: Edison Investment Research estimates

Exhibit 2: 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	52.5	45.3	56.3
Group income		119.5	210.8	249.2	400.4	540.0
EBITDA		(17.5)	(12.4)	(24.5)	21.9	71.5
Operating Profit (before amort. and except.)		(22.2)	(21.9)	(34.9)	8.3	56.4
Intangible Amortisation		(3.3)	(0.9)	(0.7)	(10.7)	(13.6)
Exceptionals		(12.1)	(15.8)	(26.0)	(16.8)	(16.8)
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		(37.5)	(38.6)	(61.6)	(19.3)	26.0
Net Interest		(1.3)	(4.2)	17.9	3.1	2.1
Profit Before Tax (norm)		(26.7)	(27.0)	(17.7)	0.6	44.9
Profit Before Tax (FRS 3)		(38.8)	(42.8)	(43.7)	(16.2)	28.1
Tax		0.5	3.3	2.6	0.8	(1.4)
Profit After Tax (norm)		(26.4)	(24.9)	(16.4)	0.6	42.7
Profit After Tax (FRS 3)		(38.3)	(39.5)	(41.1)	(15.4)	26.7
Average Number of Shares Outstanding (m)		102.3	173.8	196.9	254.5	284.2
EPS - fully diluted (SEK)		(0.26)	(0.14)	(0.08)	0.00	0.15
EPS - normalised (SEK)		(0.26)	(0.14)	(0.08)	0.00	0.15
EPS - (IFRS) (SEK)		(0.37)	(0.23)	(0.21)	(0.06)	0.09
Dividend per share (SEK)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		-17.8	-6.9	-12.5	6.2	14.8
Operating Margin (before GW and except.) (%)		-22.5	-12.2	-17.7	2.3	11.7
BALANCE SHEET						
Fixed Assets		523.0	681.0	728.6	740.0	764.9
Intangible Assets		494.3	639.5	665.5	660.8	668.8
Tangible Assets		16.2	26.4	46.4	62.8	80.2
Right of use asset		12.5	15.1	16.8	16.4	15.9
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		113.3	193.4	152.8	180.7	229.6
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	63.5	99.2
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	704.2	730.9
CASH FLOW						
Operating Cash Flow		(14.6)	(37.3)	(14.2)	17.1	100.5
Net Interest		(0.2)	(0.2)	19.4	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	(43.7)	0.9	0.9
Financing		49.2	94.1	33.4	38.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		11.4	32.0	(44.7)	11.4	35.8
Opening net debt/(cash) excluding lease liabilities		(51.6)	(62.2)	(95.5)	(52.1)	(63.5)
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)	(63.5)	(99.2)
Net financial liabilities including lease liabilities		(49.3)	(80.4)	(35.6)	(46.5)	(81.8)

Source: Company reports, Edison Investment Research estimates

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