

AAC Clyde Space

Q224 results

Volatility affecting progress

AAC Clyde Space offers exposure to the fast-growing low Earth orbit space market. The difficulties experienced in Q2, affecting full year expectations, are clearly disappointing if not wholly unexpected in a fast-growing company in a relatively volatile market. The recent acquisition of Spacemetric and key launches in Q3 are positive, suggesting that AAC remains an interesting play in the burgeoning space sector.

Year end	Revenue (SEKm)	PBT* (SEK)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/22	196.7	(23.2)	(5.6)	0.0	N/A	N/A
12/23	276.6	(19.3)	(4.2)	0.0	N/A	N/A
12/24e	375.0	(8.1)	(1.4)	0.0	N/A	N/A
12/25e	600.0	44.5	7.6	0.0	4.7	N/A

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

Q2 affected by operational delays

The quarter was affected by a supplier issue on a major project, issues with the Kelpie satellites, the delayed start of revenue service of some in-orbit satellites and delays in contracts being signed. This led to lower revenue than planned, with net sales down 30% y-o-y, while internal costs were still being incurred leading to negative EBITDA of SEK16.5m, down from SEK2.3m, and negative EBIT of SEK27.4m (up from negative SEK5.4m). The EPS loss of SEK4.8 was up from a loss of SEK1.1. Cash from operations was a positive SEK6.9m assisted by a working capital inflow of SEK24.2m. Net cash generation for the period was SEK1.4m, leaving the group with gross cash of SEK36.8m (overdraft drawdown totalled SEK26.6m of the SEK30m facility). Order intake remained positive with the order book achieving another record of SEK660m.

Outlook forecasts

The operational difficulties in Q2 and delays in orders, moving sales further out, has led management to reduce sales expectations for the year to SEK350–400m, down from SEK430–500m. More positively, guidance for an EBITDA margin of 5–10% (FY23: 0.4%) is retained. AAC is not providing guidance for FY25, although we have trimmed our top line by c SEK50m (7%) to reflect a degree of caution given the lower cadence of the business. Our new forecasts for FY24 are EBITDA of SEK24.9m (from SEK32.9m), a loss before tax of SEK8.1m (from a profit of SEK12.4m) and an EPS loss of SEK1.4 (from +SEK2.1). Our revised forecasts for FY25 are EBITDA of SEK75.0m (from SEK79.6m), PBT of SEK44.5m (from SEK52.7m) and EPS of SEK7.6 (from SEK8.7).

Valuation: SEK278/share

We continue to use a discounted cash flow (DCF) as the key valuation methodology. Our forecast reductions inevitably affect cash flow and we have also realigned our WACC expectations to 12.0% to reflect the uncertainties and volatility facing the sector and AAC. This leads to a valuation of SEK278 per share, down from our previous valuation of SEK301 per share.

Aerospace and defence

21 August 2024

Price **SEK36.0**

Market cap **SEK205m**

SEK10.7/\$, SEK13.5/£

Net cash (SEKm) at 31 March 2024 10.1
(gross cash SEK36.8m)

Shares in issue 5.7m

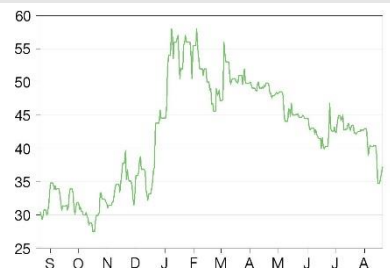
Free float 70.0%

Code AAC

Primary exchange Nasdaq First North
Premier Growth Market

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs (12.0) (17.6) 21.5

Rel (local) (10.5) (15.3) (1.1)

52-week high/low SEK58.0 SEK27.5

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

Q324 results 7 November 2024

Analyst

David Larkam +44 (0)20 3077 5700

industrials@edisongroup.com

[Edison profile page](#)

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

Q2 results

Overview

The quarter was affected by a number of delays and disruptions impacting on both the top line, with core sales down 29%, and profitability with a negative EBITDA margin of 31% against +3% in the previous year. Operational delays included a supplier issue on a major project in the Gothenburg, Sweden site, delaying work and revenue recognition, issues with the Kelpie satellites and the delayed start of revenue service of some in-orbit satellites. In addition, there were delays to signing contracts in the quarter, delaying work into the subsequent period. The impact can be seen in the AAC Product results line in Exhibit 2. This translated to an overall loss before tax of SEK28.4m and an EPS loss of SEK4.8.

Cash from operations was a positive SEK6.9m assisted by working capital inflow of SEK24.2m. After investing SEK7.8m in assets, net cash generation for the period was SEK1.4m leaving the group with gross cash of SEK36.8m (overdraft drawdown totalled SEK26.6m of the SEK30m facility). The number of employees was up marginally from 187 to 193, reflecting the expected increase in activity.

Exhibit 1: Summary performance			
SEKm	Q223	Q224	Change
Total core sales	75.900	53.585	-29%
Other income	6.630	5.450	-18%
Own work capitalised	8.272	4.756	-43%
Net sales	90.802	63.791	-30%
Raw materials & subcontractors	(33.661)	(21.117)	-37%
Personnel costs	(42.421)	(44.682)	5%
Other external expenses	(11.427)	(11.492)	1%
Other operating expenses	(1.035)	(3.031)	193%
EBITDA	2.258	(16.531)	-832%
Depreciation & amortisation	(7.700)	(10.901)	42%
Underlying EBIT	(5.442)	(27.432)	404%
Financing income/(costs)	0.783	(1.000)	-228%
Underlying PBT	(4.659)	(28.432)	510%
EPS (SEK)	(1.14)	(4.82)	323%
Gross cash	12.984	36.753	183%
Bank overdraft	(5.200)	(26.600)	412%
Net cash/(debt)	7.784	10.153	30%

Source: AAC Clyde Space, Edison Investment Research

Divisional performance

Exhibit 2: Quarterly divisional breakdown			
SEKm	Q123	Q124	Change
Sales by division			
AAC Data & Services	4.575	5.660	24%
AAC Missions	7.051	19.061	170%
AAC Products	69.436	37.162	-46%
Eliminations	(5.162)	(8.298)	61%
Total core sales	75.9	53.585	-29%
EBITDA by division			
AAC Data & Services	2.478	4.515	82%
AAC Missions	(3.122)	(5.074)	63%
AAC Products	9.872	(9.745)	-199%
Other segments	(6.288)	(6.117)	-3%
Eliminations	(0.684)	(0.110)	-84%
Total	2.256	(16.531)	-833%
EBITDA margin by division			
AAC Data & Services	54.2%	79.8%	
AAC Missions	-44.3%	-26.6%	
AAC Products	14.2%	-26.2%	
Total	3.0%	-30.9%	

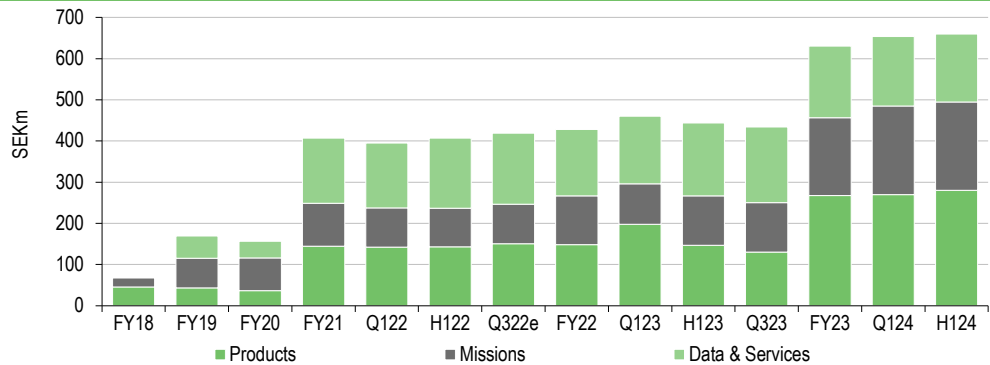
Source: AAC Clyde Space

Order book and intake

The order book continued to grow strongly to record levels of SEK660m, up from SEK654m at the end of Q1 (SEK444m at the end of H123). Major new contract announcements in the period included:

- 26 April 2024:** AAC Clyde Space's subsidiary AAC Hyperion and its partners have won a project sponsored by the Dutch National Growth Fund. AAC Clyde Space is to develop its existing CubeCAT V1 1Gbps system to a speed of 10Gbps to generate a next-generation terminal to enable space-to-ground communication between small satellites and optical ground stations. The total value of the project is €3.5m (c SEK40.4m) and is planned to be finalised during the third quarter 2026.
- 15 May 2024:** AAC Clyde Space has won its first order for its 16U EPIC satellite as part of the ESA OPS-SAT VOLT mission, which aims to test and evaluate groundbreaking real-time techniques and technologies with a focus on optical and quantum direct to Earth communication. The total order value is €2.3m (c SEK27.0m) and is due to be delivered and commissioned by June 2026.
- 27 May 2024:** AAC Clyde Space has received its first order on the commercial version of its laser communication terminal CubeCAT. The €0.6m (c SEK6.5m) order for two laser communication terminals comes from Greek company EMTECH SPACE for its Hellenic Space Dawn mission.
- 9 July 2024:** AAC Clyde Space has won its first order for the Cyclops Earth observation satellite constellation by entering into a pre-commercial agreement valued at £612,000 (c SEK8.3m) with the Scottish government. The two-year project will provide high-resolution image data enabling, among many other applications, the efficient monitoring of tree health.

Exhibit 3: Group order book (SEKm)



Source: AAC Clyde Space, Edison Investment Research

Outlook and expectations

Given the delays experienced in the quarter, management now expects sales of SEK350–400m, down from SEK430–500m, but maintains its expectations for an EBITDA margin of 5–10%. This has led to the changes in our forecasts (see Exhibit 4). While we note this is disappointing, management points to some significant milestones to be achieved in Q3 including two satellites on a SpaceX Falcon rocket, an Arctic Weather Satellite with significant AAC content and Sedna-1, built in the Fairfax facility, which will expand AAC’s constellation for marine tracking to 11 satellites. This was successfully launched on 16 August.

Exhibit 4: Changes in forecasts

SEKm	FY24			FY25		
	Old	New	Change	Old	New	Change
Sales	465	375	-19%	648	600	-7%
EBITDA	32.9	24.9	-24%	79.6	75.0	-6%
EBITDA margin	7.1%	6.7%	-42bp	12.3%	12.5%	21bp
EBIT	16.5	(5.1)	-131%	60.3	50.0	-17%
EBIT margin	3.5%	-1.3%	-489bp	9.3%	8.3%	-98bp
PBT	12.4	(8.1)	-165%	52.7	44.5	-16%
EPS (SEK)	2.1	(1.4)	-164%	8.7	7.6	-13%
Net cash	11.5	20.0	74%	31.5	34.1	8%

Source: Edison Investment Research

Valuation

AAC remains an interesting investment as the space sector continue to grow rapidly. Volume growth should leverage the manufacturing cost base and data services income, which should be repeatable, start to expand as the constellations are in place. With limited earnings visibility in the short term, we use a DCF valuation for the group. Exhibit 5 highlights our valuation against the long-term growth expectations (post 2032) and cost of capital. We are taking a more cautious approach to the latter as space is a relatively volatile and potentially risky sector. We therefore use a WACC of 12.0%, suggesting a valuation of SEK278 per share, assuming 2% terminal growth.

Exhibit 5: DCF valuation (SEK/share)

		Terminal growth rate			
		0.0%	1.0%	2.0%	3.0%
Weighted cost of capital	15.0%	179	188	198	209
	14.0%	197	207	220	234
	13.0%	218	231	246	265
	12.0%	242	258	278	302
	11.0%	272	292	317	349
	10.0%	307	334	367	410

Source: Edison Investment Research

Exhibit 6: Financial summary

	SEKm	2021	2022	2023	2024e	2025e
Year-end December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Net sales		180.0	196.7	276.6	375.0	600.0
Own work capitalised and other operating income		30.9	47.0	48.8	26.8	39.0
Group income		210.8	243.7	325.5	401.8	639.0
EBITDA		(12.4)	(30.0)	1.0	24.9	75.0
Operating Profit (before amort. and except.)		(21.9)	(40.3)	(12.5)	(5.1)	50.0
Intangible Amortisation		(0.9)	(0.7)	(2.6)	(1.5)	(2.4)
Other		(15.8)	(26.0)	(21.7)	(21.7)	(21.7)
Operating Profit		(38.6)	(67.0)	(36.8)	(28.3)	25.9
Associates & Other		0.0	0.0	0.0	0.0	0.0
Net Interest		(4.2)	17.9	(4.2)	(1.6)	(3.1)
Profit Before Tax (norm)		(27.0)	(23.2)	(19.3)	(8.1)	44.5
Profit Before Tax (FRS 3)		(42.8)	(49.1)	(41.1)	(29.8)	22.8
Tax		3.3	2.6	(0.5)	1.5	(1.1)
Profit After Tax (norm)		(24.9)	(22.0)	(18.4)	(7.7)	42.3
Profit After Tax (FRS 3)		(39.5)	(46.5)	(41.6)	(28.3)	21.7
Average Number of Shares Outstanding (m)		3.5	3.9	4.8	5.7	5.7
EPS - fully diluted (SEK)		(7.17)	(5.58)	(4.16)	(1.35)	7.59
EPS - normalised (SEK)		(7.17)	(5.58)	(4.16)	(1.35)	7.59
EPS - (IFRS) (SEK)		(11.36)	(11.82)	(8.73)	(4.97)	3.97
Dividend per share (SEK)		0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		-6.9	-15.2	0.4	6.7	12.5
Operating Margin (before GW and except.) (%)		-12.2	-20.5	-4.5	-1.3	8.3
BALANCE SHEET						
Fixed Assets		681.0	728.6	746.2	728.2	728.3
Intangible Assets		639.5	665.5	672.6	668.1	668.0
Tangible Assets		26.4	46.4	57.8	44.3	44.5
Right of use asset		15.1	16.8	15.8	15.8	15.8
Investments						
Current Assets		193.4	152.8	192.2	199.8	321.8
Stocks		13.2	20.2	22.1	29.9	47.9
Debtors		23.0	24.5	23.5	31.9	51.0
Cash		96.1	52.1	59.5	20.0	34.1
Other		61.1	56.0	87.1	118.0	188.8
Current Liabilities		(129.2)	(182.0)	(249.4)	(267.2)	(353.5)
Creditors		(128.5)	(175.8)	(218.7)	(261.7)	(348.0)
Lease liabilities		0.0	(5.5)	(5.5)	(5.5)	(5.5)
Short term borrowings		(0.6)	(0.7)	(25.2)	0.0	0.0
Long Term Liabilities		(16.6)	(35.9)	(26.2)	(31.9)	(45.0)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Lease liabilities		(15.1)	(11.0)	(10.2)	(10.2)	(10.2)
Other long term liabilities		(1.5)	(24.9)	(16.1)	(21.8)	(34.9)
Net Assets		728.6	663.5	662.8	628.9	651.6
CASH FLOW						
Operating Cash Flow		(37.3)	6.4	11.1	21.7	67.5
Net Interest		(0.2)	(0.2)	(2.9)	(1.6)	(3.1)
Tax		2.1	0.2	(1.3)	0.0	(1.1)
Capex		(29.2)	(40.9)	(51.0)	(35.3)	(49.2)
Acquisitions/disposals		2.6	(38.3)	(2.5)	0.0	0.0
Financing		94.1	33.3	37.6	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other			0.0	(2.0)	0.0	0.0
Net Cash Flow		32.0	(39.4)	(11.0)	(15.1)	14.1
Opening net debt/(cash) excluding lease liabilities		(62.2)	(95.5)	(52.1)	(35.1)	(20.0)
HP finance leases initiated		0.0				
Other		1.3	(4.0)	(6.0)	0.0	0.0
Closing net debt/(cash) excluding lease liabilities		(95.5)	(52.1)	(35.1)	(20.0)	(34.1)
Net financial liabilities including lease liabilities		(80.4)	(35.6)	(19.5)	(4.3)	(18.4)

Source: 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 £60,000 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 2024 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 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.