EDISON

AAC Clyde Space

Q224 results

Volatility affecting progress

Aerospace and defence

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).

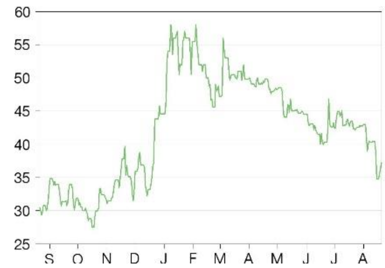
Valuation: SEK278/share

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.

21 August 2024

Price	**SEK36.0**
Market cap	**SEK205m**
	SEK10.7/$, SEK13.5/£
Net cash (SEKm) at 31 March 2024 (gross cash SEK36.8m)	10.1
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

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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%	

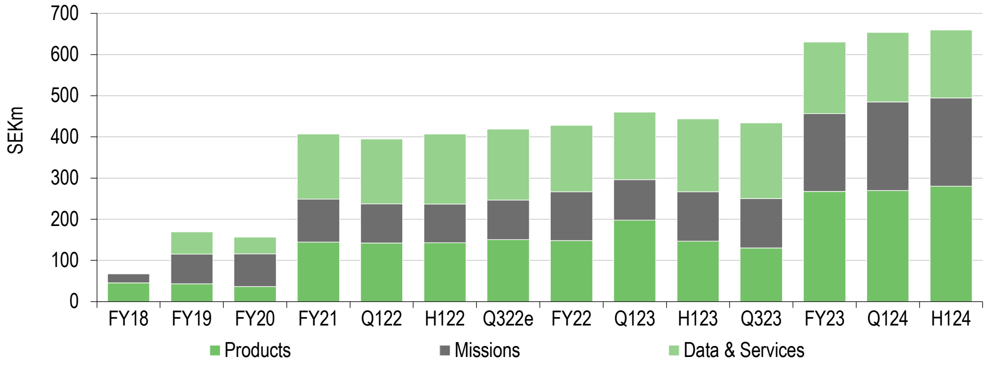
Source: AAC Clyde Space

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 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

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