

AAC Clyde Space

A major strategic step into the US

SpaceQuest acquisition completion

Aerospace & defence

15 January 2021

Price **SEK3.75**

Market cap **SEK552m**

SEK11.4/£

Net cash (SEKm) at 30 September 2020 31.2

Shares in issue 147.2m

Free float 95%

Code AAC

Primary exchange Nasdaq First North Premier

Secondary exchange OTCQX

We are adjusting our estimates following completion of the SpaceQuest acquisition just before the end of FY20. With a negligible income and cash flow impact in FY20 due to the timing, the deal will be reflected in an expanded balance sheet. However, with an EBITDA margin of more than 20% and significant growth expected in FY21, the deal is a major enhancement to group performance going forward.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/18	77.9	(38.4)	(0.50)	0.0	N/A	N/A
12/19	66.4	(38.2)	(0.45)	0.0	N/A	N/A
12/20e	101.6	(21.3)	(0.21)	0.0	N/A	N/A
12/21e	193.6	(6.4)	(0.04)	0.0	N/A	N/A

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

Strategic move into the US confirmed

On 30 December 2020, AAC Clyde Space announced that the acquisition of SpaceQuest in the US for c SEK75.6m (see our December [update note](#)) had completed following regulatory approval. SpaceQuest is one of the pioneers of the New Space segment, having been founded in 1994. It further extends the technical capability of the group and establishes a manufacturing presence in the important US market, which AAC Clyde Space had previously identified as a major strategic goal. It also brings with it an operational microsatellite constellation generating Space-as-a-Service (SaaS) revenues from third parties. To date, it has used its own 25cm³ cubesat platforms (AprizeSat), but the experience will be a major positive for AAC Clyde Space customers seeking to use nanosatellites. The operation is expected to grow strongly, building on a long history as a highly profitable company.

Laser contract highlights Hyperion's capabilities

The recently acquired Hyperion Technologies has announced a contract award to demonstrate in orbit its CubeCat laser communication terminal in 2022. The terminal is a 1U, low power and lightweight solution downlink data from small satellites with speeds ultimately up to 1Gbps and uplink of 200Kbps and. It was developed together with the Dutch independent research institute TNO. Alongside propulsion, this was one of the two major additional technology capabilities the company brought to the group. While the contract is relatively small at SEK1.5m, laser communications are seen as a major potential enhancement to satellite capabilities in the future, greatly increasing data transmission speeds for small satellites compared to current radio communications.

Valuation: Moving towards positive cash flows

Following the capital raise and the addition of Hyperion, the value of our capped DCF remained unchanged at SEK4.8 per share. Adjusting for SpaceQuest, with its already substantial EBITDA margin, should significantly enhance the cash flow prospects for the group. As a result, the DCF value increases to SEK5.6 per share.

Share price performance



% 1m 3m 12m

Abs 18.5 35.8 (16.3)

Rel (local) 12.6 25.7 (27.7)

52-week high/low SEK5.02 SEK2.40

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 in the US.

Next events

FY20 results 18 February 2021

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Earnings estimates updated for SpaceQuest

SpaceQuest should be fully consolidated as of the end of FY20 but, given completion was so near the year end, we do not expect any major impact on the income statement or cash flow in the year. At the time the acquisition was announced, SpaceQuest was expected to deliver FY20 revenues of US\$2.5m (SEK21m) and EBITDA of US\$0.7m (SEK5.7m), a margin of 28%. The earnout agreements that formed part of the deal in FY21, FY22 and FY23 are based on US\$3m (SEK25m) of revenue growth in each year. Our assumption for FY21 assumes roughly half of that growth, with an EBITDA margin of 24%. It would be enough to drive group EBITDA into positive territory for the first time in FY21. We do not include the earnout payments in the out years in our model as a result, although we would expect achievement of the thresholds to be beneficial to AAC Clyde Space shareholders. The number of shares increases to 147.2m.

We have modestly adjusted our net cash assumption for the end of FY20 to reflect the SEK1.1m cash as part of the consideration paid for Hyperion on completion in November.

Exhibit 1: AAC Clyde Space earnings revisions

Year to Dec (SEKm)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
<u>Revenues by business</u>						
AAC	32.8	32.8	0.0%	40.4	40.4	0.0%
Clyde	66.7	66.7	0.0%	98.9	98.9	0.0%
Hyperion	2.0	2.0		19.3	19.3	
SpaceQuest	0.0	0.0		0.0	35.0	
Total group net sales	101.6	101.6	0.0%	158.6	193.6	22.1%
<u>Revenues by activity</u>						
Satellite platforms	51.0	51.0	0.0%	81.6	81.6	0.0%
Subsystems	50.6	50.6	0.0%	76.0	111.0	46.0%
Licence & royalties income	0.0	0.0		1.0	1.0	
Total group net sales	101.6	101.6	0.0%	158.6	193.6	22.1%
Other operating income	10.0	10.0	0.0%	6.5	6.5	
Own work capitalised	9.2	9.2	0.0%	14.3	15.7	
Total group income	120.8	120.8	0.0%	179.5	215.9	20.3%
Raw materials & subcontractors	(49.8)	(49.8)	0.0%	(71.4)	(87.1)	22.1%
Personnel costs	(57.5)	(57.5)	0.0%	(83.2)	(89.4)	7.4%
Other external expenses	(18.8)	(18.8)	0.0%	(27.0)	(32.9)	22.1%
Other operating expenses	(6.1)	(6.1)		0.0	0.0	
EBITDA (company reported)	(11.3)	(11.3)	0.0%	(2.1)	6.4	N/A
EBIT (Pre PPA amortisation)	(20.7)	(20.7)	0.0%	(13.7)	(5.9)	(57.0%)
Underlying PBT	(21.3)	(21.3)	0.0%	(14.3)	(6.4)	(55.1%)
EPS - underlying continuing (SEK)	(0.21)	(0.21)	0.0%	(0.11)	(0.04)	(62.4%)
DPS (SEK)	0.0	0.0		0.0	0.0	
Adjusted net cash (excluding lease liabilities)	68.4	67.3	(1.6%)	52.6	59.0	12.2%

Source: Edison Investment Research estimates

Exhibit 2: Financial summary

	SEKm	2018	2019	2020e	2021e
Year-end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		77.9	66.4	101.6	193.6
Own work capitalised and other operating income		11.3	14.1	19.2	22.2
Group income		89.2	80.6	120.8	215.9
EBITDA		(28.5)	(27.3)	(11.3)	6.4
Operating Profit (before amort. and except.)		(30.9)	(32.7)	(16.5)	(0.0)
Intangible Amortisation		(7.2)	(4.6)	(4.2)	(5.9)
Exceptionals		(5.2)	(2.9)	(8.7)	(2.0)
Other		0.0	0.0	0.0	0.0
Operating Profit		(43.3)	(40.2)	(29.5)	(7.9)
Net Interest		(0.34)	(0.8)	(0.5)	(0.5)
Profit Before Tax (norm)		(38.4)	(38.2)	(21.3)	(6.4)
Profit Before Tax (FRS 3)		(43.6)	(41.0)	(30.0)	(8.4)
Tax		0.9	0.5	0.3	0.4
Profit After Tax (norm)		(37.6)	(37.8)	(21.1)	(6.1)
Profit After Tax (FRS 3)		(42.7)	(40.6)	(29.7)	(8.0)
Average Number of Shares Outstanding (m)		75.4	84.8	101.3	147.2
EPS - fully diluted (SEK)		(0.50)	(0.45)	(0.21)	(0.04)
EPS - normalised (SEK)		(0.50)	(0.44)	(0.21)	(0.04)
EPS - (IFRS) (SEK)		(0.57)	(0.48)	(0.29)	(0.05)
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		(36.6)	(41.1)	(11.1)	3.3
Operating Margin (before GW and except.) (%)		(39.7)	(49.3)	(16.2)	0.0
BALANCE SHEET					
Fixed Assets		396.8	436.9	533.9	537.2
Intangible Assets		392.6	418.6	506.4	514.3
Tangible Assets		4.2	4.1	16.5	15.1
Right of use asset			14.2	11.0	7.8
Investments		0.0	0.0	0.0	0.0
Current Assets		56.2	108.5	123.7	145.0
Stocks		6.5	13.1	17.3	27.1
Debtors		10.1	17.7	18.3	29.0
Cash		12.2	52.4	67.8	59.8
Other		27.3	25.2	20.3	29.0
Current Liabilities		(35.6)	(60.5)	(55.9)	(90.8)
Creditors		(35.5)	(60.5)	(55.9)	(90.8)
Short term borrowings		(0.2)	0.0	0.0	0.0
Long Term Liabilities		(2.4)	(16.0)	(13.2)	(10.9)
Long term borrowings		(1.2)	(0.8)	(0.5)	(0.8)
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	588.5	580.5
CASH FLOW					
Operating Cash Flow		(49.1)	(15.3)	(20.9)	8.3
Net Interest		(0.3)	(0.8)	0.1	0.1
Tax		0.8	0.4	0.2	0.3
Capex		(2.3)	(13.9)	(10.3)	(17.6)
Acquisitions/disposals		(377.4)	(3.0)	0.6	0.6
Financing		404.6	73.3	45.9	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(23.6)	40.7	15.7	(8.3)
Opening net debt/(cash) excluding lease liabilities		(35.2)	(10.9)	(51.6)	(67.3)
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)	(67.3)	(59.0)
Net financial liabilities including lease liabilities			(37.5)	(55.7)	(50.0)

Source: Company reports, Edison Investment Research estimates

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