ERIK PENSER BANK

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AAC Clyde Space

2021 targets out of reach

Difficult to achieve targets for 2021

AAC Clyde Space reported EBITDA of SEK -7.5 million in Q2 2020, which was on a par with Q2 2019. The order backlog, which now corresponds to 2.1x 12-month sales, amounted to SEK 164 million. The company states that the effects of Covid-19, with deferred orders and delayed deliveries from subcontractors, mean that the goals communicated in the financial statements for 2019 will be difficult to achieve.

New orders provide a silver lining

AAC Clyde Space estimates that the underlying strong growth in the market is intact, and announced a number of orders in Q2 2020. On August 24, it was announced that, together with SAAB and ORBCOMM, they are developing the next generation space-based VHF Data Exchange System (VDES), which can increase VDES coverage from coastlines to all over the oceans and integrate with navigation systems.

Limited short-term upside

Net cash of SEK 34.9 million in Q2 2020 will suffice into 2021, based on the cash flows we have seen in the past year, and AAC Clyde Space is now seeking new financing. In anticipation of that, and with uncertain prospects, we see limited upside in the stock in the short term.

Estimate Changes (SEK)

	Now	Before	
EPS, adj 20e	-0.44	-0.29	52.4%
EPS, adj 21e	-0.27	-0.17	56.2%
EPS, adj 22e	-0.17	-0.11	55.8%

Calendar Events

Q3 2020	November 26, 2020
Q4 2020	February 18, 2021
-	-

Key Figures (mkr)

Number of Shares	96.2m
Market cap	310
Net Debt	(35)
EV	275
Free Float	81.51%
Avg. No. of Daily Traded Sh.	424.1(k)
Reuters/Bloomberg	AAC.ST/AAC SS

Estimates (SEK)

	19	20e	21e	22e
Sales,m	66	81	101	116
Sales Growth	(14.7)%	21.4%	25.0%	15.0%
EBITDA, m	(27.3)	(29.3)	(11.8)	(2.7)
EBIT, m	(40.2)	(41.0)	(23.5)	(14.5)
EPS, adj	(0.42)	(0.44)	(0.27)	(0.17)
EPS Growth	NM%	NM%	NM%	NM%
Equity/Share	4.8	4.4	4.1	4.0
Dividend	0.00	0.00	0.00	0.00
EBIT Marginal	(60.5)%	(50.8)%	(23.4)%	(12.5)%
ROE (%)	(8.7)%	(10.0)%	(6.4)%	(4.3)%
ROCE	(8.3)%	(9.3)%	(5.1)%	(3.2)%
EV/Sales	4.14x	3.41x	2.73x	2.37x
EV/EBITDA	(10.1)x	(9.4)x	(23.3)x	(101.4)x
EV/EBIT	(6.8)x	(6.7)x	(11.7)x	(19.0)x
P/E, adj	(7.6)x	(7.3)x	(12.1)x	(18.8)x
P/Equity	0.7x	0.7x	0.8x	0.8x
Dividend yield	0.0%	0.0%	0.0%	0.0%
FCF yield	(6.0)%	(9.5)%	(8.5)%	(3.4)%
Net Debt/EBITDA	1.9g	0.8g	(0.3)g	(5.4)g

Risk and Potential

Motivated value	**3.70 - 4.00**
Current price	SEK3.22
Risk level	High
Return Potential	Medium

One Year Performance Chart

Analysts

alexander.vilval@penser.se
Analysavdelningen

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Overview

2021 targets out of reach

Investment Case

AAC Clyde Space reported EBITDA of SEK -7.5 million in Q2 2020, which was on a par with the SEK -7.7 million in Q2 2019. When AAC Clyde Space reported its Q1 2020 results, on May 15, it had not yet seen any signs of weakened demand in the wake of Covid-19, and expected strong growth in 2020 as well as positive EBITDA and operating cash flow in 2021. This is now said to be difficult to achieve due to delayed sales orders and deliveries from suppliers. However, AAC Clyde Space believes that the underlying strong growth in the market is intact. In connection with this, the company also announced that it is evaluating various alternatives to strengthen its financing. AAC Clyde Space announced a number of orders during Q2 2020, and on August 24 it was revealed that, together with SAAB and ORBCOMM, they are developing the next generation space-based VHF Data Exchange System (VDES). Space-based infrastructure increases VDES coverage from coastlines to anywhere on the oceans and can be integrated with navigation systems, with benefits such as reduced fuel consumption, improved navigation and increased safety. The satellite is expected to be the first in a constellation, and will be the first to be manufactured in Uppsala, while Glasgow, which is the hub for satellite manufacturing, will develop the next generation of satellites. In Scotland, the company has also received a grant from Scottish Enterprise of GBP 2.3 million for satellite development. Initially, the project with SAAB and ORBCOMM is worth SEK 17 million for AAC Clyde Space, which will manufacture, launch and commission the satellite under the Space as a Service concept.

Company Profile

AAC Clyde Space was formed in 2018 when ÅAC Microtec from Uppsala, Sweden, acquired Clyde Space from Glasgow in Scotland. The two companies were founded in 2005. AAC Clyde Space offers turnkey solutions and services from mission design to on-orbit operations, including customizable satellite platforms. The share, ticker AAC, is traded on the Nasdaq First North Premier Growth Market, and from 21 August 2020 on the US OTCQX market with the ticker ACCMF.

Valuation approach

We see limited short-term potential in the valuation now that AAC Clyde Space has announced it will not achieve its targets for profitability next year and will need additional funding. The expectation of, and delivery of, profitable growth could boost the AAC share in the longer run, and AAC Clyde Space will probably review its targets and update them in connection with new financing. After adjusting down our forecasts, we have now postponed the time for when AAC Clyde Space reaches positive EBITDA from 2021 to early 2023.

Target Price

We see a target price of SEK 4 per share on a one-year horizon, assuming that growth and profitability improve in line with our forecasts. However, there is great uncertainty in the estimates at this point, both on the upside and on the downside.

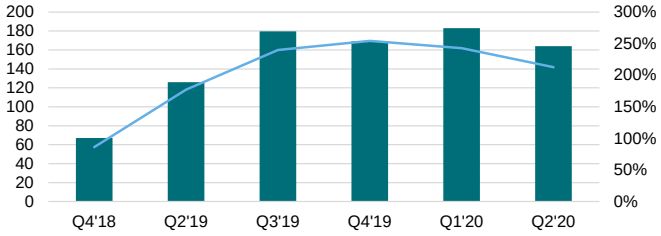
Order backlog slightly down to 2.1x 12-month sales

AAC Clyde Space reported an order backlog of SEK 164 million in Q2 2020, down from the peak level of SEK 183 million in Q1 2020. This volume indicates sales in the coming year of approximately SEK 110 million, but problems with subcontractors leading to extended delivery times mean that the level is likely to be lower than this. We expect sales of SEK 91 million over the next 12 months, and have reduced our sales forecasts by approximately 30%. However, we expect sales in 2020 to exceed the 2018 level and then grow 25% in 2021. This is not enough, though, to lift AAC Clyde Space to profitability in 2021, and we now expect it to approach this in 2022. The gross margin remained lower than usual in Q2 2020, this quarter due to a lower share of standard products in sales, while in Q1 2020 this was due to a larger share of third-party products than normal. The fact that the gross margin amounted to about 47% in H1 2020, compared with 59% in 2019, is a concern. We expect 50% in H2 2020 and a return to historical levels in 2021.

Enough cash to last into Q1 2021 at the current pace

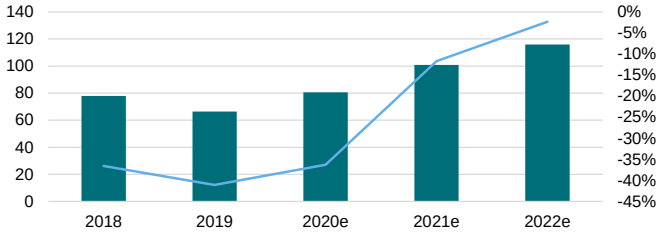
In connection with the announcement by AAC Clyde Space that it does not expect to reach its targets for 2021, it also said it is evaluating various alternatives to strengthen funding. In the past year, AAC Clyde Space's cash flow, measured as operating cash flow before changes in working capital and including investments, has been around SEK -12 million per quarter. Assuming this level in the short term, net cash of SEK 34.9 million will suffice into Q1 2021.

Order backlog (SEKm) / 12m sales



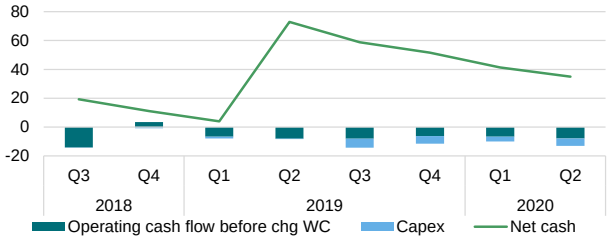
Source: Erik Penser Bank

Sales (SEKm) / EBITDA margin



Source: Erik Penser Bank

Liquidity / Cash flow (SEKm)

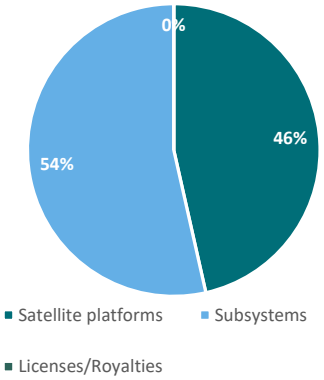


Source: Erik Penser Bank

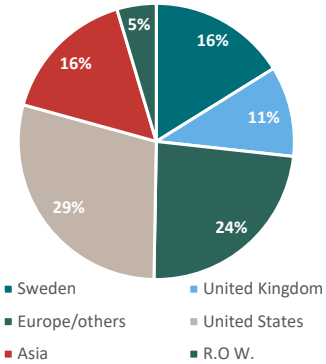
Company info

Largest Shareholders	Votes	Capital
Mediuminvest A/S	13,90%	13,90%
UBS Switzerland AG, W8IMY	10,30%	10,30%
Fouriertransform AB	9,40%	9,40%
SIX SIS AG, W8IMY	7,00%	7,00%
Others	59,40%	59,40%
Chairman of the Board		Rolf Hallencreutz
Chief Executive Officer		Luis Gomes
Chief Financial Officer		Mats Thideman
Investor Relations		Mats Thideman
Website		www.aac-clyde.space

Sales/segment (12m)



Sales/geo. (2019)



Income Statement

	2018	2019	2020E	2021E	2022E
Net sales	77,9	66,4	80,6	100,8	115,9
Work performed by the Company for its own use and capitalised	1,5	3,0	7,0	7,1	8,7
Other operating income	9,8	11,2	12,0	15,6	17,8
Raw materials and subcontractors	-31,0	-27,4	-41,7	-40,3	-46,4
Personnel costs	-53,2	-51,8	-56,2	-61,1	-63,6
Other external expenses	-22,8	-23,7	-25,6	-27,9	-29,0
Other operating expenses	-10,7	-5,0	-5,4	-5,9	-6,1
EBITDA	**-28,5**	**-27,3**	**-29,3**	**-11,8**	**-2,7**
Depreciation/amortisation and impairment of tangible and intangible assets	-14,8	-12,9	-11,7	-11,8	-11,8
EBIT	**-43,3**	**-40,2**	**-41,0**	**-23,5**	**-14,5**
Net financial items	-0,3	-0,8	-1,9	-2,0	-2,0
EBT	**-43,6**	**-41,0**	**-42,9**	**-25,5**	**-16,5**
Income tax	0,9	0,5	0,3	0,0	0,0
Net income	**-42,7**	**-40,6**	**-42,5**	**-25,5**	**-16,5**

Balance Sheet

	2018	2019	2020E	2021E	2022E
Assets					
Intangible assets	392,6	418,6	418,6	418,6	418,6
Tangible assets	4,2	18,3	16,6	14,8	7,0
Total non-current assets	**396,8**	**436,9**	**435,2**	**433,4**	**425,7**
Inventory	6,5	13,1	12,1	15,1	17,4
Accounts receivable	10,1	17,7	9,7	12,1	13,9
Other receivables	27,3	25,2	25,2	25,2	25,2
Cash and cash equivalents	12,2	52,4	23,0	46,8	36,3
Total current assets	**56,2**	**108,5**	**70,0**	**99,2**	**92,8**
Total assets	**453,0**	**545,4**	**505,2**	**532,7**	**518,5**
Equity and liabilities					
Equity attributable to Parent Company shareholders	412,1	466,1	423,6	398,0	381,5
Total equity	**412,1**	**466,1**	**423,6**	**398,0**	**381,5**
Liabilities to credit institutions	1,2	0,8	0,8	50,8	50,8
Other non-current liabilities		11,3	11,3	11,3	11,3
Deferred tax liabilities	4,1	3,9	3,9	3,9	3,9
Total non-current liabilities	**5,3**	**15,9**	**15,9**	**65,9**	**65,9**
Accounts payable	11,1	9,8	12,1	15,1	17,4
Other liabilities	24,6	53,6	53,6	53,6	53,6
Total current liabilities	**35,6**	**63,4**	**65,7**	**68,7**	**71,0**
Total equity and liabilities	**453,0**	**545,4**	**505,2**	**532,7**	**518,5**

Cash Flow

	2018	2019	2020E	2021E	2022E
EBT	-43,6	-41,0	-42,9	-25,5	-16,5
Adjustments for non-cash items	14,8	12,9	11,7	11,8	11,8
Income taxes paid	0,0	0,0	0,3	0,0	0,0
Cash flow from operating activities before changes in working capital	**-28,8**	**-28,2**	**-30,8**	**-13,8**	**-4,7**
Total changes in working capital	-19,8	12,4	11,4	-2,4	-1,8
Cash flow from operating activities	**-48,6**	**-15,7**	**-19,4**	**-16,2**	**-6,5**
Investments in intangible assets	-19,5	-12,1	0,0	0,0	0,0
Investments in tangible assets	-0,8	-1,9	-10,0	-10,0	-4,0
Cash flow from investing activities	**-20,3**	**-13,9**	**-10,0**	**-10,0**	**-4,0**
Rights issue	48,0	73,3			
Borrowings		0,0		50,0	
Warrants	0,0				
Repayments of borrowings	-4,1	-3,6			
Cash flow from financing activities	**43,9**	**69,7**	**0,0**	**50,0**	**0,0**
Increase/decrease in cash and cash equivalents	**-25,0**	**40,1**	**-29,4**	**23,8**	**-10,5**
Cash and cash equivalents at the beginning of the period	37,2	12,2	52,4	23,0	46,8
Exchange-rate differences in cash and cash equivalents	0,0	0,1			
Cash and cash equivalents at the end of the period	12,2	52,4	23,0	46,8	36,3

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Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM

tel: +46 8 463 80 00 fax: +46 8 678 80 33 www.penser.se