EDISON

Seraphim Space Investment Trust

High demand for space tech's disruptive potential

Investment trusts
Growth capital

Seraphim Space Investment Trust (SSIT) released its Q423 trading update to end-June 2023 yesterday, reporting that its top 10 holdings saw their revenues (weighted by portfolio fair value) increasing by 32% year-on-year in the 12 months to end-June 2023, while bookings went up by a strong 188% over that period. We believe this illustrates the high interest in the disruptive potential of the offering of these early-stage businesses across key secular themes, such as global security and climate change. SSIT's shares currently trade at a c 48% discount to end-March 2023 NAV.

A sizeable cash buffer at holding level

SSIT's cash declined slightly from £38.1m at end-March 2023 to £35.3m at end-June 2023 (or c 16.0% of end-March 2023 NAV), as SSIT made two follow-on investments (£2.4m) and two new early-stage investments (£0.5m) during the quarter. Post reporting date, it invested a further £4.1m, including three follow-on investments (£3.3m) and two new early-stage investments (£0.9m). Moreover, SSIT announced a buyback programme on 13 July 2023 and spent £0.9m on repurchasing c 2.09m shares to 8 September 2023 (0.9% of shares in issue as at 12 July 2023), which are now held in treasury. SSIT plans to earmark two-thirds of its current cash (after adjusting for ongoing expenses over the next two years) for follow-on investments and one-third for new investments and share buybacks.

SSIT's portfolio remains well funded on average

SSIT's investment manager has reviewed the cash runways and funding plans of SSIT's private companies, concluding that these, on average, have enough cash to fuel their growth strategies at least until end-June 2024. This is except for two of SSIT's top 10 holdings, which require funding before end-June 2024, one of which is in advanced stages of negotiating a round (expected to close before end-2023) and the other is working with an investment bank on a new round. During the 12 months to end-June 2023, 11 of SSIT's portfolio companies completed new funding rounds, six at valuations above the prior round, and only one at a lower valuation (the remaining funding rounds were in the form of unpriced convertible loan notes). SSIT will likely share a more detailed discussion of portfolio valuations, including an updated NAV at end-June 2023, in the annual results announcement in October.

Investor interest in space tech remains intact

It is worth noting that most of the above-mentioned rounds were led by new external investors (SSIT participated in two-thirds of them). Across the broader market, the Seraphim Space Index indicated global venture capital/growth funding of US$4.5bn for the 12 months to end-June 2023 (US$1.2bn in Q223), which is significantly down from US$9.2bn in the 12 months to end-June 2022. However, the latter figure is distorted by large single transactions (eg SpaceX and Sierra Space), while the number of deals increased during the 12 months to end-June 2023. Moreover, deal value in US dollar terms rebounded by 57% during H123 compared to H222. Seraphim Space also notes the activity of private equity investors in the space tech industry, with Advent's acquisition of Maxar and KKR's takeover of OHB.

12 September 2023

Price Ord		**47.6p**
Market cap		**£113.9m**
NAV		**£220.0m**
NAV per share*		0.92p
Share discount to NAV		48.1%

*As at March 2023.

Yield		0.0%
Shares in issue		239.4m
Code Ord/ISIN		SSIT/GB00BKPG0138
Primary exchange		LSE
AIC sector		Capital Growth
SSIT's financial year end		30 June
52-week high/low	63.8p	26.1p
NAV high/low	105.0p	91.77p

Gearing

Cash at end-June 2023	£35.3m

Fund objective

Seraphim Space Investment Trust's objective is to generate capital growth over the long term through investment in a diversified, international portfolio of predominantly early- and growth-stage unquoted space tech businesses with the potential to dominate globally. Space tech businesses rely on space-based connectivity or precision, navigation and timing signals, addressing a broad range of key applications.

Bull points

- SSIT should benefit from structural long-term tailwinds.
- Downside protection from liquidity preference and anti-dilution clauses.
- Portfolio funded on average through to at least end-June 2024.

Bear points

- Macroeconomic headwinds curbing venture capital deal activity and valuations.
- Liquidity constraints could hamper new investments.
- Early-stage companies that are yet to break even are inherently risky.

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