

## Telesat

### Elevator Pitch

One of the world's largest global satellite operators with cash > 3x market cap, FCF ~ 1/3 MC, and a guaranteed revenue backlog ~4x MC

### Summary

- ✓ PB: 0.44
- ✓ PE: 6.83
- ✓ \$1.5bn of cash vs. \$520m market cap
- ✓ At 52wk Low and 75% below 52wk High
- ✓ \$2.1bn guaranteed revenue backlog ∴ FCF Margin ~ 33% (low) = \$700m FCF ~ 1.4x MC (excl. Lightspeed)

### Business

The Canadian Parliament launched Telesat in 1969 and three years later they launched the world's first commercial satellite. The last five years has seen TSAT lay the groundwork for the future; launching its Phase 1 LEO satellite (2018); world's first 5G backhaul demo (2019); and production of its Lightspeed network (2021). Telesat is one of the world's largest global satellite operators with 188 low earth orbit (LEO) satellites with optionality for modulation enabling them to partner with others who want access to more cost-effective satellites (when compared with fibre and microwave) which are 20x more responsive than today's geosynchronous (GEO) satellites. Telesat typically partners with in-flight, maritime, and defence operators having worked with the US Navy and being awarded a \$31m NASA contract thus identifying its trustworthiness further ratified by its support from the Government of Canada. This ought to increase given their Telesat Lightspeed innovation which is less penetrable thus hard to hack or jam. Their previous experience has seen them work on 5G with Vodafone and, to date, have completed core demonstrations with Petrobas, Motorola, Telefonica, and Vodafone.

TSAT's Lightspeed programme is 36x closer to Earth thus increases capacity from GB to TB, reduces latency 12-27x, and is 20x faster than the traditional GEO satellites. With connectivity at the forefront of the future - and 39% of the world's population not having access to affordable, reliable, high-speed internet - combined with satellite launching costs reducing significantly (SpaceX 2018 launch cost \$2,720 vs. NASA's suggested pre-2009 costs of \$18,5000/kg; an 85% reduction), Telesat is well positioned to improve global connectivity in an industry that is expected to triple in size in the coming years (> \$1tn). This results in strong growth for LEO satellite markets such as Telesat<sup>1</sup> especially as Business Aviation Gogo is said to be inferior to a LEO cluster<sup>2</sup>. Further, FB (Meta) funded a study where MIT researchers<sup>3</sup> confirmed that TSAT achieves a similar throughput as SpaceX despite fewer satellites<sup>4</sup> and - holding the number of gateway antennas constant at 700 - Telesat produces 5.0 - 6.5Tbps compared with OneWeb (1.0 Tbps); SpaceX (5.0 Tbps); and Amazon (6.0 - 11.0 Tbps) thus achieving greater throughput despite fewer satellites. Telesat can achieve similar throughput to SpaceX despite less than half the satellites due to their dual gateway connection system. Moreover, OneWeb and Amazon may achieve higher throughput but require 50% more gateway antennas thus Telesat will see 2x utilisation compared with their competitors with a ground station of ~40 (handling all capacity) whereas OneWeb required double, and SpaceX requires triple.

### Why does this opportunity exist?

#### (1) DISH Network

DISH reduced their need for TSAT coverage ∴ stock halved despite TSAT almost instantly replacing them

#### (2) Passive Investors

Changed domicile from US to Canada

Removal from Russell2000 & Russell3000 therefore forced selling from passive funds (+ limited volume)

#### (3) Uncertainty

Thales Alenia Space advises that global supply chain constraints will extend construction

Supply Chain constraints has delayed TSAT's financing agreements with Export Credit Agencies

Surprise in expected CapEX which may impact CFFI with Cash Requirements (now - 2025) being ~\$1bn

<sup>1</sup> [Value Investors Club / MDA LTD \(MDA\)](#)

<sup>2</sup> [Value Investors Club / GOGO INC \(GOGO\)](#)

<sup>3</sup> [A technical comparison of three low earth orbit satellite constellation systems to provide global broadband - ScienceDirect](#)

<sup>4</sup> [pachler21a.pdf \(mit.edu\)](#)

- (4) Star CEO competition: Bezos (Project Kuiper) vs. Musk (SpaceX) vs. Goldberg (who? - TSAT)  
Despite TSAT not competing with Bezos as they operate direct to consumer  
Although TSAT may not be a leader in the space its competitors are not trading below cash!  
TSAT is designing a backhaul site with a potential monopoly in the potentially less lucrative pole coverage

#### Ownership Structure

- MHR Fund Management LLC holds 1/3 Telesat + PSP Investments = 37%
- Class A and Class B units of Telesat Partnership (unlisted) ~ 39% ∴ listings comprise 24% of Telesat

#### Risks

- Funding issues surrounding the LEO satellites
- DISH network depletion however TSAT were quick to replace their business
- Goodwill ~ 39% of total assets. Goodwill + Intangible Assets ~ 51% of total assets
- Material Cash Requirements from until 2026 ~ \$4bn thus payment concerns may influence sentiment

#### Catalysts

1. Backlog recognition
  - a. Contracted revenue backlog ~ \$2.1bn (existing contracts without renewals and must pay up to terminate).
  - b. A further slightly speculative Lightspeed initiative backlog of \$750m which would equate to ~\$250m FCF.
  - c. LEO satellite to generate \$4.5 - \$6.5bn EBITDA p.a. for ~10yrs coming to fruition<sup>5</sup>
    - i. “LEO trading at 1.25x EBITDA with downside protected by GEO”
2. Debt reduction
  - a. Telesat repurchasing senior unsecured notes; TA < TL currently but this ought to change.
3. Government Relationships
  - a. Financing agreement to be confirmed previously confirmed as \$6.5bn and more recently reduced to \$5bn.
  - b. Telesat and Ontario Government offering reduced rate relationships thus post-2026 this will see more upside.
4. Improving Business / Bandwidth requirements
  - a. Increase in fleet utilisation (currently sitting at 84%).
  - b. A DISH renewal (unknown likelihood) rent demand required.
  - c. Energy increases may push demand for aero and maritime markets = new relationships.
  - d. Cruise lines picking up from the current 70% ferrying (or greater penetration of a smaller bunch).
  - e. Accelerated Bandwidth due to the pandemic – advances in society – greater reliance on connectivity.
5. Greater Acknowledgement
  - a. Ofcom application being approved (approx. September 2022)
  - b. Attendance at multiple investor conferences to create more interest having shed 75% in under 12 months.
6. A potential takeover / privatisation / MBO / NDR / Equity Offering
  - a. NDR or equity offering
  - b. TSAT market Cap ~ 2%, 4%, and 4% of Amazon, Tesla, and Meta’s Cash & Equivalents, respectively.

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<sup>5</sup> [Value Investors Club / TELESAT CORP \(TSAT\)](#)