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Solid State

Technology

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Diversity of markets gives resilience

As flagged in the April trading update, Solid State's FY20 results showed a 19.7% growth in revenues and 34.3% jump in adjusted profit before tax. Demand from the medical and food retail sectors is strong but weakness in the oil & gas and commercial aviation sectors related to the coronavirus pandemic is likely to result in lower year-on-year sales during Q2 and early Q321. While management sees potential for a Q4 recovery, the current range of FY21 profit outcomes is wide, so it is not providing guidance.

Record revenues and profit before tax in FY20

FY20 revenues were close to the £68m consensus estimate at £67.4m, while adjusted profit before tax at £4.7m was slightly ahead of the £4.5m consensus estimate, which had been upgraded twice. The profit growth demonstrates the benefit of the focus on higher-margin, added-value activities in the Manufacturing division, which grew revenues organically by 8.8% year-on-year to £28.2m. At £39.2m, pro forma like-for-like Value Added Distribution revenues were £0.4m higher than the prior year, despite a 7% y-o-y decline in the UK distribution sector overall (source: ECSN). The group moved from £2.0m net debt at end FY19 to £3.2m net cash at end FY20. It also has a £7.5m unused revolving credit facility, giving balance sheet resilience. The full year dividend was held at 12.5p.

Resilience through diversity of markets served

All of the group's four manufacturing sites in the UK have remained operational during the coronavirus lockdown as it has been designated a critical supplier for customers in the medical, food retail, security, transportation and defence sectors. It holds c 2.5 months stock to reduce supply chain exposure. While the open order book at the end of May was up 5.6% year-on-year at £37.9m, the order intake during Q1 was c 15% lower than the prior year, reflecting weaker demand from the oil & gas and commercial aerospace sectors and for certain niche computing applications. In contrast, the medical and food retail sectors are showing strong, sustained demand. Q121 trading was broadly in line with Q120. Management expects Q221 and early Q321 to be challenging, although it notes the group is bidding on a number of significant opportunities which could support a Q421 recovery. The group continues to invest in new products such as enhanced battery packs for autonomous craft and own brand computing products for AI applications.

Valuation: Trading at a discount to peers

The shares trade on historic P/E multiples at a substantial discount to the mean for both our sample of specialist manufacturing companies (12.0x for Solid State vs 24.7x for peers) and our sample of value-added distributors (12.0x vs 20.4x).

Historic performance

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	40.0	3.1	31.4	12.0	17.7	2.2
03/18	46.3	3.0	30.9	12.0	18.0	2.2
03/19	56.3	3.5	35.9	12.5	15.5	2.3
03/20	67.4	4.7	46.3	12.5	12.0	2.3

Source: Company data. Note: *Adjusted for exceptionals, share-based payments and amortisation of acquisition intangibles.

Price	555p
Market cap	£47m

Share price graph

Share details

Code	SOLI
Listing	AIM
Shares in issue	8.5m

Business description

Solid State is a high value-add manufacturer and specialist design-in distributor to the electronics industry. It has expertise in industrial/ruggedised computers, electronic components, antennas, microwave systems, secure communications systems and battery-power solutions.

Bull

- Added-value design capability supports long-term relationships with customers and higher margins.
- Pacer acquisition (November 2018) adds to value-added distribution portfolio with little overlap.
- Scale attracts new franchises such as Microchip and VPT.

Bear

- Revenue development dependent on OEM customers' sales and marketing activity.
- Shortening in order book visibility caused by market uncertainty.
- Delays affecting high value-added manufacturing projects for government-funded and major Infrastructure programmes are commonplace.

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