

# Solid State

**Technology**
**14 July 2021**

## Record profitability in FY21 despite pandemic

Solid State's FY21 results were slightly ahead of consensus estimates, which were upgraded in February and again in April. Encouraged by a strengthening order book, management has confirmed its commitment to the goal it set in 2017 of doubling EPS to 60p/share by FY22, so the consensus EPS estimate has been increased by 9%.

### Benefitting from market diversity

All the group's four manufacturing sites in the UK remained operational during the coronavirus lockdowns. Demand from the medical, security and defence markets was robust in FY21, broadly offsetting weakness in the commercial aviation and oil and gas markets and certain niche computing applications. Group revenues declined by only £1.1m year-on-year to £66.3m. Sales benefitted from the two acquisitions completed in March 2021, which contributed £1.3m revenues, and from customers pulling forward component orders amid supply chain concerns towards the year end. A £1.3m reduction in underlying administrative expenses related to restrictions on travel supported a 15% rise in adjusted PBT to £5.4m. Net cash of £3.2m at end FY21 (ex-IFRS 16 leases and deferred consideration) was unchanged from a year previously as the cash generated from operations covered the initial consideration payable for the acquisitions and dividend payments.

### Effect of component shortages on FY22 uncertain

On a like-for-like basis, the order book at end May 2021 was up 9% year-on-year to £41.4m (£51.0m including acquisitions completed in March 2021) because customers are placing orders covering longer periods. This reflects a combination of greater customer confidence and concerns about critical component availability. Component availability could potentially affect both manufacturing and value-added supplies sales in FY22, but the group has invested in inventory and gross margins appear to be steady. Consensus estimates suggest FY22 revenue growth will be attributable to the acquisitions completed in March 2021, followed by a modest recovery in organic growth in FY23.

### Valuation: Trading at a discount to peers

Solid State's shares are now almost at their highest level for five years. Nevertheless, they are still trading on a year one P/E multiple at a small discount to the mean of our sample of specialist manufacturing companies (15.5x for Solid State versus 17.6x for peers) and a much larger discount to the mean for our sample of value-added distributors (15.5x versus 35.2x).

#### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/20	67.4	4.7	46.3	12.5	20.1	1.3
03/21	66.3	5.4	54.7	16.0	17.0	1.7
03/22e	78.4	5.9	59.8	17.0	15.5	1.8
03/23e	81.0	6.2	59.0	18.0	15.7	1.9

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

**Price** 929p  
**Market cap** £79m

#### Share price graph



#### Share details

Code SOLI  
Listing AIM  
Shares in issue 8.5m

#### Business description

Solid State is a specialist value-added component supplier and design-in manufacturer of computing, power and communications products. It supplies the commercial, industrial and military markets with durable components, assemblies and manufactured units for use in specialist and harsh environments.

#### Bull

- Added-value design capability supports long-term relationships with customers and higher margins.
- Core competences in computer, power and communications serve markets growing in response to central government funding priorities.
- Active Silicon and Willow acquisitions enhance the group's own-brand portfolio and strengthen international activities.

#### Bear

- Revenue development dependent on OEM customers' sales and marketing activity.
- Potential programme delays because of global semiconductor supply chain issues.
- Delays affecting high value-added manufacturing projects for government-funded and major infrastructure programmes are commonplace.

#### Analyst

Anne Margaret Crow +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

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