

Solid State

Technology
18 July 2017

Doing the difficult things others won't or can't do

Solid State continues to make progress towards management's goal of doubling revenues over the next five years. It delivered pre-exceptional profit growth from continuing businesses of 6% during FY17. The record order book combined with investment during FY17 in both the Manufacturing and Distribution divisions shows management is driving organic growth to complement its successful acquisition programme.

Strategy drives 6% PBT growth during FY17

Group revenues from continuing businesses rose by £3.2m (9%) y-o-y to £40.0m. £4.2m of this was 10 month's contribution from the Creasefield acquisition, which offset reported delays in a number of antenna contracts. Gross margin fell by 0.6pp to 30.5% because of the impact of Creasefield sales, which are below the average for the Manufacturing division. Underlying sales, general and administrative expenses increased by 7% (£0.6m), primarily reflecting the impact of Creasefield. Pre-exceptional PBT rose by £0.2m (6%) to £3.1m, as Creasefield was turned from a loss to break-even. The dividend was maintained at 12.0p (2.25x dividend cover) with a stated policy targeting 2.5-2.75x cover going forward.

Strengthening platform for future growth

During FY17, management made several key investments. The two largest were the acquisition of Creasefield in June 2016 for £1.6m and the establishment of a new facility for the antennas operation, which cost almost £1m during FY16 and FY17. Creasefield brought complementary battery technology, access to new market segments and increased manufacturing capacity. The antenna facility enables Steatite to manufacture larger volumes of product, to create larger structures and to offer RF testing as an additional revenue stream. Antennae work is typically higher margin than other areas of the business. During H217, the Distribution division recruited several sales personnel to form a sourcing and obsolescence team, creating a source of higher margin, recurring revenue. Management terminated development activity on offender monitoring systems. This generated £0.5m operating losses and is treated as a discontinued operation.

Valuation: Trading at a discount to peers

The shares are trading on prospective P/E multiples that are at a discount to the mean for both our sample of specialist manufacturing companies (13.9x vs 16.1x) or our sample of value-added distributors (13.9x vs 18.2x). This indicates potential for share price improvement as investors recognise that the group is able to deliver meaningful profit growth from organic development.

Consensus estimates*

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/16	36.8	2.9	31.8	12.0	14.5	2.6
03/17	40.0	3.1	32.0	12.0	14.4	2.6
03/18e	41.5	3.3	33.1	12.5	13.9	2.7
03/19e	43.6	3.6	35.8	13.5	12.9	2.9

Source: Bloomberg *Adjusted to include only estimates published since FY17 results.

Price 461.5p
Market cap £39m

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.
- Added-value capability supports higher margins.
- Added-value capability helps attract franchisors.

Bear

- Delays affecting antennae programmes endemic to defence industry.
- Revenue development dependent on OEM customers' sales and marketing activity.
- Relatively low free-float (72.9%).

Analysts

Anne Margaret Crow +44 (0)20 3077 5700
Roger Johnston +44 (0)20 3077 5722

industrials@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE-OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.