

Solid State

Technology
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Interims signal good start to FY18

As flagged in the pre-close trading statement, Solid State's H118 revenue rose 12% y-o-y to £22.5m, though margins declined because of a change in mix, resulting in a 20% PBT dip to £1.6m. The order book at end October 2017 was £20.1m, ie 38% up on the prior year. This is a clear signal that management is able to deliver organic growth as well as building the group through acquisitions.

Organic development and acquisitions feed growth

Distribution revenues rose by £1.6m y-o-y to £9.5m, helped by the additional sales personnel recruited in H217. Manufacturing revenues increased by £0.8m to £12.9m. The rise was attributable to Creasefield, acquired in June 2016. Elsewhere in the division, significant improvement in both batteries and computing activities did well to offset a one-off order (c £2.5m+) for delivery of a new portable rail ticket printer which benefitted H117. The absence of the high margin printer revenue, lower than expected antenna revenues and a greater proportion of Distribution revenues pulled down group gross margin by 2.8pp to 28.4%. Operating expenses rose by 19%, reflecting a full six months of Creasefield costs and expansion of the sales team. Adjusted profit before tax decreased by 20% to £1.6m. The interim dividend was maintained at 4.0p/share. Inventory rose by £2.4m during H118, partly reflecting strategic purchases made to combat industry-wide component shortages, taking the group from £0.9m net cash at end FY17 to £1.3m net debt at end H118.

Strong order book

The order book, most of which is for delivery in the next 12 months, points to good sales growth in H218 and into FY19. Margins are expected to be subdued throughout the remainder of FY18 as the higher margin antenna contracts are expected to slip into Q119. The situation is expected to improve during FY19 through a combination of higher antenna sales, the first significant orders for obsolete and end-of-life components and better pricing at Creasefield. The consensus estimates remain unchanged since the pre-close update.

Valuation: Trading at a discount to peers

The shares are trading on prospective consensus P/E multiples that are at a discount to the mean for both our sample of specialist manufacturing companies (13.7x for Solid State vs 16.6x) and our sample of value-added distributors (13.7x vs 18.4x). This indicates potential for share price upside 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	31.3	12.0	13.3	2.9
03/17	40.0	3.1	32.0	12.0	13.0	2.9
03/18e	44.2	3.1	30.7	12.0	13.7	2.9
03/19e	46.2	3.4	33.8	12.5	12.3	3.0

Source: Bloomberg. Note: *Adjusted to include only estimates published since trading update.

Price 415p
Market cap £35m

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.
- Investment in sales teams a short-term drag on margins.

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