

Solid State

Technology
10 February 2022

Successfully negotiating supply chain issues

Solid State's trading update this morning notes that the strong performance achieved in both the Systems and the Components divisions during H122 has been maintained so far during H2 despite continued supply chain disruption. Consensus FY22 and FY23 adjusted PBT estimates have both been raised by 10%.

Securing components to fulfil demand

At the interims in December, management noted potential for upside during H222, dependent on careful management of constraints due to supply chain challenges. In the event, the group has been able to secure scarce components and has not needed to delay some shipments into FY23, as had previously seemed likely. Moreover, Active Silicon, which the group acquired in March 2021, performed very strongly, reflecting demand for board level solutions for high-performance digital image capture, processing and transmission driven by increased automation. However, supply chain issues have meant that, as flagged at the interims, the group has absorbed cash in working capital as it has invested in inventory to mitigate the impact of component shortages and in some instances committed to longer order schedules to secure parts. Net cash (ex-IFRS leases and deferred consideration) has dropped from £3.3m at end September to £0.4m at end January 2022. The group has a £3.0m overdraft facility and a £7.5m revolving credit facility.

Record order book supports FY23 growth

The order book at the end of January 2022 reached a record £74.1m, ahead of £70.3m at end November 2021. The increase is partly attributable to two significant contract awards: a \$2.1m order for radio frequency components from new customer CyanConnode and a multi-million-pound contract from BAE Systems to design, develop and qualify computer consoles for maritime platforms. The increase also reflects additional customers placing orders covering longer periods to address concerns about critical component availability.

Valuation: Shares close to highest level for five years

The shares are trading on a year one P/E multiple at a modest discount to the mean of our sample of specialist manufacturing companies (17.5x for Solid State versus 19.0x for peers) and a larger discount to the mean for our sample of value-added distributors (17.5x versus 31.4x).

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	24.9	1.1
03/21	66.3	5.4	54.7	16.0	21.1	1.4
03/22e	80.0	6.5	65.9	19.0	17.5	1.6
03/23e	82.9	6.8	64.7	20.0	17.9	1.7

Source: Company data, broker consensus.

Price 1,155p
Market cap £98m

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 remain.
- 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

[Edison profile page](#)

Solid State is a research client of Edison Investment Research Limited

General disclaimer and copyright

This report has been commissioned by Solid State and prepared and issued by Edison, in consideration of a fee payable by Solid State. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: 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 and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. 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.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, 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 securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. 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, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

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. 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 (i.e. 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.

United Kingdom

This document is prepared and provided by Edison 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.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison 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. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.