

Solid State

Technology
26 October 2022

Exceptionally strong start to year

FY23 has started extremely well for Solid State with strong revenue growth and order intake supported by the acquisition of US-based Custom Power, which completed in August. Following management guidance that FY23 PBT should be marginally ahead of market expectations, consensus PBT estimates have been nudged up by 2% for FY23 and 3% for FY24.

Strong organic growth boosted by recent acquisition

Revenues jumped from £39.0m in H122 to c £59.0m, with c 30% organic growth in constant currency augmented by just under two months of contribution from Custom Power and the beneficial impact of a strong US dollar. Adjusted PBT rose by 54% year-on-year to c £5.0m. The currency uplift to revenues was largely offset by a corresponding rise in input costs as component purchases are typically denominated in US dollars. Margin improvements were therefore the result of even more emphasis on value-added capabilities as well as sales of larger, complex solutions and own brand products, all of which have been made possible by a sequence of acquisitions, including four in the last five years.

Consensus FY23 and FY24 estimates raised

Order intake in the period was strong, resulting in an order book at end September 2022 of £112.5m versus £85.5m at end March 2022, representing like-for-like organic growth of c 12%. Management expects that as a result of the strong trading, combined with further currency benefit in H223, the company will exceed the current revenue expectations and be marginally ahead of the adjusted PBT consensus expectations for FY23. This implies a weaker second half, which seems unlikely given that H223 will include six months' contribution from Custom Power, which is performing well. In our opinion the modest uplift to guidance reflects management prudence because although component supply lead times have started to shorten compared to last year across a number of key suppliers, many lead times remain extended and some devices remain in short supply. Consequently, it remains difficult to predict shipment profiles precisely.

Valuation: Trading at a discount to peers

Despite the dilutive impact of the placing and open offer in July, which raised £28.3m (gross) at 1,025p/share, the shares are trading on a year one P/E multiple at a significant discount to both the mean of our sample of specialist manufacturing companies (15.4x for Solid State versus 23.1x for peers) and the mean for our sample of value-added distributors (15.4x versus 20.4x).

| Consensus estimates | | | | | | |
|---------------------|--------------|-----------|----------|---------|---------|-----------|
| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
| 03/21 | 66.3 | 5.4 | 54.7 | 16.0 | 20.8 | 1.4 |
| 03/22 | 85.0 | 7.2 | 70.6 | 19.5 | 16.1 | 1.7 |
| 03/23e | 117.3 | 9.4 | 73.8 | 20.0 | 15.4 | 1.8 |
| 03/24e | 129.5 | 10.9 | 78.3 | 21.0 | 14.6 | 1.8 |

Source: Company data, broker consensus. Note: *Adjusted for acquisition amortisation, share-based payments and non-recurring charges.

Price 1,140p
Market cap £129m

Share price graph



Share details

Code SOLI
 Listing AIM
 Shares in issue 11.3m

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

- Good track record of identifying and integrating acquisitions.
- Added-value design capability supports long-term relationships with customers and higher margins.
- Core competences in computer, power and communications serving growing markets.

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.

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