

# Solid State

## Good start to FY18 despite antennas delays

Solid State's H118 pre-close trading statement notes an estimated 12% increase in group revenues to £22.5m during the period, demonstrating that management is driving organic growth to complement its successful acquisition programme. Consensus sales estimates have been raised but as some of the high margin antenna programmes have taken longer to secure than management expected, profit estimates have been reduced.

## Strategy drives c12% revenue growth during H118

Distribution revenues rose by c 20%, primarily as a result of recruiting additional sales personnel in H217. Manufacturing revenues increased by c 7%, most of which was attributable to the Creasefield business, acquired in June 2016. Significant improvement in both batteries and computing activities offset a one-off order (c £2m+) for delivery of a new portable rail ticket printer which benefitted H117. Antenna revenues were only slightly ahead of H117 levels because of contract delays. Group gross margin reduced by c 3pp to 28%, as although margins for individual product groups were maintained, the overall result was adversely affected by the absence of the high margin printer revenue, lower than expected antenna revenues and a greater proportion of Distribution revenues in the mix. H118 PBT will be lower than management's expectations.

## Strong order book

While the order book (£18.0m end H118 vs. £14.8m end H117) points to good sales growth, margins are expected to be subdued throughout the remainder of FY18 as the higher margin antenna contracts are expected to slip into Q119 while the sales overhead has been increased. Management expects FY18 performance to be lower than originally anticipated, but anticipates margins to improve during FY19 through a combination of higher antenna sales, the onset of high margin orders for obsolete and end-of-life components and better pricing at Creasefield.

## 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 (13.8x for Solid State vs 18.7x) and our sample of value-added distributors (13.8x vs 18.4x). 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	31.3	12.0	13.5	2.8
03/17	40.0	3.1	32.0	12.0	13.2	2.8
03/18e	44.2	3.1	30.7	12.0	13.8	2.8
03/19e	46.2	3.4	33.8	12.5	12.5	3.0

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

### Technology

25 October 2017

**Price** 422.5p  
**Market cap** £36m

### 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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