

# Solid State

**Technology**
**16 April 2020**

## Record adjusted EBIT expected for FY20

Solid State expects to beat the consensus FY20 adjusted profit before tax estimate, which was upgraded in September, resulting in a further consensus upgrade from £4.2m to £4.5m. All of the group's four sites in the UK remain operational as it is a critical supplier for customers in the medical, food retail, security, transportation and defence sectors, the balance sheet is strong and management has put cash conservation measures in place to cope with the impact of the COVID-19 pandemic.

## Adjusted FY20 EBIT 10% ahead of consensus

Management expects FY20 revenues to be close to the £68m consensus estimate and adjusted profit before tax to be c 10% ahead of the previous estimate of £4.2m (subsequently upgraded to £4.5m). This demonstrates the benefit of the focus on higher margin added-value activities in the Manufacturing division, which has delivered high single-digit organic revenue growth. The Value-Added Distribution division maintained pro forma like-for-like revenues at FY19 levels despite a 7% y-o-y decline in the UK distribution sector overall (source: AFDEC). The group moved from £2.0m net debt at end FY19 to £3.0m net cash at end FY20, of which c £2.5m relates to advance payments which will potentially unwind during FY21. The group also has a £7.5m unused revolving credit facility. Management has not commented on the final dividend, so the consensus FY20 DPS estimate is unchanged.

## Critical supplier designation

The open order book at the end of March was up 11% year-on-year at £39.9m, with £34.5m scheduled for delivery in FY21. All of the group's four manufacturing sites in the UK are currently operational and it holds c 2.5 months stock to reduce supply chain exposure. The group serves customers in the medical, food retail, security, transportation and defence sectors across both divisions and has been advised by them that it has been designated a critical supplier under government's guidance. However, it is experiencing weaker demand from the commercial aerospace and certain niche industrial sectors and the oil and gas industry. Management expects to see some rescheduling of orders into FY22 and is not providing guidance for the year. The brokers have consequently placed their FY21 estimates under review.

## Valuation: Trading at a discount to peers

The shares continue to trade on prospective consensus P/E multiples at a substantial discount to the mean for both our sample of specialist manufacturing companies (9.5x for Solid State vs 14.0x for peers) and our sample of value-added distributors (9.5x vs 20.0x).

### Consensus estimates

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	46.3	3.0	30.9	12.0	13.8	2.8
03/19	56.3	3.5	35.9	12.5	11.9	2.9
03/20e	68.0	4.5	45.0	15.2	9.5	3.6
03/21e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company data, broker consensus. Note: \*Adjusted for exceptionals, share-based payments and amortisation of acquisition intangibles

**Price** 426p  
**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 and higher margins.
- Pacer acquisition adds to value-added distribution portfolio with little overlap.
- Scale attracts new franchises such as Microchip and VPT.

### Bear

- Revenue development dependent on OEM customers' sales and marketing activity.
- Shortening in order book visibility caused by market uncertainty.
- 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](mailto:industrials@edisongroup.com)

**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 £49,500 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 Edison analyst 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 2020 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 Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). 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

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

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 (nor will such persons be able to purchase shares in the placing).

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.

---

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia