

Solid State

Technology
20 November 2018

H119 results as expected, bar DPS increase

As flagged in the trading update last month, Solid State's H119 results show mid-single digit increases in group revenues and EPS. The order book at end H119 was 64% higher than a year previously, underpinning management's expectations of an improved H219 performance in Manufacturing. Although consensus estimates show the acquisition of Pacer Technologies, announced a week ago, delivering meaningful earnings growth in FY20, the shares continue to trade at a significant discount to peers.

Strong growth in value-added distribution

Group H119 revenues rose by £1.0m y-o-y to £23.5m. In total, 51% of the revenues were from the value-added distribution division. Strong underlying growth of 13% y-o-y was augmented by a c £1.0m one-off order and c £0.2m forex tailwinds. Some low-margin manufacturing business delivered in H118 was not repeated, resulting in an 11% y-o-y decline in divisional revenues but contributing to a 70bp improvement in group gross margin. Adjusted diluted EPS rose by 5% to 16.9p, encouraging the board to raise the dividend by 5% to 4.2p/share. Cash (there was no debt) rose by £1.2m to £1.8m, benefitting from £0.9m advanced payments for projects in H219.

Order book underpins H2 manufacturing recovery

The order book at end H119 was £29.6m (64% higher than Sept 2018), of which £18.1m was scheduled for delivery in H219. This includes initial deliveries under the contracts totalling £4.3m for battery packs powering warehouse robots (manufacturing) and the \$3.2m contract for the provision of VPT's military grade power supplies (distribution). Noting the strong order book, management expects an improved manufacturing revenue performance in the second half. It also expects additional business from securing the exclusive VPT franchise, which was announced in April. Consensus estimates remain unchanged after upgrades following the October trading update and the Pacer acquisition, other than increases to DPS of 0.1p and 0.3p per share for FY19 and FY20 respectively.

Valuation: Trading at a discount to peers

The share price has declined from 321p following news of the Pacer acquisition. At current levels, the shares are trading on prospective consensus P/E multiples a discount to the mean for both our sample of specialist manufacturing companies (11.4x for Solid State vs 17.9x for peers) and our sample of value-added distributors (11.4x vs 18.3x). This indicates there is potential for share price upside once the group can demonstrate meaningful profit growth.

Consensus estimates

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 03/17 | 40.0 | 3.1 | 31.4 | 12.0 | 10.1 | 3.8 |
| 03/18 | 46.3 | 3.0 | 30.9 | 12.0 | 10.2 | 3.8 |
| 03/19e | 53.2 | 2.8 | 27.6 | 12.2 | 11.4 | 3.9 |
| 03/20e | 65.0 | 2.9 | 28.5 | 12.4 | 11.1 | 3.9 |

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

Price 316p
Market cap £27m

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 supports higher margins.
- Military and aerospace expertise helped VPT win power conversion solutions franchise.
- Pacer acquisition adds to value-added distribution portfolio with little overlap.

Bear

- Delays affecting high value-added manufacturing projects for government-funded and major infrastructure programmes are commonplace.
- Revenue development dependent on OEM customers' sales and marketing activity.
- Interest on loan to fund Pacer transaction a drag on profits.

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