

Solid State

Technology
9 July 2019

FY19 record for revenues and profits

Crowning a year in which broker consensus was raised three times (twice in response to trading updates and once for an acquisition), Solid State has reported record revenues, profit before tax and dividends for FY19. This is the result of continued strong demand in the Value-Added Distribution (VAD) division, the Pacer acquisition and the anticipated H2 recovery in the Manufacturing division materialising. The consensus FY20 EPS estimate has been raised by 7%. The shares continue to trade at a substantial discount to peers with regards to prospective P/E.

FY19 performance

As flagged in the April trading update, group revenues grew by 22% y-o-y to £56.3m. Some 25% organic growth in the VAD division which benefitted from the VPT franchise, was complemented by £5.7m revenues from Pacer Technologies, acquired in November 2018. Manufacturing revenues declined by 3% as some orders were rescheduled from Q419 to Q120. Importantly, gross margin increased by 1.5pp, despite the higher proportion of VAD revenues, as margins in both divisions benefitted from a focus on value-added activities. Adjusted profit before tax rose by 18% and EPS by 16%, supporting a 4% increase in DPS. Strong underlying operating cash inflow (£4.0m) meant net debt only increased by £2.6m to £2.0m at the end of FY19 even after spending £3.8m on acquisitions and £1.2m building up stock of long-lead time components to support future growth.

Strong order book underpins FY20 progress

The group's open order book at end May 2019 was up 56% on the prior year at £35.9m. After stripping out the Pacer orders, this is 20% higher than a year previously and bodes well for the year ahead. We note potential for incremental value-added sales arising from an enhanced optoelectronic components offer following commencement of production at Pacer's 'assembly-light' capability in March 2019.

Valuation: Trading at a discount to peers

Despite the consensus upgrades, the share price remains close to the 505p peak reached after the April trading update. 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 (13.8x for Solid State vs 16.8x for peers) and our sample of value-added distributors (13.8x vs 18.8x). Moreover, despite Brexit uncertainty, there remains scope for FY20 upgrades depending on Pacer's performance and margin contribution from individual manufacturing contracts.

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	16.4	2.5
03/19	56.3	3.5	35.9	12.5	14.1	2.6
03/20e	68.0	3.7	36.9	12.9	13.8	2.6
03/21e	70.3	4.0	40.3	13.5	12.6	2.8

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

Price **507.5p**
Market cap **£43m**

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.
- 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.
- Interest on loan to fund Pacer transaction a drag on profits.
- Brexit uncertainty appears to have resulted in customers stocking up in Q419 then destocking in Q120.

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