

Solid State

Positive H119 pre-close trading update

Solid State's pre-close trading update notes that group H118 revenues will be c 4% ahead of prior year levels. Moreover, the 64% year-on-year increase in order book at end H119 leads management to believe the group will exceed FY19 market expectations. Consensus EPS estimates have risen by 7.9% and 5.0% for FY19 and FY20 respectively. Despite a favourable response to the news, the shares continue to trade at a significant discount to peers.

Strong growth in Value-Added Distribution

Management notes that group H119 revenues will be c £23.5m, ie £1.0m higher than H118. Just over half of group revenues were from the Value-Added Distribution division. While this benefitted from a c £1.0m one-off order and forex tailwinds, a comparison with the £9.5m divisional revenues reported in H118 shows strong underlying growth. The markets served are in good shape and the division is taking market share as a result of its 'value-add' proposition and investment in the sales team in FY17. Some low-margin Manufacturing business delivered in H118 was not repeated, resulting in a y-o-y decline in divisional revenues but better gross margin for the division and the group as a whole.

Order book underpins H2 Manufacturing recovery

The order book at end H119 was £29.6m (64% higher than end H218), of which £18.1m is scheduled for delivery during H219. This includes the initial deliveries under the contracts totalling £4.3m for battery packs powering warehouse robots (Manufacturing division) and the \$3.2m contract for the provision of VPT's military grade power supplies (Distribution division). 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. Management is continuing with its initiatives for enhancing margin, for example by ensuring that the pricing is reflective of the value in the product/solution that is being provided.

Valuation: Trading at a discount to peers

The share price has picked up from the 241p low following the April trading update. At current levels, 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 (11.8x for Solid State vs 16.8x for peers) and our sample of value-added distributors (11.8x vs 18.0x). 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	10.3	3.7
03/18	46.3	3.0	30.9	12.0	10.5	3.7
03/19e	48.2	2.7	27.3	12.0	11.8	3.7
03/20e	50.0	2.7	27.4	12.0	11.8	3.7

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

Technology

19 October 2018

Price 323p
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.
- Creasefield acquisition created centre of excellence to address demand for power packs for high value-added industrial applications.
- Military and aerospace expertise helped win VPT power conversion solutions franchise.

Bear

- US defence OEMs favour domestic suppliers.
- 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.

Analyst

Anne Margaret Crow +44 (0)20 3077 5700
industrials@edisongroup.com

**Solid State is a research client of
Edison Investment Research
Limited**

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Solid State and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.