

Solid State

Technology
23 April 2021

Continued FY21 outperformance

Solid State has issued a post-close trading update stating that FY21 performance is expected to be ahead of the consensus forecasts, which were upgraded in February to reflect positive trading up to that point. Broker consensus FY21e EPS has been raised by 8%. Consensus FY22 estimates, which were raised twice in March to reflect two separate acquisitions, have not been changed to reflect yesterday's announcement.

Strong finish to FY21

Performance during March was higher than management expectations. Customers pulled forward component orders amid concerns about future availability and severe lengthening of lead times, leading to outperformance. Demand otherwise across the group was generally strong and gross margins are holding up.

Impact of component shortages on FY22 uncertain

On a like-for-like basis, the order book at end FY21 was down 16% year-on-year at £33.7m (£41.3m including acquisitions completed in March 2021) because customers are placing orders covering shorter periods as they are still unsure of future demand in their own markets. However, the open orders scheduled for delivery between April and June 2021 are 10% higher than the 0–3-month open order low point of May 2020, showing resilience in customer demand, and order intake since end FY21 has been particularly strong. In our opinion, the key risk is not demand but component availability, which could potentially affect both the Manufacturing and Value Added Supplies divisions. The group's balance sheet, with c £3.1m cash at end FY21, no debt other than finance leases and an unused £7.5m bank facility puts the group in a good position to withstand any unusual working capital requirements related to supply chain issues. Encouragingly, we note that cross-selling initiatives involving the two new acquisitions are already generating new business, although the main benefit of this will not be felt until FY23.

Valuation: Trading at a discount to peers

Solid State's shares are now at the highest level they have been for five years. Nevertheless, they are still trading on a year 2 P/E multiple at a small discount to the mean for our sample of specialist manufacturing companies (16.0x for Solid State versus 17.1x for peers) and a much larger discount to the mean for our sample of value-added distributors (16.0x versus 33.5x).

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/19	56.3	3.5	35.9	12.5	24.4	1.4
03/20	67.4	4.7	46.3	12.5	18.9	1.4
03/21e	66.0	5.3	51.3	15.0	17.1	1.7
03/22e	78.4	5.8	54.7	16.0	16.0	1.8

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

Price 876p
Market cap £75m

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 added-value 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.
- Core competences in computer, power and communications serve markets growing in response to central government funding priorities.
- 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.
- Potential programme delays because of global semiconductor supply chain issues.

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