

Solid State

Technology
22 October 2020

Resilience through diversity of markets

Solid State's post-close trading update states that, despite the coronavirus pandemic, it expects to announce revenues and adjusted profits for H121 that are similar to those for H120, which was a record first-half performance for the group. Although management notes some delays in order intake and a shortening of client order scheduling related to the uncertainty caused by the pandemic, it currently anticipates that FY21 performance will be similar to that for FY20.

Limited impact of COVID-19 so far in FY21

All of the group's four manufacturing sites in the UK have remained operational during the coronavirus lockdown as it has been designated a critical supplier for customers in the medical, food retail, security, transportation and defence sectors. Demand from the medical, security and defence markets were robust during H121, offsetting weakness in the commercial aviation, oil and gas and certain niche computing applications. Management expects that H121 revenues will be c £33.0m (H120: £33.6m), generating adjusted profit before tax of c £2.5m (H120: £2.7m). Net cash has increased from £3.2m at end FY20 to £3.9m at end September 2020. The group also has a £7.5m unused revolving credit facility. This balance sheet resilience has enabled the group to pay its final dividend of 7.25p/share in September. It also enables management to restart its capex programme and acquisition activities, both of which were paused at the start of the pandemic.

Resilience through diversity of markets served

Although management notes some delays in order intake and a shortening of client order scheduling related to the uncertainty caused by the pandemic, the order book at end September 2020 was only 6% lower than a year previously (£34.3m vs £36.5m). Of this, c £23.7m is scheduled for delivery during H221. While mindful of the potential for further coronavirus lockdowns which could adversely affect both suppliers and customers, management currently anticipates an FY21 outcome that is similar to FY20, which we interpret as £0.2–0.4m lower adjusted PBT (given the £0.2m y-o-y lower performance in H121), equivalent to 38–40p/share.

Valuation: Trading at a discount to peers

The shares trade on historic P/E multiples at a substantial discount to the mean for both our sample of specialist manufacturing companies (12.6x for Solid State vs 21.5x for peers) and our sample of value-added distributors (12.6x vs 26.6x).

Historic performance

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	40.0	3.1	31.4	12.0	18.6	2.1
03/18	46.3	3.0	30.9	12.0	18.9	2.1
03/19	56.3	3.5	35.9	12.5	16.3	2.1
03/20	67.4	4.7	46.3	12.5	12.6	2.1

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

Price **585p**
Market cap **£50m**

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 (November 2018) 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.

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