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Solid State

Industrials

10 July 2024

Record FY24; medium-term targets retained

Solid State is developing from a component manufacturer into a value-added electronics partner offering engineered solutions. Management expects this to drive additional growth and margin expansion, particularly in target markets, such as healthcare and defence, underpinning management's objective for a c 20% CAGR in shareholder returns to 2030.

FY24: A record year

Solid State delivered a record PBT of £15.6m, up 44%, with underlying operating profit of £17.0m, up 47%. This was driven largely by organic growth of 27%, assisted by significant NATO business along with some contract pull-forwards, and adjusted operating margin of 10.4%, up 120bp from 9.2%. Systems division sales increased 80% (to £103.5m) due to the NATO business and the Custom Power acquisition, with margins expanding from 13.9% to 18.7%. Components division sales declined by 13% after an exceptional FY23 led to customer destocking, particularly in the industrial and rail sectors, as confidence in the supply chain returned. EPS increased by 24% to 99.8p. The dividend was raised by 7.5% to 21.5p per share (4.6x covered). Net debt reduced from £8.1m to £4.7m despite higher working capital requirements to support sales growth (£5.6m outflow). Return on capital employed increased to 26.4% from 20.1%. The order book was down 26% from £120.1m to £88.4m (31 May: £89.2m), reflecting the large contracts which worked their way through the business in FY24, leading to management guiding that the exceptional H124 will not be repeated in FY25. Order cover stands at a solid 62% of consensus FY25 sales and management's view for the year is unchanged.

FY25: A year of consolidation

Headwinds from the lower order book and destocking in the broader industrial sector are reflected in the conservative, yet we believe realistic, consensus forecasts for FY25 after the record FY24. Growth is expected to return in FY26, assisted by the increasing value-added strategy, which helped deliver the record FY24, and the company's investment in capabilities and sales.

Valuation: High returns anticipated

Management is targeting 20% compound shareholder returns out to 2030 from a combination of internally driven organic growth supported by investment (note the investment in a new manufacturing facility in Tewkesbury), margin expansion to 12.0% and further corporate activity. The hiatus after the exceptional FY24 will limit short-term sales and profit growth but we believe investors should take confidence in achieving such targets given that Solid State has delivered a CAGR in shareholder returns of c 26% over the last five years.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/23	126.5	10.8	80.7	20.0	18.2	1.4
03/24	163.3	15.6	99.8	21.5	14.7	1.5
03/25e	142.6	10.1	66.0	22.5	22.3	1.5
03/26e	150.0	11.2	72.0	23.0	20.4	1.6

Source: Company reports, broker consensus estimates

Price	1,470p
Market cap	167m

Share price graph

Share details

Code	SOLI
Listing	AIM
Shares in issue	11.4m

Business description

Solid State is a specialist value-added component supplier and design-in manufacturer of computing, power and communications products. It supplies the commercial, industrial and military markets with durable components, assemblies and manufactured units for use in specialist and harsh environments.

Bull

- Ambition to deliver a CAGR of c 20% in total shareholder return to 2030 supported by targeted 17% CAGR revenue and increase in adjusted operating margin to 12%.
- Sustainable growth strategy driven by organic investment and strategic M&A with a good track record of identifying and integrating acquisitions.
- Added-value design capability supports long-term customer relationships and higher margins with core competence in computer power and communications serving growing markets.

Bear

- Revenue development dependent on OEM customers' sales and marketing activity. FY25 will be affected by non-repeat of significant order.
- Current impact from customer destocking although this should reverse as their inventories return to normal.
- Company facilities are largely UK based, providing foreign exchange exposure to non-UK sales.

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