

Solid State

Interim results

Solid State's H125 results are in line with consensus expectations and management's guidance for the full year is unchanged. While trading has been affected by contract timing, the underlying growth and margin strategy remains intact, supported by Solid State's recent acquisitions and investment in a new manufacturing facility.

Interim results

Solid State's first half was affected by a weaker electronics market, an FX headwind of £0.7m and a contract (£10m revenue and £3m profit) that was pulled forward into H224. Revenue was £61.8m, with headline of -29.9% but -3.5% underlying. Gross margin was flat at 31.1% (30.0% previously) and operating margin was 5.1% (down from 9.2%) as it was affected by negative operational gearing from the lower volumes. Solid State had an adjusted PBT of £2.5m (H124: £7.3m), an EPS of 17.5p (H124: 46.8p) and a dividend of 0.83p (H124: 1.40p). Cash flow was positive, with net debt reduced from £3.9m to £2.0m, assisted by a working capital inflow of £4.7m due to the lower activity level. Components Division sales of £26.8m (-14.6%) reflect Solid State's destocking and a slowdown in the industrial and transport sectors. Systems Division sales of £35.0m (-38.2%) were affected primarily by the pulled-forward contract, with underlying organic sales growth of c 6.4%. Both divisions experienced delays in investment programmes, particularly in the UK, with uncertainty from the Strategic Defence Review and a potential re-nationalisation of the railways. Opportunities have been identified in road transportation and traffic management, while the US defence arena remains positive, offering future opportunities. Other operational highlights include a cost reduction programme generating c £1.0m of savings, while investment in the new facility (c £2.0m) continues to schedule with production due to start at the beginning of the next financial year.

Outlook and guidance

Management believe that the electronics sector has bottomed as highlighted by the improving order book, £85.5m at 30 November (£76.6m at 30 September), and significant orders for battery systems. New design wins, a key forward indicator, remain strong. Assisted by the acquisitions of Gateway Electronic Components and Q-PAR Antennas USA, management's guidance for full-year profits is unchanged.

Valuation: Recovery upside

Solid State's recent share performance has reflected the more difficult trading environment. However, the shares trade on an EV/sales multiple of 0.65x for a business with positive underlying growth dynamics and double-digit margin potential (FY24: 10.4%), which can be supplemented by acquisition, supported by the strong balance sheet.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/23	126.5	10.8	16.1	4.0	8.7	2.9
03/24	163.3	15.6	20.0	4.3	7.0	3.1
03/25e	123.1	4.0	5.4	2.5	25.9	1.8
03/26e	132.2	6.0	7.9	2.5	17.7	1.8

Source: Company reports, broker consensus estimates

Industrials

11 December 2024

Price 140p
Market cap £80m

Share price graph



Share details

Code	SOLI
Listing	AIM
Shares in issue	57.0m

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 adjusted operating margin of 12% by 2030 and above-market organic growth through the cycle.
- 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.
- Contract volatility can have a significant impact on operation and profit.
- The shorter lead times being seen affect visibility and forward planning.

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