

Solid State

H1 trading in line; guidance unchanged

Management's strategy is to increase Solid State's internal capabilities, enabling greater product differentiation and value added, particularly in the Systems business. This is expected to increase the addressable market and growth along with offering higher returns, key to the margin target of 12% (FY25 expectation c 8%). Achieving this through organic and inorganic means underpins management's 20% CAGR target for shareholder returns.

Trading update

Trading has been resilient in more challenging markets and in the absence of two large defence orders delivered in the previous year. Revenues for the first half are expected to be c £62m, down from £88m, benefiting from £23.4m of large defence orders. The Systems Division continues to make underlying progress with growth of c 7% to over £35m excluding the large contracts. The Components division continues to face market destocking and shorter lead times/order delays as the sector reacts to economic uncertainty as reported by many peers. Revenues for the division are expected to be c £27m. Management has acted where necessary to address costs and protect profitability. Group adjusted PBT is expected to be c £2.5m, down from £7.3m. Further progress has been made on the growth agenda. Organically this includes new 'Integrated Systems' production capabilities highlighted by the investment in a new manufacturing facility in Tewkesbury. This will drive efficiency and enhanced capabilities to enable greater product value-add. Inorganically the acquisitions of Gateway to enhance distribution capabilities and own brand products and Q-Par USA for antenna production strategy in the US.

Outlook

The order book at the start of the year (March) was £88m, declining to £77m at the half year (September), but the company has seen a strong pick-up since, in particular in Components in the US, with the order book up to £84m (October). Shorter lead times are driving faster conversion of the order book (c 65% of the September order book to convert in H2). Supported by a positive visible order pipeline, particularly in defence, management guidance is unchanged. The company continues to be cash generative with consensus expectation for net debt of £4.8m at the year end.

Valuation: Discounting future potential

FY25 was always set to be more challenging in the absence of the significant defence contracts the previous year. Management is negotiating this headwind and strategy development, especially recent acquisitions, suggesting that the medium-term strategy remains intact, which should drive future value creation.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
3/23	126.5	10.8	16.1	4.0	13.7	1.8
3/24	163.3	15.6	20.0	4.3	11.0	1.9
3/25e	143.9	10.1	13.2	4.5	16.7	2.0
3/26e	153.0	11.5	14.8	4.6	14.9	2.1

Source: Company reports, broker consensus estimates

Industrials
7 November 2024

Price **220p**
Market cap **£125m**

Share price graph



Share details

Code SOLI
 Listing AIM
 Shares in issue 57.1m

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 20% in TSR 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.
- Current customer destocking.
- Shorter lead times being seen impact visibility and forward planning.

Analyst

David Larkam +44 (0)20 3077 5700

industrials@edisongroup.com

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