

Solid State

Industrials
19 November 2024

Defence contract delay affects expectations

The delay of a major contract inevitably has an impact on short-term profitability. Solid State has a strong balance sheet and a growth strategy to develop into a higher value-added electronics components and systems business, as witnessed by the two recent small acquisitions. Post the current hiatus we expect this to drive growth and value creation.

Trading update

The company has been informed that a significant defence programme has been paused, leading to delays in call off from Solid State. Management believes this is temporary, in advance of the UK government's strategic defence review in 2025, and expects deliveries will re-commence in due course. This business will now clearly fall outside the current financial year and likely affect at least the first half of the next financial year. Gross margins for the last two years have been 31–32%, hence the significant drop through (c 30%) expected before management mitigation actions, which take time to put in place. Hence there is an inevitable impact on short-term profitability. Trading across the rest of the group remains positive, as reported in the trading update on 6 November (see our previous [note](#) for details). Interim results (pre-announced sales of £62m and PBT of around £2.5m) are expected to be released in December.

Consensus forecast changes

The loss of sales inevitably has a significant impact on profitability, particularly given the limited time that the company has had to address the issue, hence the expected drop through of c 30%. New consensus forecasts are FY25 sales of £123m (-15% from £144m), FY25 PBT of £4.0m (-60% from £10.1m), FY26 sales of £132m (-14% from £153m) and FY26 PBT of £6.0m (-47% from £11.5m). There is no change to market dividend expectations. Consensus expectations for net debt at the year-end are now at c £4.0m, improving marginally from c £4.8m.

Valuation: Recovery upside

The reduced profitability limits the validity of short-term traditional valuation metrics such as the P/E ratio. More interesting is the EV/sales of c 0.7x for a business expected to achieve double-digit operating margins in the longer term (FY24 adjusted operating margin 10.4%) and a strong balance sheet to support a growth strategy. This highlights underlying value, albeit it may take until the full-year results or beyond to demonstrate performance is back on track.

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	8.4	3.0
03/24	163.3	15.6	20.0	4.3	6.8	3.2
03/25e	123.1	4.0	5.4	4.3	25.0	3.2
03/26e	132.2	6.0	7.9	4.3	17.1	3.2

Source: company reports, broker consensus estimates

Price **135p**
Market cap **£78m**

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 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.
- Contract volatility can have a significant impact on operation and profit.
- The shorter lead times being seen affect visibility and forward planning.

Analyst

David Larkam +44 (0)20 3077 5700

industrials@edisongroup.com

[Edison profile page](#)

**Solid State is a research client of
 Edison Investment Research
 Limited**

General disclaimer and copyright

This report has been commissioned by Solid State and prepared and issued by Edison, in consideration of a fee payable by Solid State. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2024 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.
