

Solid State

Industrials
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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.

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