

# Solid State

**Technology**
**8 December 2020**

## H121 broadly comparable with record H120

As flagged in its post-close trading update, Solid State's revenues and adjusted profits for H121 are similar to those for H120, despite the coronavirus pandemic. While the shortening of client order scheduling related to the uncertainty caused by the pandemic has continued into H221, management notes recent positive trends in order intake and reiterates its view that the FY21 performance will be similar to FY20.

## COVID-19 has had limited impact so far in FY21

Group revenues declined by £0.5m year-on-year to £33.1m. Value Added Supplies revenues were unchanged at £19.5m, supported by the broader portfolio of products offered and the enhanced access to the medical sector following the acquisition of Pacer in November 2018. This contrasts with a 10.5% dip for the UK components distribution market. Manufacturing revenues fell by £0.5m to £13.5m, with rising demand from the security, defence and transportation markets partly offsetting the weakness in the oil and gas and commercial aviation sectors. Group gross margin was stable at 29.9%. Profit before tax (adjusted for share-based payments and the amortisation of acquired intangibles) reduced slightly, by £0.1m, to £2.5m. Net cash increased from £3.2m at end FY20 to £4.0m at end September 2020. The group also has a £7.5m unused revolving credit facility. This balance sheet strength supports the payment of an interim dividend which is unchanged at 5.25p/share. It has also enabled management to restart its capex programme and acquisition activities, both of which were paused at the start of the pandemic.

## Resilience through the diversity of markets served

The shortening of client order scheduling related to the uncertainty caused by the pandemic has continued into H221. However, the order book at end September 2020 was only 6% lower than a year previously (£34.3m vs £36.5m, of which c £23.7m was scheduled for delivery during H221). Encouragingly, the three-month rolling average order intake is currently 8% higher than in September 2020. Management has reiterated its expectation of an FY21 outcome that is similar to FY20. Consensus estimates for FY21 have been reinstated with adjusted PBT of £4.4m, which is the same level as prior to the estimates being withdrawn earlier in CY20.

## Valuation: Trading at a discount to peers

The shares trade on year 1 P/E multiples at a substantial discount to the mean for both our sample of specialist manufacturing companies (15.1x for Solid State vs 17.5x for peers) and our sample of value-added distributors (15.1x vs 29.0x).

### Consensus estimates

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	46.3	3.0	30.9	12.0	21.0	1.8
03/19	56.3	3.5	35.9	12.5	18.1	1.9
03/20	67.4	4.7	46.3	12.5	14.0	1.9
03/21e	65.0	4.4	43.1	12.5	15.1	1.9

Source: Company data, broker consensus. Note: \*Adjusted for exceptionals, share-based payments and amortisation of acquisition intangibles.

**Price** 650p  
**Market cap** £56m

### Share price graph



### Share details

Code	SOLI
Listing	AIM
Shares in issue	8.5m

### Business description

Solid State is a high value-add manufacturer and specialist added-value distributor to the electronics industry. It has expertise in industrial/ruggedised computers, electronic components, antennas, microwave systems, secure communications systems and battery power solutions.

### Bull

- Added-value design capability supports long-term relationships with customers and higher margins.
- Core competences in computer, power and communications serve markets growing in response to central government funding priorities.
- Scale attracts new franchises such as Microchip and VPT.

### Bear

- Revenue development dependent on OEM customers' sales and marketing activity.
- Shortening in order book visibility caused by market uncertainty.
- Delays affecting high value-added manufacturing projects for government-funded and major infrastructure programmes are commonplace.

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