

Solid State

Anticipating record adjusted PBT in FY24

Solid State's trading update affirms the sustained strength in demand throughout H224, resulting in record FY24 revenue and adjusted PBT ahead of prior consensus of £155m and £12.5m, respectively. This is attributable to the earlier-than-expected delivery of a NATO contract. As a result, consensus FY24 revenue and adjusted PBT estimates have been raised by c 6% and c 20%, with respective FY25 estimates declining commensurately.

Strong defence and security demand maintained

Solid State is expected to enjoy FY24 revenue and adjusted PBT growth of over 23% and 16%, exceeding prior consensus of £155.3m and £12.5m, respectively. This is largely attributable to strong growth from the Systems division, with divisional revenue increasing c 80% y-o-y to c £103m, bolstered by strong demand from customers in the defence and security sectors and strong relationships with numerous Tier 1 suppliers. H224 benefited from an earlier-than-expected shipment of a NATO contract, which advanced profit into FY24 (from FY25). The Components division appears relatively subdued when compared to the exceptional FY23, having faced challenges as customers continued to normalise inventories. Nevertheless, the FY25 order book for this division remains encouraging, with shorter lead times and increased levels of operational efficiencies gains anticipated.

Focus on margin enhancement

The company has secured numerous Tier 1 defence and security customers, which will require increased capex and expansion of its 'Integrated Systems' production capabilities. Consequently, Solid State is developing a sales channel for its own brand (Durakool, Antenna, and Optical) products and introducing a new integrated Systems production facility, which should fuel future organic growth and operating margin enhancement, a key focus of the group (medium-term target of 12%). Order cover remains strong and is expected to be at least 55% (exceeding the historical norm of 50–60%) of next year's consensus billings, with shorter lead times enabling more efficient conversion.

Valuation: Strong prospects could challenge discount

Having delivered total shareholder returns averaging 29% annually since FY19, management is seeking to maintain a CAGR of 20% to 2030. Augmenting organic development with strategic M&A should continue to support expansion in Solid State's fast-growing market segments, with a broadening geographic footprint and increasing products and applications. The company now trades at a FY25e P/E in line with peers following the 2025e EPS adjustment.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/22	85.0	7.2	70.6	19.5	18.9	1.5
03/23	126.5	10.8	80.7	20.0	16.5	1.5
03/24e	164.3	15.0	101.2	21.0	13.2	1.6
03/25e	142.6	10.1	66.4	22.0	20.1	1.6

Source: Company reports, LSEG

Industrials

2 April 2024

Price 1,335p
Market cap £151m

Share price graph



Share details

Code SOLI
Listing AIM
Shares in issue 11.3m

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 with adjusted operating margin of 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.
- Still potential for customer destocking as supply chain confidence improves further.
- Inflation challenges being navigated as order book and customer ordering cycles normalise.

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