

Solid State

Returning to trend growth

Solid State has confirmed the strong H124 performance, boosted by a full period contribution from Custom Power combined with the benefit of delivering the NATO contract. Despite the continuing challenges we expect organic growth to resume from the lower trend level of profit excluding the NATO uplift from H224. Following the recent 5% uplift for both revenue and PBT, FY24 guidance and market consensus estimates are unchanged.

Record H124 with strong organic development

As indicated in the October update, H124 revenues were a record and up by 48% at £88.1m (H123: £59.4m), an organic increase of over 35% boosted by the full year contribution from Custom Power, which more than offset the £1m currency headwind. The sales growth was driven by the Systems division where revenues more than doubled to £56.7m (H123 £24.0m) benefitting from the £23m of shipments for the large NATO communications contracts. The Components division remained relatively stable in US dollar terms compared to H223, despite the challenges as customers continued to normalise inventories. H123 was a very strong comparison with record customer demand and H124 revenues were 11.2% lower year-on-year at £31.4m (H123 £35.3). While there was some margin dilution in Systems due to the nature of the NATO contract, group adjusted operating margins were broadly stable at 9.2%. Adjusted PBT rose 39% to £7.3m (H123 £5.2m). Net debt excluding leases fell to £4.9m (FY23 £8.1m) with all deferred acquisition considerations settled.

Period of consolidation expected

Management expects FY24 organic revenue growth to be in excess of 15% as performance in H224 settles back to the underlying growth trajectory (ie excluding the NATO contract benefit). Challenges remain as customers continue to normalise inventory levels, but encouragingly order intake has been strong since the half year with the backlog increasing to £108.6m at the end of October from £99.7m at H124. The strategy continues to support the 2030 ambition, building a diverse customer base and product offering that can extend international reach in its target growth markets of security and defence, medical, transport and industrial.

Valuation: Shareholder return ambition undiminished

Solid State's FY25 P/E discount versus its peers is currently 10%. While growth returns to trend following the bumper H124 performance, management's ambition of 20% CAGR in TSR by 2030 remains undiminished, supported by a target of 17% CAGR in sales with 12% adjusted operating margins.

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	18.7	1.5
03/23	126.5	10.8	80.7	20.0	16.4	1.5
03/24e	155.3	12.5	85.3	21.0	15.5	1.6
03/25e	152.3	12.5	83.2	22.0	15.9	1.7

Source: Company reports, broker consensus estimates

Industrials

6 December 2023

Price 1,320p
Market cap £149m

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 (TSR) 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.

Analysts

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