

MORNING COMMENT

Buy

Unchanged

Price 65.5p
Target 81p (unch)

Reuters/BBG Index Sector Market Cap
SND.L / SND LN FTSE AIM Software & Computer Services £34m

Sanderson Group~

H1 Results

This morning's results – which were well flagged in the trading update of 23 April – show progress on a number of fronts and put SND on course to hit our FY expectation. Key standouts include a strong performance by recent acquisition One Iota; an increase in the level of recurring income to £4.4m; and a strong increase in the H1 dividend payout (which leads us to raise our FY expectation by 12%). Sanderson's valuation remains attractive (current year P/E of 15x versus a software peer group on closer to 20x) and we therefore reiterate our Buy recommendation. This is supported by a strong balance sheet showing net cash of £5.1m (approaching 10p a share).

- Interims in a nutshell** Revenue increased by 25% to £7.94m including first-time contributions from Priam and One Iota (the latter adding £788k). Contracted recurring revenue increased to £4.41m, ~56% of total revenue. Gross margin was maintained at 87% which led to an adjusted EBIT outcome 20% higher at £1.21m. At an adjusted PBT level (stripping out exceptional acquisition costs and amortisation), SND reported a £1.14m outcome, 23% ahead of the £930k in H1 last year. EPS on the same basis was 6% higher at 2.0p. The big surprise was the dividend with a 23% increase in the H1 payout to 0.8p having positive implications for the FY outcome.
- Retail was the driver once again** SND's Retail division witnessed a 39% increase in revenue and a 31% improvement in adjusted EBIT, this was driven by acquisitions but also a number of large orders from existing accounts as well as 7 new customers. Growth at Manufacturing was more modest (+9%) with a decent performance at Food & Drink helping to offset a disappointing below expectation outcome at Non-Food. The latter has reduced its cost base and the H2 outlook is said to be much improved. Future emphasis and investment will likely be directed towards Food & Drink as well as developing the range of solutions for mobile and e-commerce business.
- Order book robust, FY forecasts maintained** SND starts H2 with an order book of £2.47m, well ahead of last year's £1.58m and the £1.94m (pre-One Iota) reported at the start of the year. This puts SND on course to hit our FY expectations which we maintain this morning. The only exception is the FY dividend forecast which we hike to 1.8p (from 1.6p) whilst increasing the FY15 expected payout from 1.7p to 1.9p.
- Valuation attractive, 2.7% yield is also a key differentiator** SND sits in a sector where established quality operators with decent levels of recurring revenue attract high multiples, eg Tracsis 25x, Proactis 20x, Netcall 24x. We continue to believe SND is capable of justifying a current year P/E of at least 18x hence our target price of 81p. An upped FY dividend expectation of 1.8p for the full year takes the yield to 2.7%, well above the peer group average of around half that.

~WH Ireland provides paid for research services

Marketing Communication

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| Y/E Sep | 2012A | 2013A | 2014E | 2015E |
|------------------|-------|-------|-----------|-----------|
| Revenue (£m) | 13.4 | 13.8 | 16.0 | 17.1 |
| WHI PTP (£m) | 1.9 | 2.2 | 2.7 | 3.0 |
| WHI EPS (FD) (p) | 3.8 | 4.1 | 4.5 | 4.7 |
| P/E (x) | 17.2 | 16.0 | 14.6 | 13.9 |
| DPS (p) | 1.2 | 1.5 | 1.8 (1.6) | 1.9 (1.7) |
| Yield % | 1.8 | 2.3 | 2.7 | 2.9 |

Source: WH Ireland estimates

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