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Sanderson Group (SND)

Software & Computer Services

Sanderson Group has demonstrated its resilience during the recent tough trading period, managing to produce commendable results. The software and IT services group has a high quality client base and although many of these businesses have also had a tough time of late, figures so far have been reassuring. However, the group is not getting carried away and remains mindful of the fragile state of the UK economy.

The group can boast a long and successful track record and although it may be proving difficult to maintain an acceptable level of profitability at present, it should be remembered that solid profits have been generated consistently in the past. Strong cash flow has also been a feature and going forward this should help the group to achieve its aim of reducing debt.

The latest results, covering the six months to 31 March, have benefited from the improved business momentum experienced from the autumn. The group has reduced its operating costs and improved its market position and, at the end of March, the order book had grown by 50% since the end of September 2009.

In January, Chairman Christopher Winn bought almost 10.8m shares from Alchemy Partners at 20p per share to take his holding to a shade under 30%.

Although the trading performance has improved and the share price has recovered sharply from its low of last August, the shares still only stand on a prospective p/e ratio of 5.4x, providing scope for a re-rating.

Activities

Sanderson Group was established in 1983 and has grown both organically and through acquisitions. The group operates as a supplier of innovative software solutions and IT services. There is a heavy bias towards the UK market, specifically the multi-channel retail and manufacturing sectors. Long term relationships are built with clients, who tend to be organisations with turnover between £5m and £250m.

Multi-Channel Retail - the group has a wide range of IT solutions, products and services which are aimed at businesses that sell via retail stores, mail order, wholesale and online. These include EPoS systems, retail management systems, e-commerce software, multi-channel software, mail order management and wholesale IT systems. Services include maintenance and support, IT and managed services, hardware and installation. Customers include Harrods, Selfridges, Tie Rack, Thorntons and French Connection.

Manufacturing - software solutions have been created for manufacturing, with some applications designed specifically for the print and food sectors. The Unity ERP (enterprise resource planning) system has been developed using the group's experience in dealing with the manufacturing sector. Formul8 is designed to manage all aspects of food production and distribution and Unity MIS (management information system) is a modern print business system. Unity SBE improves the management and planning of internal resources of smaller businesses.

Results and Consensus Forecasts

Year to 30th September	Revenue (£m)	Pre-Tax Profit* (£m)	Earnings per share* (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2008A	27.6	3.22	9.6	2.3	1.4	6.2
2009A	24.9	1.40	5.0	4.5	0.4	1.8
2010E	25.5	1.95	4.2	5.4	0.5	2.2
2011E	27.0	2.50	5.4	4.2	0.7	3.1

* before exceptional items and impairment costs

KEY DATA

Share Price:	22.5p
Prospective p/e ratio:	5.4x
Prospective net yield:	2.2%
Market Capitalisation:	£9.8m
Next Results Due (Fins):	DEC
Gearing:	46%

SHARE PRICE PERFORMANCE

2009/10 High/Low: 27.5p/8.5p

SNAP BULLETS

- Interim results demonstrated resilience
- Solid cash generation despite tough trading conditions
- Borrowings under control with net debt being paid down
- Commitment to a progressive dividend policy
- Board remains cautious due to uncertainty over the UK economy
- Prospective p/e ratio of just 5.4x provides scope for re-rating

Date of Report : 20 July 2010

COMPANY DATA

Stockbrokers:
Charles Stanley

Significant Shareholdings:

C Winn Esq, Chairman - 29.97%
AXA Framlington IM - 9.21%
ISIS EP LLP - 6.92%
Chelverton AM - 6.29%
Hargreave Hale & Co - 4.99%
Polar Capital Partners - 4.38%
Unicorn Asset Management - 3.55%

Contact Address:
Sanderson House
Manor Road
Coventry
CV1 2GF

www.sanderson.com

Information:
Christopher Winn - Chairman
Adrian Frost - Finance Director
t - 02476 555466

Interim Results

In the six months to 31 March 2010 the group managed to produce better results than in the same period a year earlier. Revenue came in at £13.3m (2009: £13.0m) and adjusted operating profit, before amortisation of acquisition-related intangibles and share-based payment charges, was £1.4m versus £1.1m a year earlier. At the pre-tax level, adjusted profits were £748k (2009: £93k) and earnings per share on the same basis were 1.7p (2009: 0.5p). The interim dividend was increased by 25% to 0.25p per share and a progressive dividend policy is anticipated moving forward.

Cash generated from operations was £1.8m (2009: £1.5m) and this allowed net debt to be reduced to £9.0m (September 2009: £10.0m). There is a commitment to cut the level of net debt and further reduction should be achievable even though there is also a determination to improve upon the current dividend payout.

In the multi-channel retail business, revenues rose to £10.2m (2009: £10.0m) helped by a general improvement in activity levels. 11 new customers were gained during the six month period (2009: 6 new customers) including Hamleys and Aquascutum. The average value of new customer contracts was £156k versus £60k a year earlier. This, along with some large orders from existing customers, such as The Factory Shop and English Heritage, meant that the order intake in the first half was £6.4m, which compares with £10.6m achieved in the last full year. The order book stood at £2.6m at 31 March (30 September 2009: £1.4m) and most of these orders will be delivered in H2.

In manufacturing, revenue increased to £3.1m (2009: £3.0m) and recurring revenues now account for 58% of revenue in this business segment. New customers were also gained, including Bromford Industries (aerospace), Piroto Labelling (print), Susan Day Cakes (Australia) and MacSween of Edinburgh (food) compared with just one in the same period last year.

Prospects

The interim results confirmed that progress is being made despite the tough trading environment. However, the group is mindful that many of its customers are facing a challenging time and that the UK economy is only moving slowly out of recession. This cautious approach is healthy and should ensure that current forecasts are realistic even if economic recovery is relatively slow in materialising.

It is pleasing to see that the level of net borrowings is being reduced given current circumstances. Management is committed to reducing the level of debt held and last August new financing arrangements were announced. A new term debt facility is now in place and the agreement sees the term extended to June 2014. Over 50% of revenue comes from annual licence, support and maintenance contracts which provides a degree of visibility of earnings.

The group's performance in the current economic downturn has been solid to date. The order book is now in good shape and the quality of the group's clients suggests that there is a bright long term future ahead. Although the share price has recovered strongly from the low of 8.5p reached last year, it still translates into a market capitalisation of under £10m. Given that net debt stands below this level, the value placed on the equity could move significantly higher when trading conditions improve. The progressive dividend policy should also attract income seekers in the medium to long term and both history and ongoing cash flow indicate that higher dividends are realistic.

1 Skipton Road
Ilkley
West Yorkshire
LS29 9EH

Tel : 01943 886602
Fax : 01943 886601
Email : info@brokerlink.co.uk
www.brokerlink.co.uk

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