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## Sanderson Group – Positive Trading Update; Reiterate Target Price of 58p and Recommendation of Buy

Sanderson Group, the software and IT services business specialising in the multi-channel retail and manufacturing markets, this morning released a positive trading update for the financial year ended 30<sup>th</sup> September 2011, which confirmed that the group continued to generally trade well and that profits are in line with expectations.

Overall, the group has continued to experience good trading momentum in its Manufacturing and Multi-Channel businesses although, unsurprisingly, the high street Retail market is becoming increasingly challenging. Nevertheless, the group continues to gain new customers, especially the Multi-Channel business, which has a focus on online sales, ecommerce and catalogue business.

Sanderson has further improved its market position through continued and increased investment in product innovation as well as in sales and marketing. The group launched new SaaS and Cloud products earlier in the year, while, to date, its new 'green' IT products have won over £0.5 million of orders and future sales prospects remain good.

Although the outlook for the general economy remains uncertain, the group has successfully refinanced on more favourable terms, improved its competitive position, successfully launched new products and retains a strong order book, which encourages us to maintain our existing 2012 forecast; we will introduce a forecast for the financial year to 30<sup>th</sup> September 2013 following the release of the 2011 full year results in November.

We continue to value Sanderson on a 2012 P/E multiple of 10x or 58p per share, a still substantial discount to the sector's 14.5 x multiple. Nevertheless, as the group continues to deleverage the balance sheet and grow its order book, we expect that valuation gap to continue narrowing. Moreover, an investment is supported by an attractive and growing dividend yield. Therefore, with the shares trading at 29p and an undemanding target price of 58p we reiterate our recommendation of **Buy**.

### Forecasts Table

Year ending	Revenues (£ million)	Adj. Pre-tax profits (£ million) <sup>1</sup>	Adjusted EPS (p) <sup>1</sup>	PE Ratio (x)	Dividend per share (p)	Yield (%)
30 September						
2009A	24.9	1.1	4.2	6.9	0.5	1.6
2010A	27.0	1.9	3.6	8.0	0.6	2.1
2011E	27.3	2.4	4.7	6.1	0.8	2.8
2012E	28.5	3.2	5.8	5.6	1.0	3.4

Source: Growth Equities & Company Research; Notes:<sup>1</sup> before exceptional items, share based payments, goodwill impairment & amortisation.

### Key Data

EPIC	SND
Share Price	29p
Spread	28p - 30p
NMS	2,000
Total no of Shares	43.53 million
Market Cap	£12.6 million
12 Month Range	24.5p - 39p
Market	AIM
Website	<a href="http://www.sanderson.com">www.sanderson.com</a>
Sector	Software & Computer Services
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