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Sanderson Group – Disposal & Trading Update. Reiterate 'Buy' at 33p, Target Price: 55p

Sanderson Group has sold its business specialising in electronic point of sale solutions to major high street retailers (Sanderson RBS Ltd) for £11.5 million in cash, with a further £0.15 million payable unconditionally on 6th April and a further £0.1 million payable dependent upon receipt of specific customer payments. The move transforms the company's balance sheet – leaving a positive net cash balance of approximately £4 million – and positions the company strongly to growth both organically, through investment in new products and services, and acquisitively as opportunities arise in the current challenging economic environment. Despite this environment, Sanderson maintains positive trading momentum – which now looks even more unreflected in the share price. We reiterate a stance of **buy**.

Key Data	
EPIC	SND
Share Price	33p
Spread	31p – 35p
12 Month Range	25p – 39.65p
Market Cap	£14.4 million
Total no. of shares	43,525,946
Market	AIM
Website	www.sanderson.com
Sector	Computer Services
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The RBS business generated an operating profit of £1.41 million in the year ending 30th September 2011, with net assets at that period end of £3.56 million. Considering the clear headwinds facing high street retailers and that Sanderson noted in its November results announcement that it was seeing *"more challenging trading conditions on the high street"*, the price looks a decent one – particularly with the deal providing the balance sheet ammunition for the company to invest in higher growth areas and the valuation implications it has for the continuing operations.

Recent new business wins have particularly come from companies operating in the catalogue and online sales, ecommerce and wholesale distribution areas – and Sanderson is to now place special emphasis on the further enhancement of its online sales and ecommerce solutions. As such, and with order intake in the (remaining) manufacturing and multi-channel businesses at the end of the company's first quarter (to 31st December 2011) almost 10% ahead of the comparative period of the previous financial year, the strategy is to now *"enhance the group's presence in its core markets of multi-channel retail and manufacturing"*.

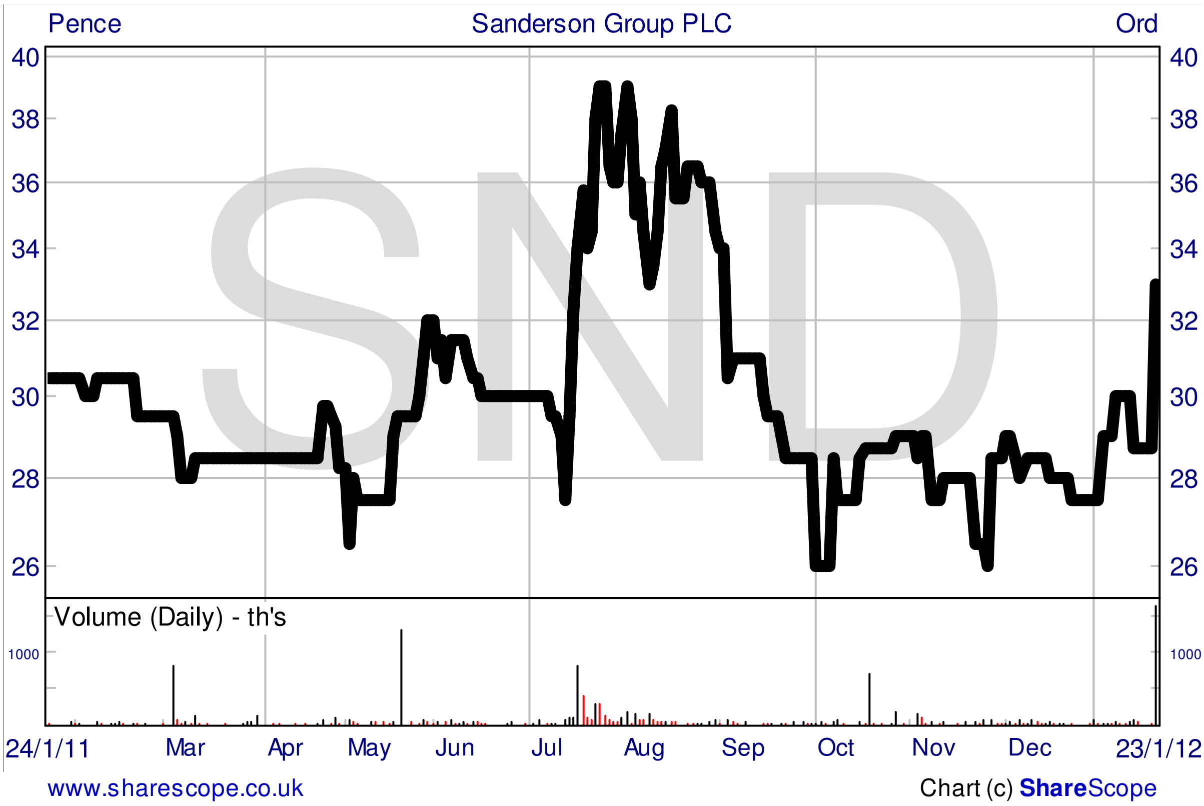
In terms of valuation implications, we lower our current year revenue forecast from a previous £27 million to £15.25 million and earnings per share by a slightly lower percentage, from 6.7p to 4.0p. We then see earnings per share rising to 4.5p next year as the company benefits from its streamlined focus on the higher growth areas of its business.

At 30th September 2011 Sanderson had net debt of £6.72 million and thus, at the current 33p share price, the Enterprise Value would have been £21.1 million. The company has now sold off 40% of its current year anticipated earnings and less than 20% of its 30th September 2011 stated net assets for more than £11.5 million – with that sold off the part of the business which looked to have the least attractive growth profile and returning the company to a net cash position, which is seen as a significant positive in current markets. As such, the prospective earnings multiples of 8.3 this year, falling to 7.3 next (6, falling to 5.3 on an ex-cash basis) look much too low. Given the company's growth prospects and demonstrable cash generation, we consider a rating of 10x forward earnings + net cash comfortably justifiable. This suggests a target price of 55p and, given the disparity between this and the current share price, we reiterate our stance of **buy**.

Financial records & forecast table

Year to 30th September	Sales (£million)	Pre-Tax Profit (£million)	Earnings Per Share (p)	Price Earnings Ratio (x)	Dividend (p)	Yield (%)
2010A	37.0	1.91	3.9	8.5	0.60	1.8
2011A	26.42	2.34	5.5	6.0	0.75	2.3
2012E	15.25	1.75	4.0	8.3	1.0	3.0
2013E	14.0	2.25	4.5	7.3	1.25	3.8

Source: Company and Growth Equities & Company Research



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