

MORNING COMMENT

BUY

Unchanged

SANDERSON GROUP

Increase in target price to 50p (44p) post-Sanderson RBS sale

Price 36p
Target price 50p

Reuters/BBG Index SND.L / SND LN FTSE AIM
Sector Software & Computer Services
Market Cap £15.6m

Following the sale of Sanderson RBS, the high street retail facing division of the software and IT Group, we have now revised our forecasts to reflect the remaining businesses going forward. Despite the reduction in sales and profits due to the disposal, we believe the quality of earnings of the enduring businesses and the massively enhanced balance sheet, provides scope for a valuation uplift. We reiterate our BUY rating and raise our target price from 44p to 50p equating to a 2013 EV/EBITDA multiple of 6.6x.

- Having been disposed of just over 3 months into FY2012, we estimate that Sanderson RBS will still have contributed £2.3m to the top line. Our current estimates assume the remaining Multi Channel Retail and Manufacturing divisions remain relatively flat. Given that in Q1 2012, order intake was almost ten per cent ahead of the comparative period of the previous financial year, we believe it is highly possible our forecasts will be beaten, but, given the uncertainty surrounding UK economic growth, we remain cautious for now. We forecast total group revenue of £15.4m for FY 2012.
- Sanderson RBS's top selling solution was Retail J. As the only solution in the Group for which it was a re-seller, this was dilutive to margins. We see gross margins rising 430 basis points to 76% in FY12, improving further to 80% in FY13. This should help EBITDA margins to rise from 14.2% in 2012 to 16.6% in 2013.
- Although there will be no contribution from Sanderson RBS in 2013 we see momentum continuing in the existing businesses, particularly in multi channel which is enjoying structural growth in demand for software systems. Therefore we predict 5% underlying growth which will offset much of the loss of revenue from RBS and see total revenue of £13.8m. Whilst this is a £0.3m decline in total revenue we anticipate a 15% increase in pre-tax profits to £2.2m. This assumes no contribution from acquisitions which the Group may currently be assessing.
- We do not believe that the acquirer of Sanderson RBS, Torex, is a direct competitor to the Group's continuing businesses. Whilst EPOS systems is still part of the business mix for Sanderson it is not its key attraction. As more retailers seek to diversify their sales streams, we believe the Group is well placed to win new customers, and we are encouraged by the interest in newer Green IT and SaaS products for manufacturers.
- The shares trade at just 8.6x 2013 earnings, a discount of circa 40% to the sector. **Our target price of 50p** places the shares on a 12x multiple of 2013 earnings and is supported by our DCF valuation. With our FY12 dividend projections unchanged the shares yield 2.8%. Sanderson will next update investors at the AGM on 15 March.

Y/E September	2010A	2011A	2012E	2013E
Turnover (£m)	27.0	26.4	15.4	13.8
WHI PTP (£m)	1.9	2.3	1.9	2.2
WHI EPS (p)	3.6	5.1	3.9	4.2
P/E (x)	10.0	7.1	9.2	8.6
EV/EBITDA (x)	6.9	6.4	4.7	4.0
Dividend (p)	0.6	0.8	1.0	1.2
Yield (%)	1.7%	2.2%	2.8%	3.3%
Net Funds/(Debt) (£m)	(7.8)	(6.7)	5.2	6.4

Source: WH Ireland estimates

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Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

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Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

Disclaimer

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Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the quarter ending 31 December 2011 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	44	81%	27
Speculative Buy	2	4%	2
Outperform	2	4%	2
Market Perform	5	9%	5
Underperform	1	2%	0
Sell	0	0%	0
Total	54	100%	36

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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