

MORNING COMMENT

BUY Sanderson Group*

Unchanged

Price 40p
Target 50p

Reuters/BBG Index SND.L / SND LN
Sector Software & Computer Services
Market Cap £17.5m

Interims – Strong margin progression and solid order book

Sanderson Group, the software & IT services business specialising in the manufacturing and multi-channel retail market, yesterday released results for the half year to 31 March 2012. The first results to be published post the £11.75m disposal of the high street retail facing arm show a change in mix to higher margin business as the company concentrates its efforts on leveraging its proprietary software and 'owned' services. Although underlying revenue was down from £7m to £6.1m, gross margins were up 3 percentage points to 84%. Continuing PBT was up 13% to £413k. We retain our 50p price target and BUY recommendation.

- Continuing operating cash flow of £728k was encouraging and following the sale of Sanderson RBS a net debt position of £7.2m has been reversed leaving net funds of £3.6m.
- The assumptions behind our 2012 and 2013 forecasts remain unchanged. However we have restated them to reflect continuing operations only. As such we are forecasting 6.8% fall in underlying annual revenues to £13.1m suggesting a 13% improvement in H2 over H1, and underlying operating profit growth of 34% half on half equating to a full year number of £1.9m, a margin of 14.3% compared to 12.5% for the business as a whole in 2011. Of our H2 revenue projection, 83% is already accounted for by recurring revenue and forward orders.
- Looking ahead, the order book was up 17% to £1.95m with much of it deliverable in H2 and the Board is confident of the Group's ability to achieve full year targets in spite of continuing 'challenging' conditions.
- Sanderson Group is a resilient and robust business with high levels of recurring income (62%), exposure to the structural growth in multi-channel retailing (MCRS), and diverse industries under the manufacturing umbrella. Momentum is strong in MCRS with order intake up 25% and in manufacturing the Board is confident of an improved trading performance in H2. Client wins of note during the period include Toni & Guy and Barrington Sports
- Our target price of 50p puts the company on a 12x 2013 earnings multiple and EV/EBITDA of 7.2x. This compares favourably to a sector average forward PE ratio of 13.1x.

*WH Ireland provides contracted research services to this company. This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

Analyst

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Estimates y/e Sep (£m)	2010A	2011A	2012E*	2013E*
Turnover	27.0	26.4	13.1	13.8
WHI PTP	1.9	2.3	1.8	2.2
WHI EPS (p)	3.6	5.1	3.5	4.2
P/E (x)	11.1	7.8	11.4	9.5
EV/EBITDA (x)	7.4	6.9	6.2	5.3
Dividend (p)	0.6	0.8	1.2	1.4
Yield (%)	1.5%	2.0%	3.0%	3.5%
Net funds/ (debt)	(7.8)	(6.7)	4.5	5.4

Source: WH Ireland estimates *From continuing operations only

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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.

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 March 2012 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	59	83%	36
Speculative Buy	6	9	3
Outperform	5	7	4
Market Perform	1	1	1
Underperform	0	0	0
Sell	0	0	0
Total	71	100	44

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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