

# Sanderson Group

Update  
27<sup>th</sup> October 2014

## Strong Trading Update

Ahead of its full-year results, Sanderson has announced a strong trading update that is in line with our expectations. The Software and IT services company added it is maintaining its progressive dividend policy, a healthy balance sheet, and that its strong order book provides it with a reasonable level of confidence that it will make further progress. Accordingly, being prudent, we keep our forecasts unchanged for the time being. We will be providing FY16 forecasts on the back of the results, which are scheduled for release on 25<sup>th</sup> November. We continue to be impressed by the high level of recurring revenues, strong and growing range of products and services, growing presence in the catalogue, online sales and ecommerce markets, strong balance sheet and cash generation. Our stance remains buy, with a target price of 90p.

### Trading update in-line with expectations

For the 12-months ended 30<sup>th</sup> September 2014, revenues rose by 16% to >£16m (FY13: £13.8m) and adjusted operating profit grew by 22% to £2.7m (FY13: £2.22m), indicating an improvement to operating margins. The balance sheet remains strong with a cash balance of >£6m. Order intake rose by >10% and the value of contracts signed with new customers grew by >15% to £1.9m (FY13: £1.60m). The order book at year-end increased by 20% to £2.4m. The continuous development of its own proprietary products and services has enabled further growth especially in the areas of warehouse automation which are deployed on mobile devices. One iota, which was acquired in Oct. 2013 has performed very well, with both revenue and profit doubling. In fact, in September, One iota secured its largest order to date, worth >£400k. The order is expected to be installed, delivered and deployed over the course of the current financial year.

### Financial forecasts

For FY14, we are forecasting a gross profit of £13.85m on revenues of £16.10m. With new product development accounting for over £4m of new sales over the last 5 years, we expect the group to continue its investment in product innovation, as well as sales & marketing, and are forecasting adjusted PBT of £2.67m. We maintain our DPS forecast at 1.80p. For FY15, we are forecasting a gross profit of £14.88m on revenue of £17.30m. Our adjusted PBT and DPS figures remain unchanged at £3.20m and 2.0p, respectively.

### Valuation

Given the strong progress made, we continue to see a rating of 15 times forward earnings + net cash as justifiable for setting our target price of 90p. The prospective yield of 3.05% is also attractive.

## Buy

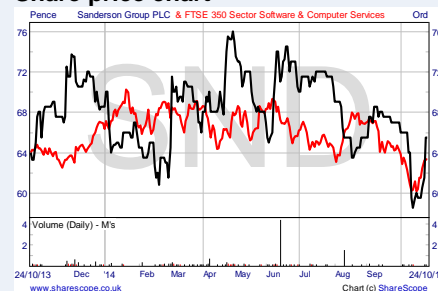
**Target price**

**90p**

### Key data

Share price	65.50p
52 week high/low	76.00p/58.50p
Primary exchange	AIM
EPIC	SND
Shares in issue	54.06 m
Market Cap	£35.41 m
Sector	Software & Computer Services

### Share price chart



### Analyst details

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Table: Financial overview

Year to 30 <sup>th</sup> Sep.	2012A	2013A	2014E	2015E
Revenue (£'000)	13,374	13,828	16,100	17,300
PBT* (£'000)	1,613	2,186	2,670	3,195
EPS* (p)	3.80	4.42	4.72	5.19
Dividend (p)	1.20	1.50	1.80	2.00
Yield (%)	1.83%	2.29%	2.75%	3.05%

Source: GECR and company.

Notes: \*Adjusted

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