

## MORNING COMMENT

### Buy Sanderson Group~

Unchanged

#### Pre-close Trading Update

Price 61.5p  
Target 81p (unch)

Reuters/BBG	SND.L / SND LN
Index	FTSE AIM
Sector	Software & Computer Svs
Market Cap	£33m

**SND's pre-close update this morning is a timely opportunity to re-examine a stock trading some 20% below its April peak and offering a 3%+ current year yield. The company is trading well and on course to hit our FY expectations with last year's acquisition of One iota performing particularly well and securing its largest order to date. Whilst SND's growth profile is at the steadier rather than spectacular end of the spectrum, its dependable and growing earnings stream makes it a perfect bolt hole from current malaise in the sector and indeed wider market. The rating of 13.1x likely current year earnings is too low particularly set against others such as Tracsis (20.6x), Craneware (21.5x) and Netcall (20.7x). We remain Buyers with an 81p target.**

- Key takeaways from today's update** SND reports that revenues will be in excess of £16m (WHI est £16.0m) with adjusted operating profit to exceed £2.7m (WHI PBT £2.7m). Furthermore, the balance sheet has continued to strengthen with net cash now standing at just over £6m against £5.1m at the March half-year end. SND starts the new year with an order book of £2.4m, c. 20% ahead of the £1.94m (pre-One iota) reported at the start of last year and 10% ahead on a like-for-like basis. We expect all of this to be booked in the current financial year where we leave forecasts unchanged.
- One iota performing well** To us, one of the attractions of last year's acquisition of One iota was its ability to sex-up the SND business. One iota provides cloud-based, multi-channel retail solutions accessed across mobile, tablet and in-store devices with social media integration capability, exactly the sort of functionality required by the more successful and emerging retail brands. As part of the larger, better resourced Sanderson group, this business is performing exceptionally well with revenue and profit more than doubling compared to its last financial year prior to acquisition. Towards the end of the financial year, One iota secured an order worth in excess of £400k, its largest to date, with this is expected to be booked in the current financial year.
- Valuation attractive, dividend lends further support** SND sits in a sector where established quality operators with decent levels of recurring revenue attract high multiples and SND's 13.1x rating is a stand-out at the lower end. We continue to believe the shares are capable of justifying a current year P/E of at least 18x supported by the rock-solid balance sheet (£6m+ cash) and a growing 3.1% dividend yield. This morning's update should be the catalyst for share price recovery and we remain Buyers with an 81p price target.
- Sanderson expects to announce prelims on Tuesday 25 November.**

-WHI Ireland provides paid for research services to Sanderson Group

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

#### Analyst

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Y/E Sep	2012A	2013A	2014E	2015E
Revenue (£m)	13.4	13.8	16.0	17.1
WHI PTP (£m)	1.9	2.2	2.7	3.0
WHI EPS (FD) (p)	3.8	4.1	4.5	4.7
P/E (x)	16.2	15.0	13.7	13.1
DPS (p)	1.2	1.5	1.8	1.9
Yield %	2.0	2.4	2.9	3.1

Source: WHI Ireland estimates

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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 Mar 2014 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	49	63	26
Speculative Buy	15	19	12
Outperform	4	5	3
Market Perform	8	11	3
Underperform	1	1	0
Sell	1	1	0
<b>Total</b>	<b>78</b>	<b>100</b>	<b>44</b>

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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#WH Ireland makes markets in this stock

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