

## MORNING COMMENT

### BUY

Unchanged

Price 46p  
Target price 57p

Reuters/BBG SND.L / SND LN  
Index FTSE AIM  
Sector Software & Computer Services  
Market Cap £20.1m

## Sanderson Group~

**Prelims mirror strong trading statement. Target price up to 57p (55p)**

Sanderson Group, the software & IT services business specialising in the manufacturing and multi-channel retail market has today released preliminary results which are marginally ahead of our expectations, as forewarned by the 23 October trading update. Despite a 4.9% fall in revenues from continuing operations, margin improvements drove continuing operating profit up by 12% to £1.9m. At £13.4m, sales were 2% ahead of our expectations with adjusted PBT 11% ahead of forecasts at £2.0m. Adjusted EPS came in at 3.8p vs our expectation of 3.5p. The proposed final dividend is 0.7p (0.45p) equating to a 60% increase in annual payout to 1.2p.

- The results reflect a marked improvement in H2 which contributed an additional £1.1m in revenues vs H1, and a further £0.3m of profit. The Group expects a smoother revenue profile in future years. The £11.75m sale of Sanderson RBS has transformed the balance sheet, SND ending the year with net cash of £4.1m vs net debt of £6.7m.
- The Group notes the continuing uncertain environment but a 40% improvement in the order book to £1.9m gives us confidence in our projected 6% increase in revenues over 2013 to £14.2m. £9.7m of this is already covered by recurring revenues and the order book. We have adjusted the shares in issue to reflect the current capital structure, leading to a 4.7% increase in our estimated adjusted EPS for FY2013 to 4.4p.
- We have introduced estimates for 2014. Continued strength in customer wins and product innovation give us the confidence to forecast a further 6% growth in revenues to £15.1m. This equates to 9% growth in pre-tax profits to £2.4m with possible upside from opportunistic bite sized acquisitions. The Group's expansion into areas such as Green IT, Cloud Based solutions and M commerce means that new sales leads can be generated with less significant capital spend from new customers. Furthermore these products offer customers significant cost savings and functionality enhancements making the product range attractive even in a sluggish economy, further enhancing Sanderson's market position
- We retain our **BUY recommendation** and continue to value the Group on a 13x FY2013 earnings multiple. As a result we increase our target price from 55p to 57p. Based on our current year estimates the shares are now generating an income yield of 3.3%.

~ WH Ireland provides paid for research services for this company

#### 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.

#### Analyst

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Estimates y/e Sep (£m)	2011A*	2012A*	2013E*	2014E*
Turnover	14.1	13.4	14.2	15.1
WHI PBT <sup>1</sup>	1.2	2.0	2.2	2.4
WHI diluted EPS (p) <sup>1</sup>	2.8	3.8	4.4	4.7
P/E (x)	16.6	12.1	10.6	9.8
EV/EBITDA (x)	13.3	7.2	6.5	5.6
Dividend (p)	0.8	1.2	1.4	1.6
Yield (%)	1.7%	2.6%	3.0%	3.5%
Net funds/(debt)	(6.7)	4.0	5.0	6.2

Source: WH Ireland estimates  
\*From continuing operations only 1Adjusted for exceptional items, share based payments and amortisation  
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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 30 September 2012 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	71	89	42
Speculative Buy	3	4	2
Outperform	3	4	1
Market Perform	2	3	2
Underperform	0	0	0
Sell	0	0	0
<b>Total</b>	<b>79</b>	<b>100</b>	<b>47</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

~WH Ireland provides paid for research to this company

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The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer.

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