

Sanderson Group

Positive Trading Update

Update
27th April 2016

In its pre-close trading update, Sanderson Group has announced that results for the six months ended 31st March 2016 are in-line with market expectations. The software and IT services business added that it is confident in achieving market forecasts for the full-year ended 30th September 2016. This is clearly a positive announcement, which provides us with greater confidence in our forecasts for the full-year. With the shares offering investors exposure to the high-growth Enterprise Resource Planning software market, as well as offering a decent prospective dividend of 3.1%, we continue to classify the shares as a hybrid growth and income stock.

■ Pre-close Trading Update

For the half-year, Sanderson achieved revenue of just under £10m, which compares to £9m in the comparable period a year earlier, and operating profit of just under £1.5m, which compares to £1.4m. It also reported a sales order intake of £6m, which compares to £5m a year earlier and includes more than £2m of business gained from new customers, exceeding the business gained from new customers during the whole of FY15. The order book as at period end was £3.20m, which compares to £2.84m a year earlier. Pre-contracted recurring revenue continued to grow and now represents 53% of total revenue. Net cash was £3.39m, reflecting strong cash generation and stated after payment of the final deferred consideration in respect of its acquisitions in both 2013 and 2014 (£1.54m). Sanderson added that both its digital retail and enterprise businesses continued to make progress and that the manufacturing business gained almost £1 million of orders from new customers. The businesses that are focused on the wholesale distribution and logistics sectors also traded well and gained a high level of sales orders.

■ Financial forecasts

For FY16, we continue to forecast revenue of £20.50m, gross profit of £17.43m, adjusted EBIT of £3.69m and an adjusted PBT of £3.46m. We are forecasting a DPS of 2.30p. For FY17, we are forecasting revenue of £21.50m, gross profit of £18.28m, adjusted EBIT of £3.96m and adjusted PBT of £3.81m. We also anticipate FY17 a DPS of 2.5p.

■ Valuation

The shares are trading at a 19% discount to the Software & IT services sector on an EV/EBITDA basis (11.3x vs 14.6x). A key risk includes a deterioration in the economic environment.

Key data

Share price	79.50p
52 week high/low	86.50p/62.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	54.75 m
Market Cap	£43.57 m
Sector	Software & Computer Services

Share price chart



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Table: Financial overview

Year to 30 th Sep.	2014A	2015A	2016E	2017E
Revenue (£'000)	16,411	19,182	20,500	21,500
PBT* (£'000)	2,707	3,165	3,461	3,811
EPS* (p)	4.61	5.05	5.61	6.25
Dividend (p)	1.80	2.10	2.30	2.50
Yield (%)	2.25%	2.63%	2.88%	3.13%

Source: GECR and company.

Notes: *Adjusted

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