

Sanderson Group

Update
10th November 2015

Trading Update

Sanderson Group has issued a trading update that shows results for the full-year ended 30th Sept. 2015 in-line with our expectations, with revenue growing by 16% to £19.0m (2014: £16.4m) and adjusted operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs) growing by 18% to £3.3m (2014: £2.8m). The software firm added that it expects to make further progress and deliver trading results that are, at least, in-line with market expectations for the current financial year (FY16). Accordingly, we maintain our forecasts for both FY15 and FY16 and look to issue forecasts for FY17 on the back of its full-year results, scheduled for release on 1st December 2015. We continue to classify the shares as a hybrid growth and income stock, with the shares offering investors exposure to the high-growth Enterprise Resource Planning software market as well as a decent dividend yield of 3.13%. A key risk includes a deterioration in the economic environment.

Trading update

The group continues to invest in its product and service offerings, with a particular focus in digital and mobile technologies in the retail market given their influence on the customer shopping experience. One iota, the group's mobile commerce business, achieved revenue growth of more than 75% in the year. The group added that it expects to continue achieving significant growth in the rapidly developing digital retail market. The manufacturing division, which is focused on supplying customers operating in the food and drink processing market, experienced slower trading conditions, with some project and order delays. However, a large new customer order has been received since the year-end and trading prospects for the current financial year are much improved. Proteus Software, the provider of specialised warehouse management software, has made a positive contribution in its first year as part of the group. The balance sheet remains strong, with a net cash balance of £4.4m (31st March 2015: £4.2m).

Financials

We maintain our forecasts for FY15 of revenue of £19.00m, gross profit of £15.98m, adjusted EBIT of £3.35m and adjusted PBT of £3.10m. We are anticipating DPS of 1.90p. For FY16, we are forecasting an unchanged revenue figure of £20.50m, gross profit of £17.43m, adjusted EBIT of £3.55m and adjusted PBT of £3.30m. We anticipate an unchanged DPS figure of 2.0p.

Valuation

The shares are trading at a 35% discount to the Software & IT services sector on an EV/EBITDA basis (10.2x vs 15.9x).

Table: Financial overview

Year to 30 th Sep.	2013A	2014A	2015E	2016E
Revenue (£'000)	13,828	16,411	19,000	20,500
PBT* (£'000)	2,186	2,707	3,101	3,301
EPS* (p)	4.42	4.61	5.17	5.32
Dividend (p)	1.50	1.80	1.90	2.00
Yield (%)	2.34%	2.81%	2.97%	3.13%

Source: GECR and company.

Notes: *Adjusted

Key data

Share price	64.00p
52 week high/low	73.00p/59.50p
Primary exchange	AIM
EPIC	SND
Shares in issue	54.60 m
Market Cap	£34.40 m
Sector	Software & Computer Services

Share price chart



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