

MORNING COMMENT

Buy Sanderson Group~

Unchanged

Price 65p
Target 83p (unch)

Reuters/BBG SND.L / SND LN
Index FTSE AIM
Sector Software & Computer Svs
Market Cap £35m

H1 Results in line with April trading update

SND's interims are in line showing y-o-y revenue and adjusted PBT growth into double figures. Retail was the key driver of performance including five new client wins and a number of large orders from existing customers. One iota was responsible for two of the latter (JD Sports and Superdry) and continues to impress as a business. We expect H2 to benefit from a better performance from Manufacturing (H1 was disappointing at -3% rev, flagged previously) as delayed orders in Food & Drink come through whilst a new wholesale distribution software release in February will benefit Retail. We leave our FY profit numbers unchanged and retain a Buy stance with a 83p target.

- H1 results show double digit progress, Retail again the driver** SND delivered revenue growth of 14% y-o-y from £7.9m to £9.1m and an 11% increase in adjusted PBT from £1.14m to £1.27m in the six months to March. Gross margin remained high at 85% though this was down slightly on the 87% comparative in H1 2014. Retail witnessed revenue growth of 26% in the period driven by acquisition, new customers and sizeable orders from existing customers although that was offset to a degree by a 3% decline at Manufacturing. WHI EPS (FD) were +4% higher at 2.2p, representing 47% of our FY expectation whilst the 13% increase in half year dividend is compatible with our 1.9p FY expectation (40% cover).
- B/S robust despite cash outflows** SND ended the period with net cash of close to £4m (circa 7p/share) and, whilst this was down on the £5.1m at the year-end, it was achieved after outflows of £1m net for Proteus, £800k for the deferred consideration relating to One iota and circa £500k on dividend payments. In addition, net cash was boosted to the tune of £435k shortly following the period end following receipt of balances in the first week of April. Note SND has a legacy pension liability of £4.8m.
- What now for SND?** Delays in the receipt of certain Food & Drink orders held back Manufacturing in H1 although receipt of these in H2 (order book £1.04m) should mean a better outcome for the year. Whilst we expect growth in this division to be steady rather than spectacular, Manufacturing remains a good cash cow and boasts an estimated 60% of pre-contracted licence/support revenue (vs 52% for SND as a whole). The real excitement remains Retail, driven by One iota which operates in a high growth niche enabling the latest e-commerce/ click and collect/ social media integration increasingly required by retailers.
- Attractive on 14x P/E and 2.9% yield** With a robust order book of £2.84m (+15% y-o-y) and despite challenges felt in the wider UK economy, SND should continue to deliver steady organic growth overlaid by selective acquisitions such as Proteus (acquired December). We maintain a target price of 83p based on applying a 18x current year P/E to our fully diluted EPS expectation. We remain at Buy this morning with 28% upside.

Y/E Sep	2014A	2015E	2016E	2017E
Revenue (£m)	16.4	19.0 (17.1)	20.5 (18.0)	22.0
WHI PTP (£m)	2.7	3.0	3.3	3.5
WHI EPS (FD) (p)	4.4	4.6	5.0	5.2
P/E (x)	14.8	14.1	13.0	12.5
DPS (p)	1.8	1.9	2.0	2.1
Yield %	2.8	2.9	3.1	3.2

Source: WH Ireland estimates

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-WH Ireland provides paid for research services to Sanderson Group

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