

25 November 2014

MORNING COMMENT

Buy Sanderson Group~

Unchanged

Price 71p
Target 83p (from 81p)

Reuters/BBG Index Sector Market Cap
SND.L / SND LN FTSE AIM Software & Computer Svs £38m

FY14 Results in-line

SND's results this morning are in line with expectation, the outcome having been well flagged in the pre-close update released on 23 October. The key standout once again is e-commerce / mobile commerce which accounted for 47% of Retail revenue in FY14 and is on course to account for >50% in the current year. Whilst some caution is required in the current year (particularly non-food Manufacturing), SND's £2.41m order book (cf £1.94m a year ago), gives confidence in the current year. Valuing Sanderson on 18x our FY15 earnings forecast suggests fair value of 83p per share, up marginally from 81p previously. We remain Buyers with 17% upside.

- Results in a nutshell** Another year of steady growth driven again by Retail and, to a lesser extent, Food Manufacturing. This led to overall revenue growth of 34% at Retail (23% relating to the October 2013 acquisition of One iota) and 2% at Manufacturing. Within Retail, traditional mail order continued to decline masking a strong performance at multi-channel whilst Food now accounts for over 50% of Manufacturing revenue. Gross margin of 84.9% was lower than the 87.6% achieved last year due to two large infrastructure projects delivered in the period by Manufacturing. Excluding this effect, gross margin was 86.8%. Adjusted PBT (excl excepts, amortisation and share-based payments) was bang in line with WHI forecast at £2.7m. Year-end net cash of £6.2m equates to ~11p per share on a fully diluted basis although note SND has a legacy pension liability of £4.8m (up from £4.2m).
- Order book robust, steady growth set to continue** SND starts the new year with an order book of £2.41m, down ever so slightly against the £2.46m at the end of H1 but well ahead of the £1.94m (pre-One iota) reported at the start of the year. This is capable of supporting forecast revenue growth of 4% this year and 5% next which will likely retain the common theme of slow growth (+2%) at Manufacturing and 7%-8% at Retail. We expect DPS growth in line with EPS broadly on a 40% payout ratio.
- Attractive valuation vs peers, 2.7% yield lends support** SND's current year P/E on a fully diluted basis of 15.4x makes the shares look attractive versus others in the speciality software sector. We continue to believe SND is capable of justifying a current year P/E of at least 18x which when applied to our FY15 forecast points to our raised target price of 83p, 17% upside from current levels. The 2.7% yield is also a standout in the sector and makes the stock attractive for income.

~WHI Ireland provides paid for research services to Sanderson Group

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Analyst

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Y/E Sep	2013A	2014A	2015E	2016E
Revenue (£m)	13.8	16.4	17.1	18.0
WHI EBITDA (£m)	2.3	3.4	3.6	3.9
WHI PTP (£m)	2.2	2.7	3.0	3.3
WHI EPS (FD) (p)	4.1	4.4	4.6	5.0
P/E (x)	17.3	16.1	15.4	14.2
DPS (p)	1.5	1.8	1.9	2.0
Yield %	2.1	2.5	2.7	2.8

Source: WHI Ireland estimates

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Disclosures

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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.

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As at the quarter ending 30 Sep 2014 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	55	68	36
Speculative Buy	11	18	11
Outperform	1	4	0
Market Perform	3	9	1
Underperform	0	1	0
Sell	0	0	0
Total	70	100	48

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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