

23 April 2014

MORNING COMMENT

Buy Sanderson Group~

Unchanged

Price 68p
Target 81p (unch)

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

H1 trading Update

A decent H1 trading update by SND this morning sets the company well on the way to achieving our FY expectations. H1 revenue has grown by +20% to £7.9m (representing 49% of our FY forecast) whilst an H1 gross margin of 87% is compatible with our 87.8% FY expectation. Strong order intake from new and existing customers (including those at the acquired businesses of Catan Marketing and One Iota) has taken the order book to £2.46m, a 56% improvement on £1.58m a year ago and reflecting "some" improvement in business confidence. A strong balance sheet with net cash of >£5m (nearly 10p a share) and a 2.4% current year dividend yield add to SND's attractions. We remain Buyers with an unchanged 81p price target (=18x FY14E EPS).

- **A decent first half puts SND well on course to hit FY forecasts** Overall revenue growth of +20% was made up of +4% LFL growth overlaid by the acquisitions of Catan and One Iota, both made last year. The H1 outcome represents 49% of our FY revenue forecast and 45% of adjusted FY EBIT hence giving us good confidence in the current year outcome. Contracted recurring revenue increased to £4.41m (55% of the total) during the period, similar to the 57% figure for the whole of FY13.
- **Order book has continued to grow** SND starts H2 with an order book of £2.46m, well ahead of last year's £1.58m and the £1.94m (pre-One Iota) reported at the start of the year. Most of this is expected to be booked in H2.
- **Valuation remains attractive vs peer group, progressive dividend is supportive** SND sits in a sector where established quality operators with decent levels of recurring revenue attract high multiples, eg Tracsis 25x, Craneware 26x, Netcall 23x. We continue to believe SND is capable of justifying a current year P/E of at least 18x which equates to our target price of 81p. A 2.4% current year dividend yield, rising to 2.5% next year, adds to SND's attractions. We remain Buyers.
- **Sanderson will announce interim results on Monday 9 June.**

-WH Ireland provides paid for research services to Sanderson Group

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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Y/E Sep	2012A	2013A	2014E	2015E
Revenue (£m)	13.4	13.8	16.0	17.1
WHI PTP (£m)	1.9	2.2	2.7	3.0
WHI EPS (FD) (p)	3.8	4.1	4.5	4.7
P/E (x)	17.9	16.6	15.1	14.5
DPS (p)	1.2	1.5	1.6	1.7
Yield %	1.8	2.2	2.4	2.5

Source: WH Ireland estimates

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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 31 Mar 2014 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	49	63	26
Speculative Buy	15	19	12
Outperform	4	5	3
Market Perform	8	11	3
Underperform	1	1	0
Sell	1	1	0
Total	78	100	44

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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