

Corporate

Price 85p

Reuters/BBG Index Sector Market Cap
SND.L / SND LN FTSE AIM Software & Computer Svcs £51m

MORNING COMMENT

Sanderson Group

FY Results a beat

Today's FY2018 numbers are ahead of expectations; ~3% at the revenue line; ~5% at the adjusted PBT line; but ~16% ahead at an adjusted EPS level helped by a much lower than expected tax charge. Digital Retail was again a standout with revenue growth of 20% y-o-y and whilst Enterprise revenue was broadly flat on a like-for-like basis, the acquisition of Anisa last November has significantly strengthened the business and trading improved during H2. Net cash was also better than expected at £3m as the debt taken on with Anisa acquisition was paid down.

- **What do the results tell us?** Another good year, no surprises and whilst underlying Enterprise revenue flat-lined on an LFL basis, it mounted a recovery during H2 which is expected to be sustained into FY19E (organic order book +2% at £1.84m). Management remain delighted with the Anisa acquisition (eight new customers to date including the Port of Dover Cargo) which will make an FY contribution this year (vs ten months in FY18). Gross margin of 80% (vs 82% previously) reflects product mix along with Anisa which is very slightly lower than the group average.
- **Debt paid down, net cash of £3m, DPS slightly ahead** Debt taken on as part of the Anisa acquisition was paid down by ~£700k in the year leaving the group with net cash of ~£3m. During the current year, ~£1m of deferred consideration cash will be payable in relation to Anisa but this will still leave the group in a comfortable net cash position. As if to demonstrate the point, the full year dividend is also slightly better than expected at 3.0p (WHI est 2.9p).
- **Outlook robust, order book firm** For a number of years, it has been the group's style to inject a note of caution into the outlook and, whilst there is a nod to Brexit in today's statement, overall the tone is upbeat. This confidence is undoubtedly helped by 1) the record order book of £7.6m (including Anisa) and 2) a further increase in the proportion of recurring revenue to 55% (vs 52% in FY2017).
- **Small upgrades to 2019E, new forecasts for 2020E this morning** Given the strength of the FY2018 actuals, we have this morning made some small upgrades to the current year whilst incorporating FY2020E numbers for the first time. This leaves the stock trading on a current year P/E of 10.6x (against comps in the sector typically on late-teens) and yielding 3.8%.

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| Estimates (Sep - £m) | 2017A | 2018A | 2019E | 2020E (new) |
|----------------------|-------|-------|-------------|-------------|
| Revenue (£m) | 21.6 | 32.1 | 34.4 (33.3) | 36.2 |
| WHI EBITDA (£m) | 4.6 | 6.6 | 6.7 (6.5) | 7.3 |
| WHI PTP (£m) | 3.7 | 4.8 | 5.4 (5.2) | 5.9 |
| WHI EPS (FD) (p) | 6.3 | 7.6 | 8.0 (7.0) | 9.0 |
| P/E (x) | 13.5 | 11.2 | 10.6 | 9.4 |
| DPS (p) | 2.65 | 3.00 | 3.20 (unch) | 3.40 |
| Yield % | 3.1 | 3.5 | 3.8 | 4.0 |

Source: Company accounts, WHIreland estimates

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| Recommendation | Total Stocks | Percentage % | Corporate | Percentage % |
|-----------------|--------------|--------------|-----------|--------------|
| Corporate | 51 | 85.0 | 51 | 100.0 |
| Buy | 7 | 11.7 | 0 | 0.0 |
| Speculative Buy | 0 | 0.0 | 0 | 0.0 |
| Outperform | 1 | 1.7 | 0 | 0.0 |
| Market Perform | 1 | 1.7 | 0 | 0.0 |
| Underperform | 0 | 0.0 | 0 | 0.0 |
| Sell | 0 | 0.0 | 0 | 0.0 |
| Total | 60.0 | 100.0 | 51 | 100 |

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| Company Name | Table of interest number | 12-month recommendation history | Date |
|-----------------------|--------------------------|---------------------------------|----------|
| Sanderson Group (SND) | 4 | Corporate | 11.12.17 |
| | | Buy | 30.11.17 |
| | | Under Review | 24.11.17 |
| | | Buy | 01.12.16 |

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