GECR

Sanderson Group

Update
2nd May 2018

Better-than-expected trading results

In a trading update covering the six-months ended 31st March 2018, Sanderson Group announced revenue and operating profit figures that are ahead of management expectations, driven by good progress from both its digital retail and enterprise divisions. The software and IT services company added that it has a good level of confidence that it will make significant progress during the current financial year, which ends on 30th September 2018. Interim results will be released on 23rd May 2018. Accordingly, we maintain our forecasts for FY18 and FY19, and 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 prospective dividend yield of 3.4%.

Trading update

Revenue increased by 33% to £14.5m (H1 2017: £10.9 million) and adjusted operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges, acquisition-related and restructuring costs) increased by 29% to in excess of £2 million (H1 217: £1.55 million). On a like-for-like basis, excluding the acquisition of Anisa, revenues increased by over 1% to more than £11 million (H1 2017: £10.9 million) and operating profit increased by over 10% to more than £1.7 million (H1 2017: £1.55 million). Gross margins were maintained at 80%. Pre-contracted recurring revenues increased to in excess of £8 million. On a like-for-like basis, excluding Anisa, pre-contracted recurring revenues increased to £5.9 million (H1 2017: £5.40 million). Sanderson said that the sales order intake continues to be good, and, as at March 2017, the value of the group order book, measured on a like-for-like basis, was more than 15% ahead on the comparable period a year earlier. The total order book is now valued at above £8 million. Sanderson continues to generate cash in-line with operating profit, and following the acquisition of Anisa, net cash as at period end stood at £1.3 million (31st March 2017: £4.5 million). Sanderson added that Anisa, which was acquired on 23rd November 2017, has made a good start as part of the group.

Financial forecasts

For FY18, we continue to forecast adjusted EBITDA of £6.1m on revenue of £30.4m. We maintain our DPS forecast of 2.9p. For FY19, we forecast adjusted EBITDA of £6.6m on revenue of £33.2m. We anticipate DPS of 3.20p. A key risk to our forecasts includes a deterioration in the economic environment.

Valuation

The shares trade at a 79% discount to its peers on an EV/EBITDA basis (3.8x vs 17.7x), according to Bloomberg.

Table: Financial overview

Year to 30th Sep.	2016A	2017	2018E	2019E
Revenue (£'000)	21,320	21,559	30,400	33,200
PBT* (£`000)	2,928	3,658	4,731	5,227
Dilutive EPS* (p)	4.57	6.86	6.36	6.93
Dividend (p)	2.40	2.60	2.90	3.20
Yield (%)	2.53%	2.74%	3.05%	3.37%

Source: GECR and company.
*Notes: *Adjusted for exceptionals and share-based payments.*

Key data

Share price	95.00p
52 week high/low	98.50p/62.50p
Primary exchange	AIM
EPIC	SND
Shares in issue	59.79 m
Market Cap	£56.80 m
Sector	Software & Computer Services

Share price chart

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