

Sanderson Group

Update
9th June 2016

Interims in line with expectations

Sanderson Group has announced its interim results for the period ended 31st March 2016. The results are in line with expectations, with revenue and operating profit increasing by 8% and 7%, respectively. The software and IT services company stated that it is confident in making further progress and delivering trading results for the full-year (ended 30th September 2016) in line with market expectations. Accordingly, we reiterate our forecasts for the full year and continue to classify the shares as a hybrid growth and income stock, with the shares providing exposure to both the high-growth enterprise resource planning software market and a decent dividend yield of 3.1%.

Trading update

Revenue increased by 8% to £9.86 million (2015: £9.09 million) as both the digital retail and enterprise divisions performed well (the respective revenue growth for the two divisions is 5% and 10%). Gross margin increased by 1 percentage point to 86% (2015: 85%), driven by increased sales of its proprietary offerings. Recurring revenue increased by 9% to £5.19 million (2015: £4.76 million), representing around 53% of total revenue in the period. Operating profit increased by 7% to £1.47 million (2015: £1.37 million) despite the continued investment in both products and services development and sales and marketing. Mainly reflecting deferred consideration payments in relation to acquired businesses (£1.54 million) and the dividend payment (£657k), net cash reduced by 14% to £3.39 million (2015: £3.95 million). A significant portion of profit continues to be converted into cash. The interim dividend was increased by 11% to 1p per share (2015: 0.90p per share). Going forward, a particular focus will continue to be placed on further developing mobile and ecommerce offerings in digital retail as well as further strengthening its offerings within the food and drink processing space.

Financial forecasts

For FY16, we continue to forecast revenue of £20.50m, gross profit of £17.43m, adjusted EBIT of £3.69m and an adjusted PBT of £3.46m. We are forecasting a DPS of 2.30p. For FY17, we are forecasting revenue of £21.50m, gross profit of £18.28m, adjusted EBIT of £3.96m and adjusted PBT of £3.81m. We also anticipate FY17 a DPS of 2.5p.

Valuation

The shares are trading at a 21% discount to the Software & IT services sector on an EV/EBITDA basis (12.2x vs 15.4x). A key risk includes a deterioration in the economic environment.

Table: Financial overview

Year to 30 th Sep.	2014A	2015A	2016E	2017E
Revenue (£'000)	16,411	19,182	20,500	21,500
PBT* (£'000)	2,707	3,165	3,461	3,811
EPS* (p)	4.61	5.05	5.61	6.25
Dividend (p)	1.80	2.10	2.30	2.50
Yield (%)	2.21%	2.58%	2.82%	3.07%

Source: GECR and company.

Notes: *Adjusted

Key data

Share price	81.50p
52 week high/low	88.00p/62.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	54.85 m
Market Cap	£45.25 m
Sector	Software & Computer Services

Share price chart



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Interims

Sanderson Group has announced its interim results for the period ended 31st March 2016.

Revenue increased by 8% to £9.86 million (2015: £9.09 million). Gross margin increased by 1 percentage point to 86% (2015: 85%), driven by increased sales of its proprietary offerings. Recurring revenue increased by 9% to £5.19 million (2015: £4.76 million), representing around 53% of total revenue in the period. Order book, which reflects unshipped customer orders, increased by 13% to £3.20 million (2015: £2.84 million). Order intake, which reflects all completed orders, increased by 21% to £6.02 million (2015: £4.94 million). Ten new customers contributed orders to the value of £2.08 million.

Operating profit increased by 7% to £1.47 million (2015: £1.37 million) despite the continued investment in both products and services development and sales and marketing.

Mainly reflecting deferred consideration payments in relation to acquired businesses (£1.54 million) and the dividend payment (£657k), net cash reduced by 14% to £3.39 million (2015: £3.95 million). A significant portion of profit continues to be converted into cash. The interim dividend was increased by 11% to 1p per share (2015: 0.90p per share).

Going forward, a particular focus will continue to be placed on further developing mobile and ecommerce offerings in digital retail as well as further strengthening its offerings within the food and drink processing space. Mobile offerings continue to be developed across all of its target markets, and selective acquisition continue to be considered.

Digital retail division

Revenue increased by 5% to £2.95 million (2015: £2.80 million). Reflecting a further investment in management, sales and delivery capacity ahead of an expected further increase in growth within the digital retail market, adjusted operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs) decreased by 48% to £169k (2015: £327k). Customers include Hotel Chocolat, Scotts of Stow and Superdry. Order book decreased by 24% to £0.78 million (2015: £1.03 million).

Enterprise division

Revenue increased by 10% to £6.92 million (£6.29 million). Adjusted operating profit increased by 29% to £1.15 million (£0.89 million). Order booked increased by 34% to £2.42 million (2015: £1.81 million). Overall, recurring revenue represents 58% of total divisional revenue and covers in excess of three quarters of divisional overheads.

The manufacturing business, which is a constituent of the enterprise division, won 5 new customers (2015: 8), including Thistle Seafoods Limited and Dunkleys. They were won at an average order value that was significantly higher than in the comparative period.

The wholesale distribution and logistics business, also a constituent of the enterprise division, won five new customers during the period, including Pedigree Wholesale Limited, Robinson's and JW Gray & co. Large orders from existing customers include Tottenham Hotspur and Clipper Logistics.

The board remains confident that the group will continue to make further progress and deliver trading results in line with market expectations

Forecasts

We have maintained our forecasts on the back of the announcement and continue to

forecast revenue of £20.50 million for FY16. Maintaining a gross margin of 85% gives a gross profit of £17.43 million. We expect the group to continue its investment in product innovation, as well as sales & marketing, and continue to forecast an adjusted EBIT of £3.69m and adjusted PBT of £3.46m. We are forecasting DPS of 2.30p.

For FY17, we are forecasting revenue of £21.50 million and gross profit of £18.28 million. With further product innovation and sales & marketing investments anticipated, we are forecasting an adjusted EBIT of £3.96 million and adjusted PBT of £3.81 million. We anticipate DPS of 2.5p, but note that this could be higher if targets are hit and cash flows remain strong.

Valuation

We continue to be impressed by the high level of recurring revenues, which cover two-thirds of business overheads. A strong and growing range of products and services, a growing presence in the digital retail and enterprise markets, the strengthened balance sheet and strong cash generation augur well for Sanderson. The shares are trading at a 21% discount to the Software & IT services sector on an EV/EBITDA basis (12.2x vs 15.4x), and offer an attractive prospective yield of 3.1%.

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