GECR

Sanderson Group

Update
16th February 2018

In-line with expectation trading performance

At its annual general meeting (AGM), Sanderson Group updated on its trading performance for the first four months of the financial year ending 30th September 2018. Key highlights include an in-line with management expectation trading performance for the first four months of the current financial year and an expected continued progress for the remaining part of the year. 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 3.6%.

Annual General Meeting

The company expects revenue for the current financial year to exceed £30 million and gross margin to be in the region of 80%. Following its acquisition in November 2017, Anisa has made a good start as part of the Sanderson Group. Revenue for the first four months of the current financial year is ahead of the comparative period a year earlier by one-third. On a like-for-like basis (i.e. excluding the acquisition of Anisa), revenue is up by 5% and operating profit is ahead by 10%. As at 31st January 2018, the order book has strengthened, growing by in excess of 20%, and the group has maintained its net cash at bank position. The digital retail businesses have seen both revenue and operating profit continue to grow at double-digit rates in the first four months of the financial year. The group added it has a good level of confidence going into the rest of the financial year, boosted by a number of new customer prospects and continued strong levels of activity. The enterprise businesses have seen sales prospects that are well ahead of last year. A new digital platform was introduced at the beginning of the financial year, and the group announced that the overall interest in the platform is ahead of expectations. Sanderson added that it is excited about the future prospects in the wholesale distribution sector of the market. The group's pre-contracted revenue now represents around 55% of total revenue. The board recommended a final dividend of 1.55 pence per share, bringing the total dividend for year to 2.65 pence per share, representing a 10% increase from the previous year.

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 61% discount to its peers on an EV/EBITDA basis (6.7x vs 17.1x), according to Bloomberg.

Table: Financial overview

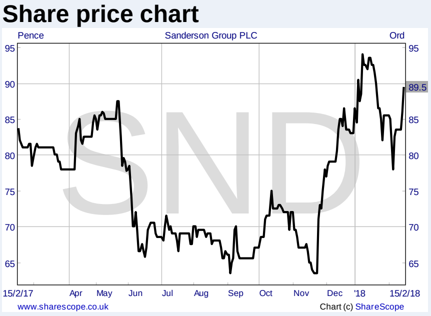
Year to 30th Sep.	2016A	2017	2018E	2019E
Revenue (£'000)	21,320	21,559	30,400	33,200
PBT* (£`000)	2,928	3,658	4,731	5,227
Dilutive EPS* (p)	4.57	6.86	6.36	6.93
Dividend (p)	2.40	2.60	2.90	3.20
Yield (%)	2.68%	2.91%	3.24%	3.58%

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

Key data

Share price	89.50p
52 week high/low	95.00p/62.50p
Primary exchange	AIM
EPIC	SND
Shares in issue	59.33 m
Market Cap	£53.10 m
Sector	Software & Computer Services

Share price chart



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