

# Sanderson Group

Update  
20<sup>th</sup> October 2016

## Better Than Expected Trading Update

**Sanderson Group has released a trading update ahead of its full-year results for the year ended 30th September 2016. The key highlights include better than expected revenue, adjusted operating profit in line with expectations, strong cash generation and an optimistic outlook. Accordingly, we have updated our FY16 revenue forecast and maintained our FY17 forecasts. We continue to classify the shares as a hybrid growth and income stock, with the shares providing exposure to the high growth enterprise resource planning software market and offering a decent dividend yield of 3.7%.**

### Trading update

Adjusted operating profit (stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs) grew by more than 10% to £3.69m (2015: £3.30m). Revenue increased by 10% to in excess of £21m (2015: £19m). Sales order intake increased to in excess of £12m (2015: £10m), boosted by an almost doubling of order intake from new customers (£3.8m) on the comparable period a year earlier. Reflecting the strong sales order intake, order book at period end stood at £3.0m, which is 28% higher than a year earlier (2015: £2.35m). Pre-contracted recurring revenue increased by 9% to £10.76m (2015: £9.85m), representing more than 50% of total revenue. Including both the deferred consideration payment in respect to two previous acquisitions (£1.6m) and dividend payments (£1.2m), net cash stood at £4.30m (30th September 2015: £4.61m). The Digital Retail division continued to make progress, with revenue growing by 8.5% to £6.40m (2015: £5.86m). Within the Enterprise division, the manufacturing business increased orders from new customers by more than £1.0m, and new customer order intake from the wholesale distribution and logistics sector increased by 50%. Sanderson added that there has been no loss of confidence from its customers following the Brexit result in June, and that it remains confident of making further progress.

### Financial forecasts

Being prudent, we maintain our FY17, at least for the time being, and are therefore forecasting revenue of £21.50m, gross profit of £18.28m, adjusted EBIT of £3.96m, adjusted PBT of £3.81m and a DPS of 2.5p. We will look to release forecasts for FY18 on the back of the announcement of the full-year results, which is expected to be published on 30th November 2016.

### Valuation

The shares are trading at a 43% discount to the Software & IT services sector on an EV/EBITDA basis (9.0x vs 14.2x). A key risk includes a deterioration in the economic environment.

### Key data

Share price	67.50p
52 week high/low	88.00p/61.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	54.85 m
Market Cap	£37.00 m
Sector	Software & Computer Services

### Share price chart



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Table: Financial overview

Year to 30 <sup>th</sup> Sep.	2014A	2015A	2016E	2017E
Revenue (£'000)	16,411	19,182	21,000	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 (%)	2.67%	3.11%	3.41%	3.70%

Source: GECR and company.

Notes: \*Adjusted

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