

Sanderson Group

Update
20th 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



Important: All disclaimer information can be found on the last page of this document. Please note that this publication has been commissioned by the company to which this publication relates and therefore it cannot be considered independent.

Table: Financial overview

Year to 30 th 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

Disclaimer

GECR is a trading name of Master Investor Limited (“**MIL**”). MIL is not authorised or regulated by the Financial Conduct Authority (“**FCA**”). The contents of this report, which has been prepared by and is the sole responsibility of MIL, have been approved by Eastwood Anglo Corporate Finance Limited (“**EACF**”) solely for the purposes of section 21(2) of the Financial Services and Markets Act 2000. EACF, whose registered office is Home Farm Barn, Winkburn, Newark, Nottinghamshire, NG22 8PQ. EACF is authorised and regulated by the FCA and its firm reference number is 193023. EACF is acting for MIL and not for any other person and will not be responsible for providing the protections provided to clients of EACF nor for advising any other person in connection with the contents of this report and, except to the extent required by applicable law, including the rules of the FCA, owes no duty of care to any other such person. No reliance may be placed on EACF for advice or recommendations with respect to the contents of this report and, to the extent it may do so under applicable law, EACF makes no representation or warranty to the persons reading this report with regards to the information contained in it.

MIL provides professional equity research services and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by MIL for publication in the United Kingdom only. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This report may contain forecasts, estimates of future share prices and future valuations (“**forecasts**”), which by their nature involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and are not guarantees of future performances. The actual results, performance or achievements of the company or developments in the sector in which the company operates may differ materially from the future results, performance or achievements or sector developments expressed or implied by the forecasts contained in this report. The forecasts contained in this report speak only as at the date of this report. MIL undertakes no obligation to update or revise publicly the forecasts contained in this report to reflect any change in expectations or to reflect events or circumstances occurring or arising after the date of this report.

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, MIL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of MIL at the time of publication, and any estimates are those of MIL and not of the company concerned unless specifically sourced otherwise.

This report is provided for information purposes only and is not a solicitation or inducement to buy, sell, subscribe or underwrite securities. MIL does not make investment recommendations. Any valuation given in this report is the theoretical result of a study of a range of possible outcomes and not a forecast of a likely share price. MIL does not undertake to provide updates to any opinions or views expressed in this document.

MIL does not hold any positions in the securities mentioned in this report. MIL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The price and value of securities can go down as well as up, and so you could get back less than you invested. In addition, the level of marketability of the securities mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not a guide to future performance. Information in this report cannot be relied upon as a guide to future performance.

Before purchasing any securities referred to in this report, persons reading this report should make sure that they fully understand and accept the risks of investing in the company which is the subject of this report. Before making any investment decisions, potential investors should consult an independent financial adviser as to the suitability of the securities referred to in this report to the person concerned.