

Corporate

Share Price 111.5p

Reuters/BBG Index Sector Market Cap
SND.L / SND LN FTSE AIM Software & Computer Svs £67m

MORNING COMMENT

Sanderson Group

Interim Results

Hot on the heels on the Gould Hall acquisition announced earlier this month (2 May), Sanderson has released H1 results this morning which are ahead of management expectations. Revenue increased by 18% to £17.2m (roughly half organic and half reflecting the full period effect of the Anisa acquisition in 2017); with adjusted operating profit increasing by 34%. Note there is an IFRS15 effect at work here: although H1 benefitted to the tune of ~£260k at both the revenue and EBIT line, we expect the overall impact for the FY to be negative. So, we find ourselves in the situation of leaving current year numbers largely unchanged (except a very small EPS uptick and +£900k at the revenue line reflecting Gould Hall) which implies a small underlying upgrade.

- H1 in a nutshell** The H1 outcome follows a familiar path for SND, with a mixture of decent organic growth (we estimate ~7-8%) coupled with the benefit of acquisitions (Anisa in this case). The 18% increase in group revenue to £17.2m (split out as Enterprise +22% and Digital +11%) drove a 34% increase in adjusted operating profit to £2.8m (Enterprise +36%, Digital +33%). Recurring revenues grew slightly to £9.5m representing 55% of total H1 revenue whilst gross margin remained high at 79% vs 80% previously. Note that IFRS has distorted the H1 actuals by around +£260k at both the revenue and operating profit line – a phenomenon that is expected to more than reverse in H2. Net cash improved to £3.3m from £1.4m although this is before the cash element for recent acquisition Gould Hall – pro-forma this would be ~£1.8m. H1 saw a high level of sales order intake at £8.3m and 15 new customers (including Hawes & Curtis) – the business starts H2 with an order book of £8.2m.
- Impact on forecasts** Given such a strong H1 outcome, we have examined both our FY2019E and FY2020E forecasts. We also add in the acquisition of Gould Hall as flagged in our update of 2 May but also make allowances for the likely IFRS15 FY impact outlined above. The net result is that our FY2019E revenue forecast is raised by £900k to £35.3m; EBITDA and PBT numbers are unchanged; and EPS increases from 8.0p to 8.1p. For 2020E, we upgrade the revenue line by £2.8m to £39.0m and EBITDA and PBT by £100k: this yields a small upgrade to our fully diluted EPS number from 9.0p to 9.1p. Note the significant 20% uplift in H1 dividend has led us to upgrade our FY forecasts for both years by +6%.
- WHI view** The shares have started to re-rate reflecting the positive momentum and the discount to the wider sector where late teen P/Es and higher are more commonplace. Despite this (and allowing for a small EPS upgrade this morning), the shares trade on a 2020E P/E of 12.3x and, following a re-basing of our dividend expectation, yield 3.2%.

Estimates (Sep - £m)	2017A	2018A	2019E	2020E
Revenue (£m)	21.6	32.1	35.3	39.0
WHI EBITDA (£m)	4.6	6.6	7.2	7.7
WHI PTP (£m)	3.7	4.8	5.4	6.0
WHI EPS (FD) (p)	6.3	7.6	8.1	9.1
P/E (x)	17.7	14.6	13.8	12.3
DPS (p)	2.7	3.0	3.4	3.6
Yield %	2.4	2.7	3.0	3.2

Source: Company accounts, WHIreland estimates Closing prices

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Speculative Buy	0	0.0	0	0.0
Outperform	1	1.7	0	0.0
Market Perform	1	1.7	0	0.0
Underperform	0	0.0	0	0.0
Sell	0	0.0	0	0.0
Total	59.0	100.0	50.0	100.0

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Company Name	Table of interest number	12-month recommendation history	Date
Sanderson Group (SND)	4	Corporate	11.12.17

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