

MORNING COMMENT

Buy

Unchanged

Price 69p
Target 92p

Reuters/BBG SND.L / SND LN
Index FTSE AIM
Sector Software & Computer Svs
Market Cap £38m

Sanderson Group~

Results in line/ key pick for income

Full year results are in line with October's trading update with an 11% increase in revenue to £21.3m (higher than originally forecast) and a 10% increase in adjusted PBT. Both divisions contributed to this growth, Digital Retail growing by 9% and Enterprise by 12%. The full year dividend of 2.4p a share is a circa 4% beat on consensus (WHI 2.3p) and the 3.5% yield cements SND's position as a key pick for income in the sector. A 90%+ increase in business from new customers was a key standout in these results and Sanderson starts FY17 with an impressive 25% y-o-y increase in its order book. The shares should go higher this morning trading on 12.3x current year fully diluted EPS.

- Key results takeaways** These were the first full year results to be presented under the new segmentation of Digital Retail (e-commerce, m-commerce and "bricks and mortar" retail) and Enterprise (food manufacturing, wholesale distribution/ logistics). Business at Digital Retail picked up in H2 (+9% y-o-y vs +5% at the H1 stage) with the latest e-commerce solution gaining orders from a number of customers. Enterprise grew revenue by 12% but significant improvements in efficiency led to a 39% improvement in operating profit. Overall gross margin fell slightly from 85% to 84% although this was mix related: Onelota operates off the AWS cloud platform hence there is a higher cost of sale vs simple licencing.
- Strong start to FY17** A large order received in September at the Digital Retail division benefited H2 and will also help FY17 get off to a strong start. This, together with a healthy new business pipeline, has led to SND starting FY17 with an order book of £3m, up 25% y-o-y. One stat worth repeating from the statement is that pre-contracted revenues (= recurring) account for 50% of total group revenue, with the gross margin from recurring revenues covering over 60% of group overheads. This de-risks the investment to some degree and gives confidence in market forecasts.
- Get rich slowly** Sanderson has developed a knack of steady growth (three-year CAGR in adjusted EPS of 7.3%) achieved partly organically and partly through acquisition. For some in the sector, this may seem a little pedestrian although we would counter that Sanderson has a strong track record of meeting (or exceeding) expectations and the growth in EPS has been more than matched by dividend growth, supported by cash generation and a strong balance sheet (£4.3m cash). This deserves recognition and a rating closer to 16x current year earnings (~92p target). In our view, the medium term exit will likely be M&A.

~WHI Ireland provides paid for research services to Sanderson Group

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Analyst

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| Y/E 30 September | 2015A | 2016A | 2017E | 2018E |
|------------------|-------|-------|-------------|-------|
| Revenue (£m) | 19.2 | 21.3 | 21.8 (22.4) | 23.5 |
| WHI PTP (£m) | 3.2 | 3.4 | 3.7 (unch) | 4.0 |
| WHI EPS (FD) (p) | 4.9 | 5.5 | 5.6 (5.3) | 6.0 |
| P/E (x) | 14.1 | 12.5 | 12.3 | 11.5 |
| DPS (p) | 2.1 | 2.4 | 2.6 | 2.9 |
| Yield % | 3.0 | 3.5 | 3.8 | 4.2 |

Source: WHI Ireland estimates

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Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

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The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

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As at 31 October 2016 the distribution of all our published recommendations is as follows:

| Recommendation | Total Stocks | Percentage % | Corporate |
|-----------------|--------------|--------------|-----------|
| Buy | 52 | 83.9 | 39 |
| Speculative Buy | 7 | 11.3 | 7 |
| Outperform | 2 | 3.2 | 0 |
| Market Perform | 0 | 0.0 | 0 |
| Underperform | 1 | 1.6 | 0 |
| Sell | 0 | 0.0 | 0 |
| Total | 62 | 100 | 46 |

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