

Corporate

Price 105p

Reuters/BBG Index Sector Market Cap
SND.L / SND LN FTSE AIM Software & Computer Svs £63m

MORNING COMMENT

Sanderson Group

Interim Results in line; recurring revenue building

Today's H1 numbers are in line with last month's trading update being slightly ahead of management's initial expectation with revenue 34% ahead at £14.6m. This number includes a part period contribution (c 4 months) from the newly-acquired Anisa business which is said to have made a good start as part of the Sanderson group. The significant scale up in revenue and profitability post Anisa, along with the company's presentation at the Mello investor event in Derby last month, have been the catalysts for the recent re-rating in share price, in our view, although there remains upside against a sector trading on 20x+ P/E.

- Interim Results in a nutshell** No surprises, all in line with the pre-close update on 30 April. Key standouts are improving recurring revenue (£8.25m out of £14.61m in H1 representing 56%); net cash still positive at £1.4m despite funding the Anisa purchase with a gross consideration value of £12m; and a 16% increase in the organic order book. The strength of the order book (£5.2m cum-Anisa), coupled with improved efficiency and cost savings will be key drivers of the H2 performance.
- Divisional splits:** Digital Retail, a digital disruptor, was again a strong performer for Sanderson with revenue +20% to £4.25m. It counts many innovative omni-channel retailers such as Superdry, JD Sports and Richer Sounds as customers hence, in our view, is far less exposed to the well documented downturn on the high street. Enterprise – which now includes Anisa – saw a 40%+ increase in revenue driving a 14% increase in EBIT.
- No changes to core forecasts, small upgrade to 2018E revenue** There are no material changes to forecasts this morning save for a small increase to 2018E revenue on the strength of the H1 outcome where we nudge our WHI est from £30.5m to £31.0m. Other forecasts including those for 2019 remain the same.
- WHI view:** November's acquisition of Anisa was a significant step on the way to the ambition of building a £50m revenue business. Sensibly financed using equity, debt and internal cash, this demonstrates the opportunity for further earnings enhancing acquisitions in the future. The recent strength in the share price means that the rating is now just over 16x current year P/E (15x next), narrowing the discount to the wider sector, but still offering upside against P/E ratios of typically 20x+.

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Estimates (Dec - £m)	2016A	2017A	2018E	2019E
Revenue (£m)	21.3	21.6	31.0 (30.5)	33.3
WHI EBITDA (£m)	4.4	4.6	6.0	6.5
WHI PTP (£m)	3.4	3.7	4.6	5.2
WHI EPS (FD) (p)	5.5	6.3	6.5	7.0
P/E (x)	19.1	16.7	16.2	15.0
DPS (p)	2.40	2.65	2.90	3.20
Yield %	2.3	2.5	2.8	3.0

Source: Company accounts, WHIreland estimates

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Buy	6	10.2	0	0.0
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	51	100.0

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Company Name	Table of interest number	12-month recommendation history	Date
Sanderson Group (SND)	4	Corporate Buy Under Review Buy	11.12.17 30.11.17 24.11.17 01.12.16