Ross Watson

Manager of Securities Trust of Scotland plc

ONE TO WATCH

Sage

203p	-9.75p
Scotsman	BUY

IT'S hard to get excited about accountancy software – a small but decidedly unfashionable part of the technology sector. And for much of this year, the market has found it hard to work up much enthusiasm for Sage, the industry's dominant operator.

Until last week, it struggled to attract investors, sending its price/earnings multiple down to multi-year lows.

In part, Sage's unpopularity reflected worries that the weak dollar would weigh on its US earnings. But there have also been concerns that, with its youthful growth spurt behind it, the Newcastle-based company was facing an uncertain middle age.

In particular, investors were concerned that it might respond badly to its mid-life crisis, and overpay for US acquisitions.

Unfashionable stocks often represent an opportunity. Despite being at a difficult age, a very strong free cashflow yield (8.8%) has long highlighted the substantial repeat revenues that Sage enjoys.

Last week, it announced that it would put this cashflow to sensible use by doubling its dividend payout. This was a welcome sign of maturity. While investing fashions may come and go, some things – such as dividends – never go out of style.

In some ways, Sage is now at a similar place to Vodafone 18 months ago. At that time, the mobile phone giant was struggling to realign investors' expectations after a period of rapid expansion.

Since then, solid cashflows and dividend growth have helped reconcile investors to the new, more mature, Vodafone.

We think they'll do the same for Sage.