

We reiterate our Neutral rating and raise our DCF-derived fair value to EUR75 from EUR70 on the rollover of our model to 2016 (+EUR3), updated forward fx rates (+EUR1: EUR/USD 1.09 vs. 1.12), and less conservative assumptions on software licences (+EUR1). While we cannot rule out a preannouncement of FY15 results by early next week, we deem no real surprise or disappointment is to be expected on them, while SAP looks to be well in line with its 2017 and 2020 targets. We consider the stock contains no big catalyst unless IFL cloud revenue growth accelerates well beyond 30-35%.

ANALYSIS

- Updating our forecasts ahead of FY15 results.** SAP will report FY15 results on 22nd January. We cannot rule out the company pre-announces them some time between the end of this week or the beginning of this week. We updated our model in order to reflect changes in fx rates since our last publication (2015 EUR/USD: 1.11 vs. 1.12) and a more cautious stance on the operating margin based on YTD opex trends. As such, we expect, on a non-IFRS basis, total sales up 8.7% at cc to EUR20,553m (consensus: EUR20,508m), Cloud & Software revenues up 10% at cc to EUR17,002m (consensus: EUR16,975m or +10.5% at cc), cloud subscriptions revenues up 86% at cc to EUR2,314m (consensus: EUR2,302m or +85.2% at cc), software licence revenues down 1% at cc to EUR4,623m (consensus: EUR4,587m), and an operating profit of EUR6,372m or 31% of sales (consensus: EUR6,329m or 30.8% of sales). Previously, we were expecting a non-IFRS op. margin of 31.4%. Our forecasts are at the top-end of company guidance (Cloud & Software up 8-10% at cc, cloud subscriptions up 77-86% at cc, operating profit of EUR5.6-5.9bn at cc).
- A slightly higher growth scenario for 2016-18.** We increase our sales ests. by 1% for 2016 and 2% for 2017, as we now forecast revenues up 6.2% IFL for 2016 (vs. +5.1%) and 2017 (vs. +5.3%) and 6.3% for 2018. Our changes include a low-to-mid single-digit decline instead of mid-to-high single-digit on licences given the trends we expect for 2015 (-1% at cc) and the resilience of this selling mode as a significant part of the 1,300+ S/4HANA customers prefers buying the on-premise version rather than a cloud subscription. For 2016, we expect Software & Cloud revenues up 7.1% at cc (consensus: +6.3%) - vs. +6% - (o/w cloud subscriptions up 30.9% IFL and licences down 1.3% at cc) and a non-IFRS op. margin of 31.4% (consensus: 31.2%) - vs. 31.8% previously. We have the conviction 2016 will be a year of recovery for the op. margin after two years of decline, as the gross margin of the on-premise business is resilient (thanks to maintenance), the gross margin of the cloud business started to turnaround in Q2 15 on the Business Network and public cloud applications, the gross margin of Services recovers, and the HANA Enterprise Cloud may reach breakeven.
- No particular deviation expected from the 2015-20 plan announced one year ago.** Unlike previous plans, we deem SAP remains well in line with its 2015-20 plan at this stage; i.e. reaching, on a non-IFRS basis, revenues of EUR26-28bn (o/w EUR7.5-8bn in Cloud subscriptions) with an op. profit of EUR8-9bn or 28.5-34.5% of sales for 2020 and revenues of EUR21-22bn (o/w 3.5-3.6bn in Cloud subscriptions) with an op. profit of EUR6.3-7bn or 28.6-33.3% of sales for 2017. We consider SAP has well-learned the lessons of the transition to the cloud by assimilating the sales practices and the business model change. As such, the company gains more credibility in our view.

VALUATION

- SAP's shares are trading at est. 13.1x 2016 and 11.7x 2017 EV/EBIT multiples.
- Net debt on 30th September 2015 was EUR6,094m (net gearing: 28%).

NEXT CATALYSTS

- FY15 results on 22nd January before markets open.
- Investors Day on 4th February in New York from 9.30am EDT / 3.30pm CET / 2.30pm BST.

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 54.5
Market Cap (EUR)	87,752
Ev (BG Estimates) (EUR)	92,424
Avg. 6m daily volume (000)	3 010
3y EPS CAGR	8.9%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-0.5%	20.5%	14.4%	22.6%
Softw.& Comp.	-1.7%	13.2%	10.6%	24.9%
DJ Stoxx 600	-3.2%	0.2%	-6.4%	4.8%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	17,560	20,543	21,574	22,903
% change		17.0%	5.0%	6.2%
EBITDA	6,061	6,914	7,348	7,892
EBIT	4,330	4,474	5,679	6,228
% change		3.3%	26.9%	9.7%
Net income	4,304	4,582	5,203	5,553
% change		6.5%	13.5%	6.7%

	2014	2015e	2016e	2017e
Operating margin	32.0	31.0	31.4	31.8
Net margin	18.6	15.1	19.5	20.0
ROE	16.7	14.5	17.4	16.9
ROCE	16.7	20.2	21.2	23.1
Gearing	38.5	21.8	4.8	-9.6

(€)	2014	2015e	2016e	2017e
EPS	3.41	3.63	4.12	4.40
% change	-	6.5%	13.5%	6.7%
P/E	20.9x	19.7x	17.3x	16.2x
FCF yield (%)	3.2%	5.2%	5.7%	6.1%
Dividends (€)	1.10	1.20	1.30	1.40
Div yield (%)	1.5%	1.7%	1.8%	2.0%
EV/Sales	5.4x	4.5x	4.1x	3.7x
EV/EBITDA	15.7x	13.4x	12.1x	10.8x
EV/EBIT	17.0x	14.5x	13.1x	11.7x



Analyst :
 Gregory Ramirez
 33(0) 1 56 68 75 91
 gramirez@bryangarnier.com

Sector Team :
 Richard-Maxime Beaudoux
 Thomas Coudry
 Dorian Terral

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by the	Financial Conduct Authority (FCA) and		Regulated by the	Fax +91 11 2621 9062
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