

Sage Group

Price 567.50p

Q1 FY16 trading update in line

Fair Value 550p (-3%)

NEUTRAL

Bloomberg	SGE L
Reuters	SGE.LN
12-month High / Low (p)	614.0 / 461.9
Market Cap (GBP)	6,124
Ev (BG Estimates) (GBP)	6,283
Avg. 6m daily volume (000)	2 212
3y EPS CAGR	7.2%

This morning Sage issued a trading update for the quarter ending 31st December 2015, announcing Q1 FY16 sales up 6.6% lfl or in line with company guidance for 2016 (at least +6% lfl) – while management mentioned in early December that there would be no particular softness in sales in H1 2016. While recurring revenues accelerated growth, SSRS (software and related services) fell due to the planned transition to subscriptions. We expect the share price to react slightly positively to this announcement. We continue to see limited catalysts for the stock.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.8%	4.7%	4.9%	-6.0%
Softw. & Comp.	-2.5%	1.6%	1.6%	-3.3%
DJ Stoxx 600	-7.4%	-9.8%	-14.0%	-7.3%

ANALYSIS

- Q1 2016 lfl revenue growth slightly above the low-end of FY16 guidance.** Management reported Q1 2016 (quarter ending 31st December 2015) sales up 6.6% lfl, or in line with guidance for FY16 (at least +6% lfl), after mentioning during the analysts' meeting on 2nd December 2015 that FY16 would not be particularly seasonal and there would be no particular softness in H1 revenues. Recurring revenues were up 10.4% lfl (vs. +9% lfl in FY15) driven by subscriptions up 35.7% lfl (vs. +29% lfl), while Processing was up 5.4% (vs. +1.7% lfl) - including for the first time Sage Payroll Solutions (formerly PayChoice), which was acquired in October 2014 - and SSRS (Software/software-related services) down 5.3% (vs. -0.7% lfl) reflecting the planned transition to subscription relationships and therefore less upfront revenues from licences and upgrades. Sage's performance was led by solid growth in Europe, balanced by a slower performance in Brazil and Asia Pacific (Africa remained strong).
- No change in outlook.** Management is confident that the business remains on course to deliver full year 2016 guidance for revenues up at least 6% lfl and an organic operating margin of at least 27%, weighting investment for growth towards H1 FY16. In addition, it considers the business transformation is on track and the company is focused on execution to realise its long-term plan for 'sustainable and high-quality growth'. Starting from a baseline of 19% of sales for G&A costs for FY15, Sage has implemented a reorganisation which is expected to generate GBP50m annualised cost savings (c. 3.5ppt of sales) by the end of FY16 in order to boost capacity for growth, but most of the savings will be reinvested in sales and marketing. For FY16, our forecasts imply sales up 6.6% lfl to GBP1,497m and an op. margin of 27.1%, roughly in line with the consensus (sales GBP1,487m, op. margin 27.2%).
- Decline in net debt position.** In the absence of share buy-backs in the quarter, Sage had net debt of GBP408m on 31st December 2015, down GBP17m from GBP425m on 30th September 2015, and down GBP134m from the GBP542m reported on 31st December 2014. We forecast a net debt position for 30th September 2015 of GBP159m (net gearing: 18%).

YEnd Sept. (£m)	09/15	09/16e	09/17e	09/18e
Sales	1,436	1,497	1,596	1,711
% change		4.3%	6.6%	7.2%
EBITDA	418	437	469	509
EBIT	297.2	288.5	421.1	460.8
% change		-2.9%	45.9%	9.4%
Net income	283.9	290.3	318.9	350.1
% change		2.2%	9.9%	9.8%

	09/15	09/16e	09/17e	09/18e
Operating margin	27.1	27.6	27.9	28.4
Net margin	13.5	13.1	18.5	19.1
ROE	22.5	21.7	28.5	27.3
ROCE	25.2	31.7	32.8	37.8
Gearing	39.6	17.6	-2.5	-20.1

(p)	09/15	09/16e	09/17e	09/18e
EPS	25.29	25.85	28.39	31.17
% change	-	2.2%	9.9%	9.8%
P/E	22.4x	22.0x	20.0x	18.2x
FCF yield (%)	4.6%	4.8%	5.4%	6.0%
Dividends (p)	13.10	13.76	14.44	15.16
Div yield (%)	2.3%	2.4%	2.5%	2.7%
EV/Sales	4.5x	4.2x	3.8x	3.4x
EV/EBITDA	15.5x	14.4x	13.0x	11.6x
EV/EBIT	16.6x	15.2x	13.7x	12.1x

VALUATION

Sage's shares are trading at est. 15.2x FY16 and 13.7x FY17 EV/EBIT multiples.

NEXT CATALYSTS

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