5th February 2016

TMT

SAP

Price EUR69.90

Feedback from Investors' Day: rolling out the model

Fair Value EUR74 vs. EUR75 (+6%) **NEUTRAL**

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EUR)	85,872
Ev (BG Estimates) (EUR)	88,713
Avg. 6m daily volume (000)	3 187
3y EPS CAGR	5.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.0%	-4.4%	6.0%	-4.7%
Softw.& Comp.	-3.3%	-4.1%	0.2%	-6.1%
DJ Stoxx 600	-7.8%	-13.5%	-17.6%	-10.1%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,448	22,794	24,345
% change		*3.1%*	*6.3%*	*6.8%*
EBITDA	6,884	6,975	7,318	7,918
EBIT	4,251	5,025	5,503	6,063
% change		*18.2%*	*9.5%*	*10.2%*
Net income	4,660	4,958	5,158	5,522
% change		*6.4%*	*4.0%*	*7.1%*

	2015	2016e	2017e	2018e
Operating margin	30.5	29.9	29.5	29.9
Net margin	14.8	17.7	18.0	18.4
ROE	13.2	14.9	14.6	14.5
ROCE	18.5	18.4	19.2	20.9
Gearing	24.7	11.1	-0.9	-11.6

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.93	4.09	4.38
% change	-	*6.4%*	*4.0%*	*7.1%*
P/E	18.9x	17.8x	17.1x	16.0x
FCF yield (%)	3.5%	5.4%	5.7%	6.1%
Dividends (€)	1.20	1.30	1.40	1.50
Div yield (%)	1.7%	1.9%	2.0%	2.1%
EV/Sales	4.4x	4.1x	3.8x	3.4x
EV/EBITDA	13.3x	12.7x	11.7x	10.4x
EV/EBIT	14.5x	13.8x	12.7x	11.3x

We reiterate our Neutral rating following the Investors' Day held yesterday in New York, but have shaved our DCF-derived Fair Value to EUR74 from EUR75 on updated fx assumptions (adj. EPS: -2% for 2016, -3% for 2017-18). Financial targets have been reaffirmed, and concerns on growth and profitability have been addressed. Our main takeway is that S/4HANA provides an opportunity to reinvigorate licence sales on the core offering, and Cloud is likely to sustain 30% lfl growth. However, non-IFRS op. margin improvement seems unlikely before 2018 when the cloud reaches maturity.

ANALYSIS

- **Addressing concerns on growth**. 1). Licences sales remain solid, as SAP acts as one company for its whole business (on-premise/cloud), and S/4HANA is reinvigorating the Core while offering customers the chance to move their ERP to the cloud; 2). Maintenance was up 7% lfl in 2015 with a 97% renewal rate, with no major adverse impact from cloud conversion, offset anyway by large customers on self-delivered services (PSLE) - so modelling 5% growth for 2020 with a 96% renewal rate makes sense; 3). SAP believes 30% revenue growth in the cloud is sustainable as there are new drivers from 2017 (upscale infrastructure, international expansion of Concur, HANA Enterprise Cloud, S/4HANA Cloud Edition, Cloud for Analytics, HANA Cloud Platform, IoT).
- **Financial targets reaffirmed.** Non-IFRS operating profit is expected to rise from EUR6.3bn in 2015 to EUR6.4-6.7bn for 2016 and EUR6.7-7bn for 2017, then accelerate to EUR8-9bn for 2020. Hiring in 2016 is planned to be similar to 2015 (c. 2,600) to fuel the 'innovation engine' (R&D including the industry roadmap, sales, marketing, cloud infrastructure upgrade). SAP keeps targeting a 73% gross margin in the cloud for 2020 vs. 66% in 2015 (75% on Business Networks, 70% on public cloud, negative on private cloud) as there will be up to 80% of existing customers in the revenue mix (vs. 60%) and the margin of the private cloud is expected to tend to 40%. Finally, operating cash flow is projected to increase in line with operating profit from 2016, after two years of decline as a percentage of sales due to a vast restructuring program.
- **Update on S/4HANA**. The 15-11 version of S/4HANA launched in November 2015 provides a major update and the entire ERP is underway to fit in all industries in 2016 (80% of functionalities - the rest being addressed from 2017). The debate that has existed since the the launch of S/4HANA on the pricing model has been clarified: existing customers paying maintenance for the Business Suite moving to S/4HANA will not pay for the foundation licence after the end of the promotion period in December 2015. However, no negative impact is expected as more licence sales are expected on HANA and new users and apps. With 2,700 S/4HANA customers, the marketing roadmap for 2016 is about boosting adoption through workshops to understand value and readiness check.
- **Update on the Business Network**. It includes Concur (travel & expense), Ariba (network commerce) and Fieldglass (contingent workforce management). In 2015, all three solutions exceeded booking forecasts, with 5,000+ customers and 32m+ users for Concur, 2m connected companies on the Ariba Network, and 1.9m workers placed and 100+ new customer 'go-lives' on Fieldglass. Cross-selling is starting between Fieldglass and SuccessFactors (Total Workforce Solutions). Finally, the Business Network has strong potential inside and outside the SAP customer base.

VALUATION

- SAP's shares are trading on EV/EBIT multiples of 13.8x for 2016 and 12.7x for 2017.
- Net debt on 31st December 2015 was EUR5.752bn (net gearing: 25%).

NEXT CATALYSTS

- Investor program at CeBIT in Hannover (Germany) on 15th March from 12pm CET.
- Q1 2016 results on 20th April before markets open. *Click here to download document*

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