

Sector View

Software and IT Services

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	7.4%	-2.1%	14.1%	-3.5%
DJ Stoxx 600	5.9%	-5.2%	-4.4%	-6.8%

*Stoxx Sector Indices

Companies covered

ALTEN	SELL	EUR47
Last Price	EUR53,66	Market Cap. EUR1,806m
ALTRAN TECHNOLOGIES	BUY	EUR13
Last Price	EUR11,87	Market Cap. EUR2,087m
ATOS	BUY	EUR93
Last Price	EUR69,77	Market Cap. EUR7,223m
AXWAY SOFTWARE	NEUTRAL	EUR24
Last Price	EUR19,71	Market Cap. EUR405m
CAPGEMINI	BUY	EUR93
Last Price	EUR78,77	Market Cap. EUR13,563m
CAST	BUY	EUR3,9
Last Price	EUR3,38	Market Cap. EUR55m
DASSAULT SYSTEMES	SELL	EUR63
Last Price	EUR70,34	Market Cap. EUR18,058m
INDRA SISTEMAS	BUY	EUR11
Last Price	EUR9,905	Market Cap. EUR1,626m
SAGE GROUP	NEUTRAL	570p
Last Price	601,5p	Market Cap. GBP6,492m
SAP	NEUTRAL	EUR74
Last Price	EUR71,25	Market Cap. EUR87,531m
SOFTWARE AG	BUY	EUR34
Last Price	EUR32,72	Market Cap. EUR2,585m
SOPRA STERIA GROUP	BUY	EUR113
Last Price	EUR104	Market Cap. EUR2,126m
SWORD GROUP	BUY	EUR28
Last Price	EUR23,9	Market Cap. EUR224m
TEMENOS GROUP	BUY	CHF53
Last Price	CHF49,55	Market Cap. CHF3,349m

Oracle Q3 results: positive read-across for European Software vendors

Yesterday evening Oracle reported Q3 sales (FYE 31st May) in line with expectations with cloud SaaS/PaaS sales growth way above company guidance and non-GAAP EPS 3% above consensus expectations and company guidance. The Q4 outlook reflects Oracle's accelerated positive momentum in the cloud, based on strong bookings. A USD10bn share buy-back programme extension was helpful. We view these numbers as a positive read-across for European software vendors.

ANALYSIS

- Revenues in line, non-GAAP EPS 3% above consensus estimates.** For its quarter ended 29th February 2016, Oracle has reported non-GAAP EPS down 6% (flat at cc) at USD0.64 (i.e. USD0.68 at cc) or 3% above the high-end of company guidance, which was given at cc (USD0.63-0.66), and 3% above consensus (USD0.62). Total revenues were up 1% at cc to USD9.01bn or at the mid-point of the guidance range (0%/+3% at cc) and 1% below consensus (USD9.13bn). Cloud and on-premise software revenues rose 3% cc to USD7.09bn (guidance: +3%/+4%; consensus: USD7.12bn). Hardware product sales were down 8% cc.
- Q3 details.** At cc, on-premise software sales were flat, with new licences down 11% and maintenance up 5%, cloud SaaS/PaaS sales rose 61% (guidance: +49%/+53% at cc), and cloud IaaS was up 2% (guidance: +3%/+7% at cc). Cloud and on-premise software revenues rose 1% cc (vs. flat in Q2) in the Americas, up 2% at cc (vs. +3% in Q2) in EMEA, and up 13% at cc (vs. +6% in Q2) in Asia Pacific. In SaaS, Oracle added 942 new customers (vs. 857 in Q2) plus 783 customer expansions, of which 213 (vs. 211) in HCM, 465 (vs. 409) in Customer Experience and 334 (vs. 311) in ERP. It now has 1,800+ Cloud ERP customers (vs. 207 for Workday on Financial Management and 2,700 for SAP on S/4HANA including a vast majority of on-premise customers), out of which 1,500 are now live on Fusion (vs. 100+ for Workday). In PaaS, Oracle had 1,143 new customers and has an installed base of c. 5,000 clients out of 310,000 database customers.
- Q4 guidance.** For Q4 (May 2016 quarter), management has cut total sales guidance to -2%/+1% at cc (vs. +1%/+3% at cc), with Cloud & On-Premise software guidance shaved to +1%/+2% at cc from +2%/+4% at cc (SaaS/PaaS guidance upped to +57%/+61% at cc from +55%/+59% at cc, IaaS guidance lowered to -1%/+3% at cc from +1%/+5% at cc), and non-GAAP EPS fine-tuned to USD0.82-0.85 from USD0.83-0.86. For Q1 FY17 (August 2016 quarter), Oracle anticipates SaaS/PaaS sales growth above 59% at cc. SaaS/PaaS bookings were up 77% at cc in Q3 (vs. +75% in Q2) and Oracle is on track for its USD1.5bn bookings target. NB. SaaS/PaaS posted a gross margin of 50.8% in Q3 FY16 (+4.1ppt), and Oracle plans to reach 80% as soon as possible.
- Positive short-term read-across for European Software vendors.** As such, from a short-term perspective we consider this publication is positive for SAP and other European software vendors. Revenue momentum accelerates in the cloud, and there is no longer reluctance for customers to embrace the cloud whatever the geography. However, with an aggressive strategy, Oracle's cloud SaaS/PaaS revenue growth (+61% lfl) remains way above the cloud subscription growth of SAP (est. +32% lfl in Q4 15), Workday (+44% in Q4 FY16) and Salesforce (+31% lfl in Q4 FY16).

VALUATION

European software companies: EV/EBIT multiples of 14.8x for 2016 and 13.8x for 2017.

NEXT CATALYSTS

- Accenture's Q2 results on 24th March before US markets open.
- SAP's Q1 2016 results on 20th April before trading

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