

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EUR)	82,936
Ev (BG Estimates) (EUR)	85,690
Avg. 6m daily volume (000)	3 083
3y EPS CAGR	6.0%

On Friday night SAP pre-announced Q1 16 results below expectations, but reiterated FY16 guidance amidst of a strong start in Q2 and the expectation of increasing momentum as the year progresses. While Q4 15 benefited from intense licence sales activity (+11% lfl), Q1 16 licence sales were down 10% lfl due to: 1). Continuing political and economic instability in Latin America; 2). A slower-than-anticipated start to the year in North America. Cloud subscriptions performed in line with expectations. As such, we expect a slightly negative reaction in the near term.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-5.0%	13.5%	-8.0%
Softw. & Comp.	0.6%	-0.9%	9.3%	-5.6%
DJ Stoxx 600	-1.7%	-2.8%	-8.2%	-9.3%

ANALYSIS

- Q1 16 results below expectations.** For Q1 16, on a non-IFRS basis, SAP pre-announced sales up 6% lfl to EUR4.73bn (BG est.: EUR4.73bn; consensus: EUR4.82bn), Cloud & Software revenues up 6% lfl to EUR3.85bn (BG est.: EUR3.88bn or +8.4% lfl; consensus: EUR3.97bn or +8.7% lfl), cloud subscriptions revenues up 33% lfl to EUR0.68bn (BG est.: EUR0.65bn or +32% lfl; consensus: EUR0.68bn or +33% lfl), licence sales down 10% lfl to EUR0.61bn (BG est.: EUR0.68bn; consensus: EUR0.70bn), and an operating profit of EUR1.10bn (23.3% of sales vs. 23.5% in Q1 15) vs. BG est. of EUR1.11bn (23.6% of sales) and consensus of EUR1.13bn (23.6%). At cc, non-IFRS op. profit was up 4% to EUR1.10bn (margin down 0.4ppt). IFRS operating profit was up 28% to EUR0.81bn, while we expected EUR0.83bn (consensus: EUR0.77bn). Finally, non-IFRS EPS was up 9% to EUR0.64 or 6% below our forecast (EUR0.68) and 7% behind consensus (EUR0.69).
- Disappointing licence sales in the Americas region after a strong Q4 15.** On a regional basis, SAP had solid software revenue performance in the EMEA and Asia Pacific regions. The disappointment came from the Americas: 1). Latin America – in particular Brazil – suffered from continuing political and economic instability; 2). In North America, SAP, which came off a very strong Q4 15 after an intense promotion period on S/4HANA (version 15-11), had a slower-than-anticipated start to the year. At the end of March, SAP had more than 3,200 S/4HANA customers - at least +500 in Q1 16 (o/w 30% are net new customers), which is basically the pace of new S/4HANA customers it had in Q3 15, vs. an impressive +1,400 in Q4 15. On cloud subscriptions, revenue growth is fully in line with full-year targets, while new cloud bookings were up 25% at cc in Q1 16.
- FY16 guidance reiterated amidst of a strong start in Q2 16.** On a non-IFRS basis, SAP reiterated FY16 guidance, i.e. Cloud & Software revenues up 6-8% at cc, Cloud subscriptions up 28-33% at cc to EUR2.95-3.05bn, and a non-IFRS operating profit of EUR6.4-6.7bn at cc (est. 29.5-31% of sales). SAP's confidence in achieving FY16 guidance despite weak licence sales in Q1 16 is underpinned by the following items: 1). Q2 16 was off to a strong start with several software and cloud deals closing in early April; 2). Management expects increasing momentum as the year progresses; 3). The robust pipeline across SAP's entire portfolio. The consensus is, at this stage, in line with these assumptions: Cloud & Software sales up 7.6% at cc (BG est.: +7.4%), Cloud subscriptions up 32.5% at cc to EUR3.03bn (BG est.: +32% at cc to EUR2.93bn), non-IFRS operating profit of EUR6.69bn or 32.5% of sales (BG est.: EUR6.48bn or 32% of sales). For FY16 we shave our adj. EPS ests. by 1% and our lfl sales growth forecast to 6.1% from 6.6% (Cloud & Software: to +6.7% from +7.4%).

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,562	22,923	24,494
% change		3.7%	6.3%	6.9%
EBITDA	6,884	7,002	7,352	7,963
EBIT	4,251	5,052	5,537	6,108
% change		18.8%	9.6%	10.3%
Net income	4,660	4,978	5,183	5,554
% change		6.8%	4.1%	7.2%

	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	14.4
ROCE	18.5	18.5	19.2	21.0
Gearing	24.7	10.7	-1.7	-12.7

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.95	4.11	4.40
% change	-	6.8%	4.1%	7.2%
P/E	18.3x	17.1x	16.4x	15.3x
FCF yield (%)	3.6%	5.6%	5.9%	6.3%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.7%	1.8%	1.9%	2.1%
EV/Sales	4.3x	4.0x	3.6x	3.2x
EV/EBITDA	12.9x	12.2x	11.2x	9.9x
EV/EBIT	14.0x	13.3x	12.2x	10.8x



VALUATION

- SAP's shares are trading at est. 13.3x 2016 and 12.2x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR5,752m (net gearing: 25%).

NEXT CATALYSTS

Final Q1 16 results on 20th April before markets open.

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