

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EUR)	87,261
Ev (BG Estimates) (EUR)	90,014
Avg. 6m daily volume (000)	3 082
3y EPS CAGR	6.0%

This morning SAP has reported final Q1 results in line with the preliminary figures released on 8th April. The gross margin for Cloud subscriptions was up 1.2ppt, while the gross margin for Services fell 4.9ppt. Guidance for FY16 is reiterated. We do not expect the share price to react particularly to these numbers.

ANALYSIS

- Confirmed Q1 numbers.** In line with the pre-announcement (8/4/2016), SAP has reported Q1 non-IFRS sales up 5% (+6% lfl) to EUR4,728m, Cloud & Software revenues up 6% lfl to EUR3,851m, Cloud subscriptions up 33% lfl to EUR678m, licence sales down 10% lfl to EUR609m, a non-IFRS operating profit up 4.5% (+4% at cc) to EUR1,104m or 23.3% of sales (-0.1ppt, or -0.4ppt at cc), an EBIT up 27.4% to EUR813m, and a non-IFRS EPS up 10.3% to EUR0.64. As mentioned a week ago, new cloud bookings increased 26% lfl in the quarter to EUR145m. New figures reported today are: 1) A gross margin up 1.2ppt to 66.3% for Cloud subscriptions (o/w +0.2ppt to 75.3% for SAP Business Network and +4.7ppt to 55.2% for Applications & Technology), and down 4.9ppt to 4.1% for Services; 2) Restructuring costs of EUR11m (vs. full-year guidance of EUR40-60m), down from EUR51m in Q1 15; 3) A free cash flow up 3.9% to EUR2,313m, i.e. a free cash flow / sales ratio of 49% (vs. 50% for Q1 15) despite DSOs up six days to 73 days.
- Other Q1 details.** 1) Q1 sales growth was driven by Germany and the US (both +8% lfl), followed by the rest of EMEA (+7% lfl), Japan (+4% lfl) and the rest of Asia Pacific (+2% lfl), while the rest of America was down 4% lfl; 2) Cloud & Software sales were up 3% lfl in the Americas (instability in Brazil), up 10% lfl in EMEA (solid licence revenue growth), and up 3% lfl in Asia Pacific (tough comps on licence sales as China grew double-digit in Q1 15); 3) Cloud subscriptions were up 28% lfl in the Americas, up 50% lfl in EMEA, and up 30% lfl in Asia Pacific, and, by segment, were up 51% lfl in Applications & Technology (SuccessFactors, CEC, etc.) and up 21% for SAP Business Network (Ariba, Concur, Fieldglass); 4) While SAP already mentioned that the number of S/4HANA customers reached 3,200 at the end of Q1 16 (+500 in the quarter), Employee central has more than 1,100 customers (+100 in the quarter, and vs. 640 as of end of March 2015), and Customer Engagement & Commerce (CEC) saw cloud subscriptions up strong double-digit; 5) 17% of the on-premise licence deals were above EUR5m, down from 23% in Q1 15.
- FY16 guidance reiterated.** On a non-IFRS basis, SAP still expects for FY16 Cloud & Software revenues up 6-8% at cc, with Cloud subscriptions up 28-33% at cc to EUR2,950-3,050m, and an operating profit of EUR6.4-6.7bn at cc. Based on the rates of the end of March 2016, the management now expects a tailwind from fx of 1-3ppt (0-2ppt for Q2) on Cloud & Software revenues as well as operating profit, which would give a non-IFRS operating profit of EUR6.4-6.9bn (BG est.: EUR6,437m; consensus: EUR6,649m as of 7th April).

VALUATION

- SAP's shares are trading at est. 14.0x 2016 and 12.9x 2017 EV/EBIT multiples.
- Net debt on 31st March 2016 was EUR3,365m (net gearing: 15%).

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