

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EUR)	87,334
Ev (BG Estimates) (EUR)	90,063
Avg. 6m daily volume (000)	3 078
3y EPS CAGR	6.4%

We reiterate our Buy rating following the conference call held yesterday, while our adj. EPS ests. remain virtually unchanged. The key messages from the call were that: 1) S/4HANA is progressing well, although the number of projects gone live or under deployment remains small; 2) Services gross margin is under pressure with quick deployments; 3) The very strong pipeline makes management confident in company guidance; 4) SAP intends to maintain discipline in M&A.

ANALYSIS

- S/4HANA progressing well.** Out of the 500 customer additions on S/4HANA in Q1 2016, more than 30% of these are net new customers for SAP, thereby testifying to SAP's ability to replace third-party solutions on S/4HANA and not only migrate its own ERP systems. Out of 3,700 S/4HANA customers, 146 are live (c. +45 in the quarter, with an increasing number of referenceable customers such as Benetton, Gas Natural or Munich Re) and 539 are under deployment on Finance and/or Logistics. Note importantly that although the vast majority of these customers have bought a software licence, many of them are running them - or planned to run them - on the HANA Enterprise Cloud (private cloud). According to management, S/4HANA, which sees revenues growing triple-digit, is instrumental in the success of the HANA Enterprise Cloud (and vice-versa).
- Details on gross margin evolution.** The decline in Services gross margin (-4.9ppt to 4%) in Q1 stemmed from a peak in deployments. Services revenues in the quarter were up 6% lfl with very positive growth on Premium maintenance and a return to positive modest growth on traditional services. A lot of projects due for completion in Q1 pushed SAP to use third party services to fill demand. More generally, the switch to the cloud requires services that needs to be consumed quickly, which could lead to low margins. However, as SAP progresses further, management expects services gross margin will pick up again in 2016 and beyond on a sequential basis, but it looks an evidence - and the management admits this - it is unlikely to reach the levels it generated with the 'good old' large on-premise deployments again. The Cloud subscription gross margin is confirmed to be stable or slightly growing in 2016 despite the investments required to migrate the infrastructure and platform to HANA in order to increase the efficiency of operations.
- A very strong pipeline underpinning FY16 guidance.** Management is confident in delivering FY16 guidance as the pipeline is very strong, despite some weakness in Energy, Manufacturing and Government. However, it insisted on the fact the economic environment was a given, and SAP's growth and margins rely essentially on execution - which was proven in Q1 despite licence sales down 10% lfl. In addition, many licence deals postponed in Q1 16 have been signed early April, and the management expects the momentum accelerates as the year progresses.
- Update on M&A.** SAP reiterated the fact it is no longer interested in acquiring line-of-business cloud/SaaS vendors with strong growth, no profitability and stellar valuations, just to gain market share in a segment. Other companies are smaller but more profitable and with more reasonable valuation multiples, and may add value to SAP's offering (solution capacity), in order to service customers, but nothing is on the table at this stage.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	0.2%	6.9%	-3.1%
Softw.& Comp.	1.1%	4.7%	7.0%	-2.5%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,724	23,154	24,744
% change		4.5%	6.6%	6.9%
EBITDA	6,884	7,066	7,440	8,039
EBIT	4,251	5,077	5,624	6,183
% change		19.4%	10.8%	9.9%
Net income	4,660	4,991	5,250	5,611
% change		7.1%	5.2%	6.9%

	2015	2016e	2017e	2018e
Operating margin	30.5	29.9	29.5	29.9
Net margin	14.8	17.6	18.2	18.4
ROE	13.2	14.9	14.8	14.5
ROCE	18.5	18.7	19.5	21.2
Gearing	24.7	10.6	-2.0	-13.1

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.96	4.16	4.45
% change	-	7.1%	5.2%	6.9%
P/E	19.2x	18.0x	17.1x	16.0x
FCF yield (%)	3.4%	5.4%	5.7%	6.1%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.6%	1.7%	1.8%	2.0%
EV/Sales	4.5x	4.1x	3.7x	3.4x
EV/EBITDA	13.5x	12.7x	11.7x	10.4x
EV/EBIT	14.7x	13.9x	12.7x	11.2x



VALUATION

- SAP's shares are trading at est. 13.9x 2016 and 12.7x 2017 EV/EBIT multiples.
- Net debt on 31st March 2016 was EUR3,365m (net gearing: 15%).

NEXT CATALYSTS

- Sapphire Now 2016 users' conference on 17-19th May in Orlando.
- Q2 results on 20th July before markets open.

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