

13th April 2016

TMT

Software AG

Price EUR33.47

Preliminary Q1 16 results way ahead of expectations, FY16 guidance reiterated

Fair Value EUR39 (+17%)

BUY

Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	34.9 / 23.8
Market Cap (EURm)	2,644
Ev (BG Estimates) (EURm)	2,517
Avg. 6m daily volume (000)	256.4
3y EPS CAGR	3.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	31.0%	26.3%	26.7%
Softw. & Comp.	-1.2%	-1.6%	9.0%	-5.9%
DJ Stoxx 600	-2.7%	-2.2%	-8.3%	-9.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	873.1	879.7	911.6	953.7
% change		0.8%	3.6%	4.6%
EBITDA	278	285	302	322
EBIT	209.4	231.2	248.6	267.7
% change		10.4%	7.5%	7.7%
Net income	188.1	190.7	204.2	218.2
% change		1.4%	7.1%	6.9%

	2015	2016e	2017e	2018e
Operating margin	30.2	30.7	31.6	32.2
Net margin	16.0	17.2	18.1	18.8
ROE	12.8	12.6	12.5	12.0
ROCE	17.7	18.1	19.8	21.7
Gearing	1.3	-10.6	-21.0	-32.6

(€)	2015	2016e	2017e	2018e
EPS	2.33	2.25	2.40	2.57
% change	-	-3.6%	7.1%	6.9%
P/E	14.4x	14.9x	13.9x	13.0x
FCF yield (%)	6.5%	6.8%	7.3%	7.7%
Dividends (€)	0.55	0.60	0.65	0.70
Div yield (%)	1.6%	1.8%	1.9%	2.1%
EV/Sales	3.0x	2.9x	2.6x	2.3x
EV/EBITDA	9.6x	8.8x	7.8x	6.7x
EV/EBIT	10.1x	9.3x	8.2x	7.0x

This morning Software AG pre-announced Q1 16 results way above expectations thanks to early contract closings in the A&N (Adabas & Natural) division, while the DBP (Digital Business Platform) division is growing, but not at the double-digit rate we expected despite easy comps. The strong A&N licence sales and a strong sales productivity increase in DBP boosted the non-IFRS operating margin to 28.7%, while we and the consensus expected 23.4-23.5%. FY16 company guidance is reiterated, while the DBP sales increase in Q1 16 is in the +5%/+10% lfl range guided for the full-year. We expect the share price to react positively.

ANALYSIS

- Q1 16 preliminary results above expectations.** Based on preliminary figures, Q1 16 sales rose 6.2% (+8.8% lfl) to EUR206.2m, or 4% above our forecast (EUR198.4m) and the consensus (EUR198.2m). Non-IFRS operating profit was up 22.9% to EUR59.1m or 28.7% of sales (+3.9ppt) or 27% ahead of our estimate and the consensus (EUR46.5m or 23.4-23.5%). IFRS EBIT was up 54.6% to EUR45.3m (BG est.: EUR35.9m; consensus: EUR35.1m). Licence sales were up 31% lfl to EUR59.1m or 17% above our est. (EUR50.5m) and 21% ahead of the consensus (EUR48.7m), while maintenance was up 2% lfl.
- Details by division. 1). For the Digital Business Platform (DBP) division,** Product sales were up 4% (+6% lfl) to EUR94.6m (BG est.: EUR99.4m, consensus: EUR97.9m), of which EUR32.7m (+7% lfl) in licences and +5% lfl on maintenance, while the business line margin was up 7.7ppt to 25.2% (BG est.: 24.2%) thanks to sales and marketing costs down 11% lfl - demonstrating a sharp improvement in sales productivity; **2). For the A&N (Adabas & Natural) division,** Product sales were up 14.8% (+20% lfl) to EUR63.6m (BG est.: EUR51.6m; consensus: EUR52.3m), of which an impressive EUR26.4m (+79% lfl) in licences - due to early contract closings and driven by Software AG's announcement in Q4 15 to support the A&N customer base beyond 2050 - and -4% lfl on maintenance, while the business line margin was up 2ppt to 70.4% (BG est.: 67.7%); **3). For Consulting,** sales were up 0.6% (+2% lfl) to EUR48m (BG est.: EUR47.4m; consensus: EUR48m) with a business line margin down 4ppt to 4% (BG est.: 8.8%) as the gross margin fell by 4.7ppt to 13.1%.
- FY16 guidance reiterated.** For FY16, Software AG still expects DBP Product sales up 5-10% at cc, A&N Product sales at -8%/-4% at cc, and a non-IFRS operating margin of 30-31%. These figures are in line with our forecasts, as we expect +8% for DBP, -5% for A&N, and a non-IFRS operating margin of 30.7% (consensus: 30.8%). DBP revenues in Q1 16, up 6% lfl, are still in the guidance range for the full-year, but we thought Software AG could be able to deliver a better performance (+10% lfl) due to east comps (Q1 15 DBP revenues were down 14% lfl). On the other hand, the performance for A&N was outstanding in Q1 15 - helped by early deal closings, which may augur a weak quarter in Q2 or Q3 - but supports our view that the upper-end of the -8%/-4% range could be reached.

VALUATION

- Software AG's shares are trading at est. 9.3x 2016 and 8.2x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was EUR13.9m (net gearing: 1%).

NEXT CATALYSTS

Conference call at 9am CET / 8am BST / 3am EDT (UK: +44 20 30 59 81 28; USA: +1 631 302 65 47).

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