

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EURm)	84,705
Ev (BG Estimates) (EURm)	87,434
Avg. 6m daily volume (000)	2,975
3y EPS CAGR	6.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	-0.4%	-6.8%	-6.0%
Softw. & Comp.	-0.8%	2.8%	-3.5%	-4.4%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

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	6,333	6,501	6,840	7,399
% change		2.6%	5.2%	8.2%
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	18.7x	17.4x	16.6x	15.5x
FCF yield (%)	3.5%	5.5%	5.8%	6.3%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.7%	1.7%	1.9%	2.0%
EV/Sales	4.3x	4.0x	3.6x	3.3x
EV/EBITDA	13.1x	12.4x	11.3x	10.0x
EV/EBIT	14.3x	13.5x	12.3x	10.9x

As a follow-up to our comments published yesterday on the Sapphire Now 2016 event, and on top of the analysts' meeting, we met the CFO Luka Mucic and the Head of Business Networks & Apps Steve Singh. Management remains committed to medium-term targets. Our key takeaways from yesterday are the following: 1). The simplified product roadmap should help adoption of S/4HANA, with the goal of converting half of the Business Suite installed base by 2020; 2). Q2 is likely to be the fastest growing quarter of 2016; 3). Business Networks are expected to see growth accelerate.

## ANALYSIS

- Simplifying the roadmap.** Although SAP has 3,200 customers on S/4HANA, only 170 are "live" (Sabre, Burberry, Under Armour, Siemens...), and have not had generated a significant percentage of revenues so far. The product roadmap (available in a 12-page flyer), an increased number of live references and the support of large systems integrators – under a "value assurance" contract – are important for mass adoption of S/4HANA. SAP expects 1,000 S/4HANA will be gone "live" by end 2016 and half of its 30,000 Business Suite (customers will migrate to S/4HANA by 2020. At this stage, the vast majority of S/4HANA deals are on-premise, but public cloud contracts are expected to surge from 2018. The HANA Cloud Platform will enjoy growing importance going forward as SAP has recently launched its API framework in order to help partners building apps on top of S/4HANA. Finally, SAP relaunched its BI in the cloud through Business Objects Cloud, which replaces its Lumira Cloud and catches up on Tableau.
- Q2 likely to be the fastest-growing quarter of the year.** Unsurprisingly, SAP reiterated confidence in 2016 guidance (Cloud & Software up 6-8% at cc, non-IFRS op. profit of EUR6.4-6.7bn at cc) as well as 2020 targets (sales of EUR26-28bn with a non-IFRS op. profit of EUR8-9bn) with the goal to improve the operating margin from 2018. Q2 16 is likely to be strong on licence sales growth as most of the deals postponed at the end of Q1 – licence sales in Q1 16 were down 10% lfl – have been closed since, and management is confident on flattish licence revenues for 2016. This implies a decent Q3, but maybe some decline in Q4 given tough comps (+11% lfl in Q4 15). On emerging countries: 1). Brazil was weak in Q1 16 with very low licence sales, but looks to have reached the trough; 2). China continues to perform quite well, and management is confident that this will continue; 3). Russia has returned to growth lfl since H2 15; 4). Middle-East is impacted by oil prices. Finally, SAP reiterates its intention not to make big acquisitions until 2018. It will be opportunistic and we deem machine learning is an area the company may look at on M&A.
- Acceleration expected on Business Networks.** Within cloud subscriptions up 33% lfl in Q1 16, Business Networks (Ariba, Concur, Fieldglass) were up 21% lfl while other SaaS applications (SuccessFactors, Cloud for Customer, Business ByDesign...) were up 51% lfl. The growth rate of Business Networks was a bit weak (Ariba was up just above the low double-digits after having slowed down since H1 15), but is expected to accelerate in the coming quarters. On Concur, penetration rate is already high in the US, but there is high potential in other geographies. On SMEs, SAP intends to make further announcements highlighting its renewed focus in this areas, and we understand this will imply more integration with the different business suites with cloud apps and business networks. More investments are planned for pushing Ariba and Fieldglass in the SME space, but also to make sure that software deployments will be affordable for SMEs.

## VALUATION

- SAP's shares are trading at est. 13.5x 2016 and 12.3x 2017 EV/EBIT multiples.
- Net debt on 31<sup>st</sup> March 2016 was EUR3,365m (net gearing: 15%).

## NEXT CATALYSTS

Q2 16 results on 20<sup>th</sup> July before markets open.

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**Analyst :**  
 Gregory Ramirez  
 33(0) 1 56 68 75 91  
 gramirez@bryangarnier.com

**Sector Team :**  
 Richard-Maxime Beaudoux  
 Thomas Coudry  
 Dorian Terral

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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