

Sector View

Software and IT Services

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	-2.6%	-4.4%	-5.8%	-7.7%
DJ Stoxx 600	-4.0%	-5.8%	-10.9%	-12.2%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	Target Price
ALTEN	SELL	EUR48
Last Price	EUR52,25	Market Cap. EUR1,759m
ALTRAN TECHNOLOGIES	NEUTRAL	EUR13
Last Price	EUR11,78	Market Cap. EUR2,071m
ATOS	BUY	EUR93
Last Price	EUR76,64	Market Cap. EUR7,952m
AXWAY SOFTWARE	NEUTRAL	EUR20
Last Price	EUR20,25	Market Cap. EUR421m
CAPGEMINI	BUY	EUR97
Last Price	EUR81,78	Market Cap. EUR14,081m
CAST	NEUTRAL	EUR3,6
Last Price	EUR3,35	Market Cap. EUR54m
DASSAULT SYSTEMES	SELL	EUR63
Last Price	EUR65,78	Market Cap. EUR16,903m
INDRA SISTEMAS	NEUTRAL	EUR10
Last Price	EUR9,12	Market Cap. EUR1,497m
SAGE GROUP	SELL	555p
Last Price	594p	Market Cap. GBP6,412m
SAP	NEUTRAL	EUR73
Last Price	EUR67,33	Market Cap. EUR82,715m
SOFTWARE AG	BUY	EUR40
Last Price	EUR30,695	Market Cap. EUR2,425m
SOPRA STERIA GROUP	BUY	EUR130
Last Price	EUR104,9	Market Cap. EUR2,145m
SWORD GROUP	BUY	EUR26
Last Price	EUR23	Market Cap. EUR217m
TEMENOS GROUP	NEUTRAL	CHF52
Last Price	CHF53,35	Market Cap. CHF3,709m

Oracle Q4 FY16 results: positive read-across for European Software vendors

Yesterday evening, Oracle reported Q4 FY16 sales (FYE 31st May) in line with expectations both on cloud SaaS/PaaS sales growth and non-GAAP EPS. FY17 outlook continues to reflect Oracle's accelerated positive momentum in the cloud, helped by an aggressive strategy. We view these numbers as a positive read-across for European software vendors.

ANALYSIS

- Revenues and non-GAAP EPS in line with consensus estimates.** For its quarter ended 31st May 2016, Oracle has reported non-GAAP EPS up 9% (+5% at cc) at USD0.81 (i.e. USD0.82 at cc) or at the low-end of company guidance, which was given at cc (USD0.82-0.85), and in line with consensus (USD0.82). Total revenues were flat at cc to USD10.6bn or at the mid-point of the guidance range (-2%/+1% at cc) and 1% above consensus (USD10.46bn). Cloud and on-premise software revenues were up 2% at cc to USD8.44bn (guidance: +1%/+2%; consensus: USD8.37bn). Hardware product sales were down 10% at cc.
- Q4 FY16 details.** At cc, on-premise software sales were down 2%, with new licences down 10% and maintenance up 4%, cloud SaaS/PaaS sales rose up an impressive 68% (guidance: +57%/+61% at cc), and cloud IaaS was up 8% (guidance: -1%/+3% at cc). Cloud and on-premise software revenues were down 2% cc (vs. +1% in Q3) in the Americas, up 5% at cc (vs. +2% in Q3) in EMEA, and up 11% at cc (vs. +13% in Q3) in Asia Pacific. In SaaS, Oracle added 1,640 new customers (vs. 942 in Q3) plus 917 customer expansions, of which 318 (vs. 213) in HCM, 700 (vs. 465) in Customer Experience and 808 (vs. 334) in ERP. Its SaaS/PaaS installed based now reaches 12,000 customers. It now has 2,600 Cloud ERP customers on the Oracle public cloud (vs. 230+ for Workday on Financial Management and 3,200 for SAP on S/4HANA including a vast majority of on-premise customers), out of which 1,577 are now live on Fusion. In PaaS, Oracle had 2,005 new customers and has an installed base of 9,000 clients.
- Q1 FY17 guidance.** For Q1 FY17 (August 2016 quarter), management expects total revenues up 2-5% at cc, with Cloud & On-Premise software guidance up 5-7% at cc (SaaS/PaaS guidance +75%/+80% at cc including acquisitions vs. 'above +59% at cc'), and non-GAAP EPS USD0.56-0.60. Cloud bookings were up 52% at cc and Oracle now ambitions to be the first software company to generate USD10bn revenues in cloud subscriptions. For FY17, Oracle anticipates SaaS/PaaS revenues up above 65% (vs. +62% for FY16). NB. SaaS/PaaS posted a gross margin of 56.6% in Q4 FY16 (+17ppt), should continue to rise over FY17, and Oracle confirms its plan to reach 80% as soon as possible.
- Positive short-term read-across for European Software vendors.** As such, from a short-term perspective we consider this publication is positive for SAP and other European software vendors. Revenue momentum accelerates in the cloud, and there is no longer reluctance for customers to embrace the cloud whatever the geography. However, with an aggressive strategy, Oracle's cloud SaaS/PaaS revenue growth (+68% lfl) remains way above the cloud subscription growth of SAP (+33% lfl in Q1 16), Workday (+39% in Q1 FY17) and Salesforce (+28% lfl in Q1 FY17).

VALUATION

European software companies: EV/EBIT multiples of 14.8x for 2016e and 13.5x for 2017e.

NEXT CATALYSTS

- Accenture's Q3 FY16 results on 23rd June before US markets open.
- SAP's Q2 16 results on 20th July before markets open.

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NEUTRAL ratings 34%

SELL ratings 9,5%

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