

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EUR)	88,121
Ev (BG Estimates) (EUR)	90,809
Avg. 6m daily volume (000)	2 773
3y EPS CAGR	6.8%

**Amidst strong licence revenue growth (+10% lfl), SAP announced Q2 16 results above expectations this morning, with non-IFRS operating profit 5% above consensus. FY16 guidance is confidently reiterated by the management. As such, we expect a positive reaction in the near term.**

## ANALYSIS

- Q2 16 results above expectations.** For Q2 16, on a non-IFRS basis, SAP announced sales up 9% lfl to EUR5,239m (BG est.: EUR5,137m; consensus: EUR5,228m), Cloud & Software revenues up 11% lfl to EUR4,361m (BG est.: EUR4,236m or +8.3% lfl; consensus: EUR4,317m or +7.7% lfl), cloud subscriptions revenues up 33% lfl to EUR721m (BG est.: EUR713m or +34.1% lfl; consensus: EUR720m or +31.2% lfl), licence sales up 10% lfl to EUR1,042m (BG est.: EUR941m; consensus: EUR981m), and an operating profit of EUR1,516m (28.9% of sales vs. 28% in Q2 15) vs. BG est. of EUR1,397m (27.2% of sales) and consensus of EUR1,448m (27.7%). At cc, non-IFRS op. profit was up 11% to EUR1,543m (margin 28.6% or +0.6ppt). IFRS operating profit was up 81% to EUR1,269m, while we expected EUR1,109m (consensus: EUR1,110m). Non-IFRS EPS was up 2% to EUR0.82, while we forecasted EUR0.94 and consensus was EUR0.88, due to a tax rate of 29.6% (BG est. 23.5%). Free cash flow for H1 16 was up 1% to EUR2.52bn or 25.3% of sales (vs. 25.1% in H1 15).
- Other Q2 16 details.** 1) Q2 16 sales growth was driven by Japan (+19% lfl), followed by the Rest of America (+12% lfl), the Rest of EMEA (+10%), Germany (+8% lfl), the US (+7% lfl) and the rest of Asia Pacific (+4% lfl); 2) Cloud & Software sales were up 11% lfl in EMEA and America, and up 9% lfl in Asia Pacific; 3) Cloud subscriptions were up 29% lfl in America, up 41% lfl in EMEA, and up 47% lfl in Asia Pacific, and, by segment, were up 50% lfl in Applications & Technology (SuccessFactors, CEC, etc.) and up 21% for SAP Business Network (Ariba, Concur, Fieldglass); 4) S/4HANA customers reached 3,700 at the end of Q2 16 (+500 in the quarter), Employee Central has more than 1,250 customers (+150 in the quarter, and vs. 730 as of end of June 2015), and Customer Engagement & Commerce (CEC) saw strong double-digit growth; 5) 29% of the on-premise licence deals were above EUR5m, up from 24% in Q2 15; 6) New cloud bookings were up 31% at cc in Q2 16; 7) The gross margin of cloud subscriptions was down 0.5ppt to 65.2% due to a mix effect (Applications & Technology was up 1ppt to 52%, SAP Business Network was up 1ppt to 76%).
- FY16 guidance reiterated.** On a non-IFRS basis, SAP reiterates FY16 guidance, i.e. Cloud & Software revenues up 6-8% at cc, Cloud subscriptions up 28-33% at cc to EUR2.95-3.05bn, and a non-IFRS operating profit of EUR6.4-6.7bn at cc (est. 29.5-31% of sales). Based on the rates at the end of June 2016, management now expects impact from fx of -1ppt/+1ppt (-2ppt/0ppt for Q3) on Cloud & Software revenues and operating profit, which would give an operating profit of EUR6.34-6.76bn. The consensus is, at this stage, in line with these assumptions: Cloud & Software sales up 6.5% at cc (BG est.: +7%), Cloud subscriptions up 31.6% at cc to EUR3,012m (BG est.: +32.8% at cc to EUR3,003m), non-IFRS operating profit of EUR6,622m or 29.9% of sales (BG est.: EUR6,547m or 30% of sales). Finally, SAP lowered guidance for FY16 non-IFRS adjustments (EUR560-610m vs. EUR650-690m for share-based compensation, EUR30-50m vs. EUR40-60m for restructurings).

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	2.4%	0.7%	-2.2%
Softw. & Comp.	4.3%	0.6%	3.9%	-3.0%
DJ Stoxx 600	4.0%	-1.6%	3.1%	-7.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,832	23,364	24,972
% change		5.0%	7.0%	6.9%
EBITDA	6,884	7,112	7,529	8,136
EBIT	4,251	5,123	5,713	6,280
% change		20.5%	11.5%	9.9%
Net income	4,660	5,027	5,317	5,683
% change		7.9%	5.8%	6.9%

	2015	2016e	2017e	2018e
Operating margin	30.5	30.0	29.7	30.0
Net margin	14.8	17.7	18.3	18.6
ROE	13.2	15.0	15.0	14.7
ROCE	18.5	18.8	19.8	21.5
Gearing	24.7	10.4	-2.4	-13.6

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.99	4.22	4.51
% change	-	7.9%	5.8%	6.9%
P/E	19.4x	18.0x	17.0x	15.9x
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	4.2x	3.7x	3.4x
EV/EBITDA	13.6x	12.8x	11.6x	10.3x
EV/EBIT	14.8x	13.9x	12.6x	11.2x



## VALUATION

- SAP's shares are trading at est. 13.9x 2016 and 12.6x 2017 EV/EBIT multiples.
- Net debt on 30<sup>th</sup> June 2016 was EUR4,245m (net gearing: 18%).

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