

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	78.4 / 55.9
Market Cap (EUR)	95,123
Ev (BG Estimates) (EUR)	98,096
Avg. 6m daily volume (000)	2 660
3y EPS CAGR	7.6%

The takeaways from a company contact we had last week and which keeps our non-IFRS operating margin turnaround scenario for 2018 intact, are that: 1) SAP is not concerned by the acquisition of NetSuite by Oracle as NetSuite already has had close links with Oracle; 2) the low number of S/4HANA 'go lives' has nothing to do with the speed of implementation but the fast success of S/4HANA; 3) an overwhelming majority of S/4HANA sales are on-premise as customers are unlikely to run their core processes on a public cloud.

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.6%	14.9%	17.4%	5.5%
Softw. & Comp.	10.6%	10.3%	16.9%	3.1%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

ANALYSIS

- Acquisition of NetSuite by Oracle: a non-event for SAP.** On 29th July, Oracle announced an agreement for acquiring the cloud-based ERP and CRM software vendor NetSuite for USD9.3bn. On a strategic standpoint, SAP does not see any competitive change, as NetSuite was a sort of spin-off from Oracle and had maintained close links with Oracle both on a product (NetSuite was running on Oracle databases) and a capital standpoint (Oracle's founder Larry Ellison had a 41% stake in NetSuite). In addition, the fact that NetSuite generates 75% of its revenues in the US does not make it a serious competitor for SAP in other geographies. Over the long term, SAP sees this deal as a way for Oracle to attack more Workday than SAP, by addressing a large spectrum of company sizes. On its side, SAP covers the cloud ERP area through SAP Business One, the recently launched SAP Anywhere and the cloud version of S/4HANA – notwithstanding the fact that 75% of Concur's customer base is made of SMBs -, and made SMBs and subsidiaries of large groups a strategic priority recently with the enlargement of the responsibilities of Steve Singh (ex-CEO of Concur) from Business Networks to Applications.
- S/4HANA 'go lives': speed of implementation not to blame.** SAP is not really concerned by the number of customers gone live on S/4HANA (220 or "only" 6% of the 3,700 already signed in just 16 months). In fact, the management of SAP is itself surprised by the speed S/4HANA is selling, to the point that more than 10% of the SAP ERP installed base (c. 30,000 clients) is already migrating to S/4HANA – which creates more than a challenge for systems integrators for adding and training resources for implementation. While we take note a less bullish stance from the management on the target of 'go lives' by end 2016 (mid to high hundreds rather than c. 1,000 at the time of Sapphire Now in May), there are 1,200 ongoing or already completed S/4HANA implementation projects, and the Value Assurance programme put in place by SAP with a limited number of systems integrators (Accenture, Capgemini, Deloitte, EY, PwC, IBM, Wipro...) with template-based service packages helps S/4HANA implementations lasting less than one year on average.
- S/4HANA Cloud Edition: customers' choice is king.** We understand that the number of customers on S/4HANA Cloud Edition (public cloud) represents only a low double-digit. An overwhelming majority of S/4HANA clients has chosen the on-premise version as large companies are unlikely to run their mission-critical processes on a public cloud, and there is an increasing portion of customers buying S/4HANA licences to run them on a private cloud. This fuels both licence sales and cloud subscriptions (HANA Enterprise Cloud hosting revenues), and SAP customers have been offered choice between on-premise and cloud. That said, the management still considers the public cloud version of S/4HANA will start to see the number of users taking off from 2018.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,957	23,551	25,185
% change		5.6%	7.3%	6.9%
EBITDA	6,884	7,217	7,695	8,288
EBIT	4,251	5,343	5,879	6,432
% change		25.7%	10.0%	9.4%
Net income	4,639	4,763	5,420	5,775
% change		2.7%	13.8%	6.5%

	2015	2016e	2017e	2018e
Operating margin	30.5	30.3	30.1	30.4
Net margin	14.8	16.8	18.7	18.9
ROE	13.2	14.4	15.4	15.0
ROCE	18.5	18.2	20.1	21.7
Gearing	24.7	11.6	-1.6	-13.0

(€)	2015	2016e	2017e	2018e
EPS	3.78	3.88	4.41	4.70
% change	-	2.7%	13.8%	6.5%
P/E	20.5x	20.0x	17.5x	16.5x
FCF yield (%)	3.2%	4.8%	5.5%	5.9%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.5%	1.5%	1.7%	1.8%
EV/Sales	4.9x	4.5x	4.0x	3.6x
EV/EBITDA	14.7x	13.6x	12.3x	11.0x
EV/EBIT	15.9x	14.7x	13.3x	11.9x



VALUATION

- SAP's shares are trading at est. 14.7x 2016 and 13.3x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR4,436m (net gearing: 19%).

NEXT CATALYSTS

Q3 2016 results on 21st October before markets open.

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