

Acquisition of Altiscale: enhancing Big Data capabilities

Fair Value EUR79 vs. EUR75 (-2%)

NEUTRAL

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	82.4 / 56.8
Market Cap (EURm)	99,325
Ev (BG Estimates) (EURm)	102,444
Avg. 6m daily volume (000)	2 400
3y EPS CAGR	7.6%

We reiterate our Neutral rating and raise our DCF-derived Fair Value to EUR79 from EUR75 following the increase in our medium-term lfl revenue growth rate to +8% from +7%. Yesterday afternoon SAP announced it had completed the acquisition of Altiscale for an undisclosed sum. We estimate the deal has no material impact to our forecasts, but it will allow SAP to address Big Data infrastructure challenges faced by customers on its recently launched HANA Vora in-memory query engine.

ANALYSIS

- A “Big data-as-a-Service” provider.** Founded in 2012, funded by several VCs, and based in Palo Alto, California, Altiscale is a provider of “Big Data-as-a-service” (BDaaS) solutions based on the Hadoop open source software for storing, processing and analysing large amounts of data. It also provides a cloud version of Apache Spark, a faster alternative to Hadoop, as well as Business Intelligence tools - Insight Cloud - to access data from Hadoop and Spark clusters. It competes with Amazon Web Services (Elastic MapReduce), Microsoft (HDInsight), Google (Cloud Dataproc), Databricks and Qubole. Its customer base includes financial services, telecoms, media, ad tech and marketing analytics firms. Altiscale’s solutions can be used in many use cases: IoT, fraud detection, cyber-security, advertising optimisation, recommendation engines, advertising attribution, drug research, telecom billing...
- Rationale of the deal: adding data cloud infrastructure to HANA Vora.** Altiscale, with its Data Cloud offering, has focused on cloud and data infrastructure, which complements the approach SAP has taken so far, i.e. building its distributed computing solution for Big data (SAP HANA Vora) based on a deep understanding of the requirements coming from enterprise applications, analytics, data platform, data warehousing and cloud platform. As such, SAP’s offering will cover the full stack of Big data: technology, data platform, PaaS, analytics and applications. HANA Vora, which has been made generally available in March 2016, is an in-memory query engine which brings contextual analytics across all data stored on Hadoop, enterprise systems and other distributed data sources. It extends Spark’s execution engine to address some key inefficiencies in processing Big Data for business use. However, customers using HANA Vora faced challenges in provisioning, scaling and operating Hadoop in a production environment. According to SAP, Altiscale addresses these challenges with a ‘full-service’ Hadoop and Spark in the cloud, while reducing the need for customers to seek out third-party vendors.
- No material impact for our forecasts.** The terms of the deal have not been disclosed, but on 25th August the website VentureBeat mentioned that SAP would acquire Altiscale for USD125m. As such, this is exactly the kind of ‘tuck-in’ acquisition that SAP intends to make during the next 18 months in our view. According to data found on the web, the company employs more than 100 staff. Based on this, we estimate Altiscale’s revenues around EUR20m, but it is unclear whether or not the company is profitable. Whatever the case, we consider Altiscale will have no material impact to our forecasts (revenues, EPS, and net debt).

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.5%	24.0%	14.1%	10.2%
Softw. & Comp.	2.9%	22.8%	11.7%	8.0%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,861	23,305	24,920
% change		5.1%	6.6%	6.9%
EBITDA	6,884	7,210	7,695	8,286
EBIT	4,251	5,336	5,879	6,430
% change		25.5%	10.2%	9.4%
Net income	4,639	4,758	5,420	5,773
% change		2.6%	13.9%	6.5%

	2015	2016e	2017e	2018e
Operating margin	30.5	30.4	30.4	30.7
Net margin	14.8	16.9	18.9	19.0
ROE	13.2	14.4	15.4	15.0
ROCE	18.5	18.1	20.0	21.6
Gearing	24.7	12.2	-1.1	-12.6

(€)	2015	2016e	2017e	2018e
EPS	3.78	3.87	4.41	4.70
% change	-	2.6%	13.9%	6.5%
P/E	21.4x	20.9x	18.3x	17.2x
FCF yield (%)	3.1%	4.6%	5.2%	5.6%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.4%	1.5%	1.6%	1.7%
EV/Sales	5.1x	4.7x	4.2x	3.8x
EV/EBITDA	15.3x	14.2x	12.9x	11.5x
EV/EBIT	16.6x	15.4x	14.0x	12.5x



VALUATION

- SAP’s shares are trading at est. 15.4x 2016 and 14.0x 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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SELL ratings 11,7%

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