

Sector View

Software and IT Services

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	1.5%	14.3%	10.5%	6.6%
DJ Stoxx 600	-1.7%	5.2%	-0.2%	-7.0%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	Target Price
ALTEN	SELL	EUR52
Last Price	EUR62,31	Market Cap. EUR2,099m
ALTRAN TECHNOLOGIES	BUY	EUR15
Last Price	EUR13,295	Market Cap. EUR2,337m
ATOS	BUY	EUR102
Last Price	EUR90,97	Market Cap. EUR9,530m
AXWAY SOFTWARE	BUY	EUR28
Last Price	EUR27,65	Market Cap. EUR575m
CAPGEMINI	BUY	EUR94
Last Price	EUR85,24	Market Cap. EUR14,677m
CAST	NEUTRAL	EUR3,6
Last Price	EUR3,46	Market Cap. EUR56m
DASSAULT SYSTEMES	SELL	EUR64
Last Price	EUR76,45	Market Cap. EUR19,666m
INDRA SISTEMAS	NEUTRAL	EUR11
Last Price	EUR12,345	Market Cap. EUR2,026m
SAGE GROUP	SELL	600p
Last Price	729,5p	Market Cap. GBP7,878m
SAP	NEUTRAL	EUR75
Last Price	EUR78,81	Market Cap. EUR96,818m
SOFTWARE AG	BUY	EUR40
Last Price	EUR36,385	Market Cap. EUR2,874m
SOPRA STERIA GROUP	BUY	EUR125
Last Price	EUR104,35	Market Cap. EUR2,137m
SWORD GROUP	BUY	EUR31
Last Price	EUR27,23	Market Cap. EUR257m
TEMENOS GROUP	NEUTRAL	CHF54
Last Price	CHF60,75	Market Cap. CHF4,225m

Oracle Q1 FY17 results: neutral read-across for European Software vendors

Yesterday evening, Oracle reported Q1 FY17 sales (FYE 31st May) in line with consensus on revenues but below expectations on non-GAAP EPS due to a higher tax rate and borrowings. FY17 outlook continues to reflect Oracle's accelerated positive momentum in the Cloud, helped by an aggressive strategy. We view these numbers as a neutral read-across for European software vendors

ANALYSIS

- Revenues in line, but non-GAAP EPS below consensus estimates due to tax and borrowings.** For its quarter ended 31st August 2016, Oracle has reported non-GAAP EPS up 4% (+5% at cc) at USD0.55 (i.e. USD0.56 at cc) or at the low-end of company guidance, which was given at cc (USD0.56-0.60), and below consensus (USD0.58) due to a higher tax rate - driven by an over-achievement in Cloud revenues in the US - and borrowings (USD0.015 adverse impact). Total revenues were up 3% at cc to USD8.61bn or at the mid-point of the guidance range (+2%/+5% at cc) and almost in line with consensus (USD8.7bn). Cloud and on-premise software revenues were up 7% at cc to USD6.81bn (guidance: +5%/+7%; consensus: USD6.82bn). Hardware product sales were down 18% at cc, but engineered systems grew mid double-digit with Exadata up 30%+.
- Q1 FY17 details.** At cc, on-premise software sales were up 1%, with new licences down 10% and maintenance up 3%, Cloud SaaS/PaaS sales rose an impressive 82% (guidance: +75%/+80% at cc), and cloud IaaS was up 10%. Cloud and on-premise software revenues were up 6% cc (vs. -2% in Q4 FY16) in the Americas, up 7% at cc (vs. +5% in Q4 FY16) in EMEA, and up 8% at cc (vs. +11% in Q4 FY16) in Asia Pacific. In the Cloud, Cloud ERP/EPM was up 70%, HCM up 131%, CRM up double-digit, Data as a service up 75%, PaaS up 22%. Oracle added 776 new customers (vs. 1,640 in Q4 FY16) - 677 customer expansions - of which 173 (vs. 318) in HCM, 346 (vs. 700) in Customer Experience and 344 (vs. 808) in ERP. Its ERP/EPM installed base now reaches 2,800 customers. Over 50% of ERP/EPM customers were net new to Oracle. In PaaS, Oracle had 2,032 new customers and has an installed base of 11,000 clients.
- Q2 FY17 guidance.** For Q2 FY17 (November 2016 quarter), management expects total revenues up 0-3% at cc, with Cloud & On-Premise software guidance up 3-5% at cc (SaaS/PaaS guidance +78%/+82% at cc including acquisitions), and non-GAAP EPS USD0.59-0.62 (consensus: USD0.65) taking into account a USD0.06 adverse impact from a higher tax rate and borrowings. Cloud bookings were up 49% at cc, which is above the +38% reported in Q4 FY16. For FY17, Oracle now anticipates SaaS/PaaS revenues up 65-67% (vs. above 65% previously). NB. SaaS/PaaS posted a gross margin of 62% in Q1 FY17 (+22ppt), should continue to rise over FY17, and Oracle confirms its plan to reach 80% as soon as possible.
- Neutral short-term read-across for European Software vendors.** As such, from a short-term perspective we consider this publication is neutral for SAP and other European software vendors. Revenue momentum is strong in the cloud, unsurprisingly. 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 Q2 2016), Workday (+37% in Q2 FY17) and Salesforce (+26% lfl in Q2 FY17).

VALUATION

European Software companies: EV/EBIT multiples of 18.0x for 2016 and 15.6x for 2017.

NEXT CATALYSTS

- Accenture's Q4 FY16 results on 29th September before US markets open.
- SAP's Q3 2016 results on 21st October before markets open.

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BUY ratings 55,8%

NEUTRAL ratings 33,1%

SELL ratings 11%

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