

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	82.4 / 64.9
Market Cap (EURm)	97,433
Ev (BG Estimates) (EURm)	100,552
Avg. 6m daily volume (000)	2 287
3y EPS CAGR	7.6%

This morning SAP announced Q3 2016 non-IFRS operating profit 2% below consensus despite revenues 1% above, due to a lower gross margin in cloud subscriptions (-3.7ppt) and a 16% cc increase in sales and marketing costs. Higher financial expenses had a negative impact on non-IFRS EPS. Based on a robust pipeline for Q4, management has marginally raised FY16 guidance. In our view, this is not enough to make the share price move significantly in the near term.

ANALYSIS

- Q3 2016 non-IFRS operating profit 2% below consensus.** For Q3 2016, on a non-IFRS basis, SAP announced sales up 8% lfl to EUR5,375m (BG est.: EUR5,287m; consensus: EUR5,319m), Cloud & Software revenues up 9% lfl to EUR4,456m (BG est.: EUR4,406m or +7.7% lfl; consensus: EUR4,443m or +7.7% lfl), cloud subscription revenues up 29% lfl to EUR769m (BG est.: EUR787m or +32.8% lfl; consensus: EUR783m or +30.9% lfl), licence sales up 2% lfl to EUR1,034m (BG est.: EUR1,009m; consensus: EUR1,014m), and an operating profit up 1% to EUR1,638m (30.5% of sales vs. 32.4% in Q3 2015) vs. BG est. of EUR1,711m (32.4% of sales) and consensus of EUR1,671m (31.4%). At cc, non-IFRS operating profit was up 1% to EUR1,625m (margin 30.1% or -2.3ppt). IFRS operating profit was down 9% to EUR1,103m (BG est.: EUR1,429m; consensus: EUR1,342m), due to a higher level of stock-based compensation expense (EUR368m vs. BG est. of EUR100m). Non-IFRS EPS was down 7% to EUR0.91 (BG est.: EUR0.99; consensus: EUR0.98), due to higher financial expenses. YTD free cash flow was up 5% to EUR2.96bn or 19.3% of sales (vs. 19.5%).
- Other Q3 2016 details.** 1). Q3 2016 sales growth was driven by the Rest of America region (+25% lfl, driven by Brazil and Mexico), followed by Germany (+9% lfl, with double-digit licence sales), the Rest of EMEA and the US (+7% lfl), and Asia Pacific (+6% lfl); 2) Cloud & Software sales were up 8% lfl in EMEA, up 9% lfl in America, and up 8% lfl in Asia Pacific; 3) Cloud subscriptions were up 24% lfl in America, up 38% lfl in EMEA, and up 46% lfl in Asia Pacific, and, by segment, were up 47% lfl in Applications & Technology (SuccessFactors, CEC, etc.) and up 17% for SAP Business Network (Ariba, Concur, Fieldglass); 4). S/4HANA customers reached 4,100+ at the end of Q3 2016 (+400 in the quarter), o/w 40% are net new, Employee Central has more than 1,350 customers (+100 in the quarter), and Customer Engagement & Commerce (CEC) saw double-digit customer growth; 5). 26% of the on-premise licence deals were above EUR5m (+2ppt); 6). New cloud bookings were up 24% at cc; 7). The gross margin of cloud subscriptions was down 3.7ppt to 64.9% due to a mix effect (Applications & Technology -4.2ppt to 51.6%, SAP Business Network -0.5ppt at 76.7%).
- FY16 guidance marginally raised.** On a non-IFRS basis, SAP raises FY16 guidance, and now forecasts Cloud & Software revenues up 6.5-8.5% at cc (vs. 6-8% at cc), Cloud subscriptions up 28-33% at cc to EUR3-3.05bn (vs. EUR2.95-3.05bn), and a non-IFRS operating profit of EUR6.5-6.7% at cc (vs. EUR6.4-6.7bn at cc). Based on the rates at the end of September 2016, management now expects an impact from forex for FY16 of -3ppt/-1ppt on Cloud & Software sales and of -2ppt/0ppt on operating profit, which would give an op. profit of EUR6.38-6.7bn. The consensus is, at this stage, within the range: Cloud & Software sales up 7.2% at cc (BG est.: +7.5%), Cloud subscriptions up 31.7% at cc to EUR3,012m (BG est.: +32.8% at cc to EUR3,009m), non-IFRS op. profit of EUR6,670m or 30.4% of sales (BG est.: EUR6,645m or 30.4% of sales). Finally, SAP upped guidance for FY16 non-IFRS adjustments (EUR770-840m vs. EUR560-610m for share-based compensation).

VALUATION

- SAPs shares are trading at est. 15.1x 2016 and 13.7x 2017 EV/EBIT multiples.
- Net debt on 30th December 2016 was EUR3,904m (net gearing: 16%).

NEXT CATALYSTS

Conference call at 2pm CET / 1pm BST / 8am EDT (UK: +44 20 71 53 89 44; USA: +1 817 391 40 59 43).

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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	21.0x	20.5x	18.0x	16.9x
FCF yield (%)	3.2%	4.7%	5.3%	5.7%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.5%	1.5%	1.6%	1.8%
EV/Sales	5.0x	4.6x	4.2x	3.8x
EV/EBITDA	15.0x	13.9x	12.6x	11.3x
EV/EBIT	16.3x	15.1x	13.7x	12.2x

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