

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	82.4 / 64.9
Market Cap (EUR)	100,713
Ev (BG Estimates) (EUR)	104,149
Avg. 6m daily volume (000)	2 306
3y EPS CAGR	8.0%

We reiterate our Neutral rating and increase our DCF-derived Fair Value to EUR82 from EUR79, as we have revised our adj. EPS ests. by +1% for 2017-18 (+EUR1/share) and adjusted our working capital assumptions (+EUR2/share). We consider that more resilient than initially expected licence and maintenance revenues should offset headwinds on the non-IFRS operating margin in 2017 from the cloud revenue mix and cloud customers migrating to HANA. However we still do not see the non-IFRS operating margin taking off before 2018, and we consider the stock is fairly valued.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.2%	6.9%	15.3%	11.7%
Softw. & Comp.	-0.3%	6.6%	11.0%	7.7%
DJ Stoxx 600	0.5%	1.1%	-1.5%	-5.9%

## ANALYSIS

- More confidence in revenues.** The slowdown in cloud subscriptions in Q3 (+29%, o/w +24% in America) was temporary as it was related to the move of Concur's fiscal year end to 31st December from 30th September. Cloud bookings growth is expected to accelerate in Q4 from +24% reported for Q3. For Q4, SAP is confident on licence revenues performing well despite tough comps (+11% lfl in Q4 2015), while maintenance benefits from higher licence revenues and very low attrition, and cloud subscription revenues may accelerate again thanks to Concur. Guidance for 2017 will be updated for FY16 results in January, but resilience of licence revenues would continue to be driven by S/4HANA and HANA sales. Finally, the average deal size in the higher ticket amounts is going up, and SAP sees a higher share of sales in this higher ticket volumes.
- Cloud margins: a mix issue.** For 2016, the gross margin for cloud subscriptions is expected to be nearly flat. Management does not expect any substantial increase in 2017, before a take off in 2018 for reaching 73% in 2020 as stated in the business plan released early 2015: 1) SAP continues to invest heavily in cloud operations to migrate all acquired cloud applications to HANA - SuccessFactors customers to fully migrate within the next 12 months, then Ariba, Fieldglass and Concur customers will do so afterwards; 2) cloud applications (ATS) with a lower gross margin (51.4%) grow almost 3x faster (+47.1% lfl) than Business Networks (+16.7% lfl) with a higher gross margin (76.8%); 3) within cloud applications (ATS), the private cloud offering HANA Enterprise Cloud is a triple-digit million euro business year-to-date and is at breakeven as expected but is expected to keep improving gross margin going forward. The Services gross margin fell 2.9ppt to 20.5% in Q3 due to EUR50m investments in co-innovation projects with customers. These projects are to be completed at the end of Q1 2017, allowing for improvement in 2017.
- Update on S/4HANA.** The number of "go-lives" for S/4HANA is 350 (+130 vs. June), which looks far from the mid-to-high hundreds figure guided for the end of 2016, but SAP is happy with the way IT Services firms implement S/4HANA through the "value assurance program" (they are involved in more than 80% of S/4HANA implementation projects), and more than 50% of S/4HANA projects are related to full scope ERP (version 15-11). A couple of S/4HANA Cloud Edition customers will go live by end 2016, but the launch of the public cloud division in January 2017 will make it take off.
- Acquisitions, dividends and share buy-backs.** SAP sees nothing big in terms of acquisitions in a foreseeable future - only "tuck-in" deals in areas like machine learning and the IoT for instance. Debt related to the acquisition of Concur will be totally redeemed by end-2016, which would open more capacity for M&A, more generous dividends (>35% of IFRS net profit), and a share buy-back programme in H2 2017. Note that DSOs, which were higher for a couple of quarters due to overdues in emerging countries, are expected to stabilise in Q4, then decrease again.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	22,096	23,849	25,652
% change		6.2%	7.9%	7.6%
EBITDA	6,884	7,147	7,732	8,397
EBIT	4,251	5,059	5,940	6,565
% change		19.0%	17.4%	10.5%
Net income	4,639	4,639	5,431	5,837
% change		0.0%	17.1%	7.5%

	2015	2016e	2017e	2018e
Operating margin	30.5	29.7	29.8	30.2
Net margin	14.8	15.6	18.7	18.9
ROE	13.2	13.6	15.7	15.4
ROCE	18.5	18.1	20.0	22.0
Gearing	24.7	13.6	-0.5	-13.0

(€)	2015	2016e	2017e	2018e
EPS	3.78	3.78	4.42	4.75
% change	-	0.0%	17.1%	7.5%
P/E	21.7x	21.7x	18.5x	17.3x
FCF yield (%)	3.0%	4.4%	5.3%	5.8%
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	15.5x	14.6x	13.0x	11.5x
EV/EBIT	16.8x	15.9x	14.1x	12.5x



## VALUATION

- SAP's shares are trading at est. 15.9x 2016 and 14.1x 2017 EV/EBIT multiples.
- Net debt on 30th September 2016 was EUR3,904m (net gearing: 16%).

## NEXT CATALYSTS

FY16 results on 24th January 2017 before markets open.

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