

Sector View

Software and IT Services

Oracle Q2 FY17 results: neutral read-across for European Software stocks

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	6.6%	-1.1%	13.0%	5.4%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

*Stoxx Sector Indices

Yesterday evening, Oracle reported Q2 FY17 sales (FYE 31st May) in line with the consensus and company guidance. Explosive growth in SaaS and PaaS revenues was partly offset by a 19% decline in new licence sales. We view these numbers as a neutral read-across for European software vendors.

Companies covered

ALTEN	NEUTRAL	EUR57
Last Price	EUR64,99	Market Cap. EUR2,189m
ALTRAN TECHNOLOGIES	BUY	EUR15
Last Price	EUR13,17	Market Cap. EUR2,315m
ATOS	BUY	EUR115
Last Price	EUR96,96	Market Cap. EUR10,158m
AXWAY SOFTWARE	BUY	EUR31
Last Price	EUR28,9	Market Cap. EUR601m
CAPGEMINI	BUY	EUR95
Last Price	EUR78,01	Market Cap. EUR13,384m
CAST	NEUTRAL	EUR3,3
Last Price	EUR3,45	Market Cap. EUR56m
DASSAULT SYSTEMES	SELL	EUR64
Last Price	EUR70,49	Market Cap. EUR18,133m
INDRA SISTEMAS	BUY	EUR12
Last Price	EUR10,39	Market Cap. EUR1,705m
SAGE GROUP	NEUTRAL	645p
Last Price	647,5p	Market Cap. GBP6,993m
SAP	NEUTRAL	EUR82
Last Price	EUR81,44	Market Cap. EUR100,049m
SOFTWARE AG	BUY	EUR40
Last Price	EUR33,595	Market Cap. EUR2,654m
SOPRA STERIA GROUP	BUY	EUR125
Last Price	EUR102,75	Market Cap. EUR2,105m
SWORD GROUP	BUY	EUR32
Last Price	EUR28,1	Market Cap. EUR265m
TEMENOS GROUP	BUY	CHF77
Last Price	CHF71,1	Market Cap. CHF4,948m

ANALYSIS

- Q2 FY17 results in line with consensus estimates.** For its quarter ended 30th November 2016, Oracle has reported non-GAAP EPS down 3% (flat at cc) at USD0.61 (i.e. USD0.63 at cc) or just above the top-end of company guidance, which was given at cc (USD0.59-0.62), and in line with the consensus (USD0.60). Total revenues were up 2% at cc to USD9.07bn or at the mid-point of the guidance range (0%/+3% at cc) and in line with the consensus (USD9.11bn). Cloud and on-premise software revenues were up 3% at cc to USD7.21bn (guidance: +3%/+5%; consensus: USD7.31bn). Hardware product sales were down 9% at cc, but engineered systems grew strongly.
- Q2 FY17 details.** At cc, on-premise software sales were down 3%, with new licences down 19% and maintenance up 3%. Cloud SaaS/PaaS sales rose an impressive 89% (guidance: +78%/+82% at cc) including acquisitions (NetSuite), and cloud IaaS was up 9%. Cloud and on-premise software revenues were up 2% cc (vs. +6% in Q1 FY17) in the Americas, up 11% at cc (vs. +7% in Q1) in EMEA, and up 3% at cc (vs. +8% in Q1) in Asia Pacific. In the Cloud, Cloud ERP/EPM was up 104%, HCM up 131%, CRM up 15, Services up 24%, Data as a Service up 71%, Database as a Service up 700%. Oracle added 1,082 new customers (vs. 776 in Q1 FY16) - 810 expansions - of which 224 (vs. 173) in HCM, 443 (vs. 346) in Customer Experience and 532 (vs. 344) in ERP excluding NetSuite. Its ERP/EPM active installed base now reaches 3,269 customers (o/w 1,275 live). In PaaS, Oracle had 2,225 new customers and has an installed base of 12,168 clients. In IaaS, it has 2,148 customers.
- Q3 FY17 guidance.** For Q3 FY17 (February 2017 quarter), management expects total revenues up 3-5% at cc, with Cloud & On-Premise software guidance up 4-6% at cc (SaaS/PaaS guidance +82%/+86% at cc including NetSuite), and non-GAAP EPS USD0.61-0.64 (consensus: USD0.64) taking into account an adverse impact from a higher tax rate (25.5% vs. 22.6%). Cloud bookings were up 51% at cc, which is similar to the +49% reported in Q1. For FY17, Oracle, including NetSuite, now anticipates SaaS/PaaS revenues up 67-80% (vs. above 65-67% previously). NB. SaaS/PaaS posted a gross margin of 61% in Q2 FY17 (+18ppt), should continue to rise over FY17, and Oracle confirms its plan to reach 80% as soon as possible. Finally, the management expects to book over USD2bn in new annually cloud business this year and the Database as a Services and IaaS will grow even faster than the SaaS business.
- 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 (+89% lfl) remains way above the cloud subscription growth of SAP (+29.4% lfl in Q3 2016), Workday (+38.3% in Q3 FY17) and Salesforce (+26% lfl in Q3 FY17).

VALUATION

European Software companies: EV/EBIT multiples of 16.8x for 2016 and 15.1x for 2017

NEXT CATALYSTS

- Accenture's Q1 FY17 results on 21st December before the US markets open.
- SAP's FY16 results on 24th January 2017 before the markets open.

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BUY ratings 54,9%

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SELL ratings 10,5%

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