SAP SE (SAP)

Updated January 29th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	12.1%	**Volatility Percentile:**	20.2%
Fair Value Price:	$111	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	55.2%
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Growth Percentile:**	84.5%
Dividend Yield:	1.6%	**5 Year Price Target**	$170	**Valuation Percentile:**	58.5%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	67.3%

Overview & Current Events

SAP SE develops, sells, and maintains a variety of enterprise software products that are used by corporations, governments, and educational agencies. The company employs more than 93,800 people and has more than 404,000 customers in more than 180 countries. SAP is headquartered in Germany and reports financial results in Euros. American investors can initiate an ownership stake in SAP through American Depository Receipts that trade on the New York Stock Exchange under the ticker SAP with a market capitalization of US$128 billion.

SAP reported its fourth quarter and full year 2018 earnings results on January 29. The company recorded revenues of €7.4 billion during the fourth quarter, which is equal to $8.4 billion. SAP's revenues during the fourth quarter were up 13% year over year on a constant currency basis. SAP was able to grow its operating profit by 22% year over year during the fourth quarter. Operating earnings totaled €2.4 billion, or $2.74 billion during the quarter. SAP nevertheless suffered from a hit to its net profits, as earnings-per-share totaled €1.51, or $1.72 on an adjusted basis during the fourth quarter of 2018. This represents a year-over-year decrease of 15%.

SAP plans to grow its subscription revenues by 33%-39% during fiscal 2019, which provides a strong basis for company-wide revenue growth. SAP forecasts that total cloud and software revenues will rise by 8%-10% during 2019, while operating profits are forecasted to rise by 7%-12% during the current fiscal year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.20	$2.02	$3.27	$3.12	$3.83	$3.54	$3.21	$3.21	$4.03	$4.96	***$5.54***	***$8.52***
DPS	$0.68	$0.60	$0.87	$0.99	$1.11	$1.36	$1.22	$1.30	$1.36	$1.60	***$1.80***	***$2.80***
Shares	1189	1188	1190	1192	1194	1195	1198	1199	1197	1197	***1198***	***1198***

SAP has managed to generate impressive business growth over the last ten years. During the last decade the enterprise software giant compounded its adjusted earnings-per-share at 12.4% per year. The data in the above table is impacted by currency rate changes, though, as SAP reports its results in €, and generates a substantial amount of its revenues in € and other currencies. For US-based investors results can thus vary a lot on a year-to-year basis, depending on the currency rate changes between the € and the $.

SAP's management has announced goals for 2020 as well as for 2023. The company seeks to generate revenues of ~€9 billion in subscription and support revenues during 2020, which is equal to $10.3 billion. The company's goal for company-wide revenues is €28.6 billion to €29.2 billion in 2020, which equates to revenues of $33 billion at the midpoint of guidance. This would represent a growth rate of 17% compared to the €24.7 billion in company-wide revenues that SAP was able to generate in fiscal 2018. This equates to an annual growth rate in the high-single digits.

SAP's goals for 2023 include tripling cloud subscription and support revenues from the level that was set in 2018. On top of that SAP aims to grow its company-wide revenues to at least €35 billion, which is equal to $40 billion, and which implies an average revenue growth rate of 7% a year between 2018 and 2023. SAP has grown consistently in the past, and due to the company's strong position in the enterprise software markets it seems likely that SAP will be able to generate an attractive growth rate in the future as well. We believe that SAP's earnings-per-share will rise by 9% a year.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.3	23.4	17.7	21.3	20.3	21.4	22.4	25.6	25.7	20.2	***18.6***	***20.0***
Avg. Yld.	1.6%	1.3%	1.5%	1.5%	1.4%	1.8%	1.7%	1.6%	1.3%	1.6%	***1.6%***	***1.5%***

SAP has been valued at a relatively high valuation throughout most of the last decade. Shares traded for more than 20 times net profits during the majority of those years. Due to the company's above-average growth rate and strong position in the markets it addresses, coupled with a healthy growth outlook, it seems justified that SAP trades at a premium valuation. During the last couple of months shares got less expensive, as SAP's shares have sold off in line with those of other German companies. We believe that shares are slightly undervalued right here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	40.5%	38.0%	38.4%	29.0%	31.7%	26.6%	29.7%	30.9%	34.7%	32.3%	***32.5%***	***32.9%***

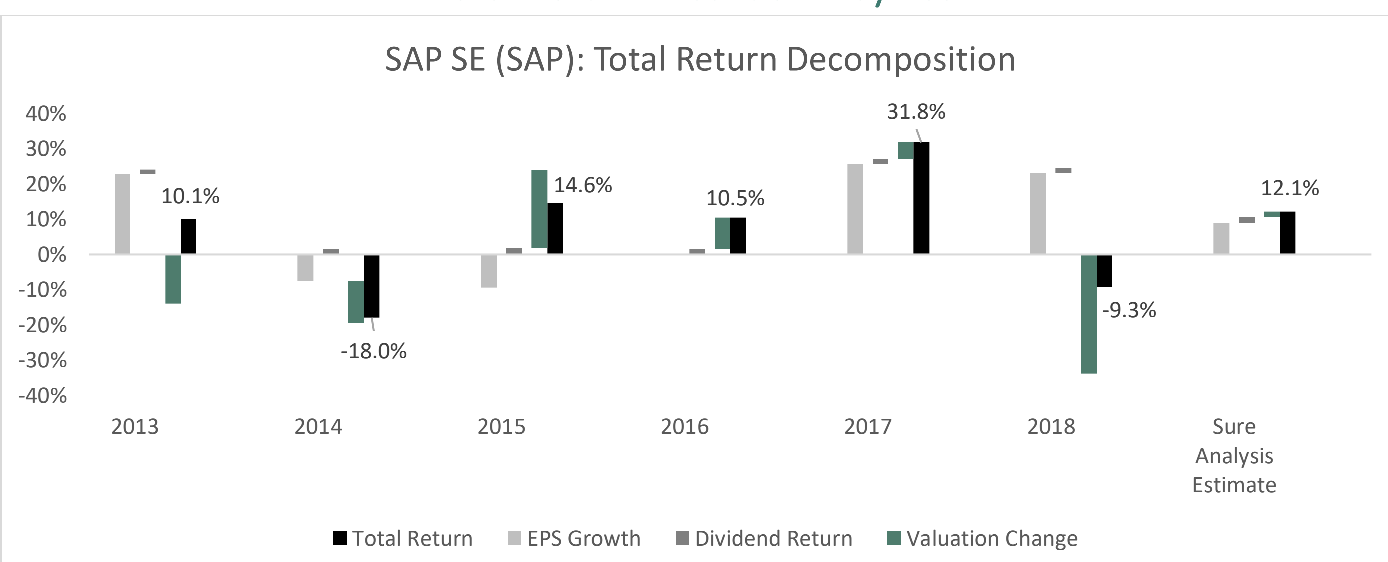
SAP's dividend payout ratio never reached above 50%, not even during the last financial crisis. Right now SAP pays out roughly one third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating the payout for US-based investors can vary from year to year, though, and declines are possible.

Qualitatively, SAP's strongest competitive advantage is its recurring revenue business model. During fiscal 2018, 65% of the company's revenue was recurring in nature (management calls this predictable revenue). The company expects this metric to rise to 70%-75% by 2020. Recurring revenue allows the company to optimize customer retention rates and use the resulting cash flows to aggressively invest in compelling growth opportunities such as its cloud business. SAP is well positioned in the enterprise software market. Due to its scale and renowned brand, competition is not a large problem.

Final Thoughts & Recommendation

SAP is a large company in the enterprise software industry that has established a global presence. SAP has produced consistent and compelling earnings growth in the past, but we believe that earnings-per-share growth will slow down to the high-single digits going forward. The total return outlook is compelling, though, which is why we rate SAP a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	16989	14882	16521	19845	20857	22332	23352	23074	24417	26569
Gross Profit	11077	9989	11360	13775	14334	15650	16727	16144	17132	18584
Gross Margin	65.2%	67.1%	68.8%	69.4%	68.7%	70.1%	71.6%	70.0%	70.2%	69.9%
SG&A Exp.	4653	3853	4349	5296	6249	6636	7294	7579	8046	9059
D&A Exp.	791	696	708	1009	1110	1263	1343	1430	1403	1441
Operating Profit	4052	3963	4727	5791	5207	5999	6338	5409	5713	5730
Op. Margin	23.9%	26.6%	28.6%	29.2%	25.0%	26.9%	27.1%	23.4%	23.4%	21.6%
Net Profit	2711	2438	2400	4789	3604	4417	4362	3400	4035	4550
Net Margin	16.0%	16.4%	14.5%	24.1%	17.3%	19.8%	18.7%	14.7%	16.5%	17.1%
Free Cash Flow	2670	3891	3430	4643	4218	4338	3673	3331	4014	4270
Income Tax	1139	955	696	1856	1277	1422	1430	1038	1360	1099

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	19424	19125	27718	30086	34790	37409	46896	45252	46808	50984
Cash & Equivalents	1789	2694	4679	6431	3276	3795	4047	3729	3914	4812
Acc. Receivable	4441	3641	4122	4444	5074	5249	5172	5683	6156	6969
Inventories	7	16	16	14	N/A	N/A	N/A	N/A	N/A	N/A
Goodwill & Int.	8545	8420	14373	13905	21723	22986	31135	29485	28646	29082
Total Liabilities	9403	6983	14652	13627	16099	15249	23142	19783	18902	20343
Accounts Payable	837	912	1226	942	905	884	951	976	1073	1142
Long-Term Debt	3243	9	1462	5126	6579	5894	13480	10053	8330	7561
Total Equity	10018	12122	13043	16449	18680	22149	23711	25438	27884	30603
D/E Ratio	0.32	0.00	0.11	0.31	0.35	0.27	0.57	0.40	0.30	0.25

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	15.7%	12.6%	10.2%	16.6%	11.1%	12.2%	10.3%	7.4%	8.8%	9.3%
Return on Equity	27.8%	22.0%	19.1%	32.5%	20.5%	21.6%	19.0%	13.8%	15.1%	15.6%
ROIC	23.8%	19.2%	18.0%	26.5%	15.4%	16.6%	13.4%	9.3%	11.2%	12.2%
Shares Out.	1187	1188.8	1187.7	1190.3	1191.5	1193.7	1195.2	1197.5	1198.6	1197.0
Revenue/Share	14.26	12.52	13.90	16.68	17.48	18.69	19.51	19.26	20.36	22.18
FCF/Share	2.24	3.27	2.89	3.90	3.54	3.63	3.07	2.78	3.35	3.56

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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