SAP SE (SAP)

Updated May 16th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$129	**5 Year CAGR Estimate:**	7.4%	**Volatility Percentile:**	23.5%
Fair Value Price:	$111	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	67.1%
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Growth Percentile:**	86.8%
Dividend Yield:	1.4%	**5 Year Price Target**	$170	**Valuation Percentile:**	29.6%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	38.9%

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 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$151 billion.

SAP reported its first quarter earnings results on April 24. The company recorded revenues of €6.1 billion during the first quarter, which is equal to $6.8 billion. SAP's revenues during the first quarter were up 16% year over year, and which easily beat the analyst consensus estimate. SAP's cloud revenues were the main growth driver, rising by 45% year over year, to €1.6 billion. SAP was able to grow its operating profit by 19% year over year during the first quarter. Operating earnings totaled €1.5 billion, or $1.7 billion during the quarter. SAP's earnings-per-share totaled €0.90, or $1.01 on an adjusted basis during the first quarter of 2018. This represents a 24% increase year over year.

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 8.5%-10% during 2019, while operating profits are forecasted to rise by 9.5%-12.5% 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 widely on a year-to-year basis depending on the currency rate changes between the € and the US$.

SAP's management 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 $10.1 billion. The company's goal for company-wide revenues is €28.6 billion to €29.2 billion in 2020, which equates to revenues of $32 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, it aims to grow its company-wide revenues to at least €35 billion, which is equal to $39 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% per 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	***23.3***	***20.0***
Avg. Yld.	1.6%	1.3%	1.5%	1.5%	1.4%	1.8%	1.7%	1.6%	1.3%	1.6%	***1.4%***	***1.6%***

SAP has been valued at a relatively high valuation throughout most of the last decade, trading 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. Over the last couple of months SAP has become substantially more expensive, especially after Q1 results. Shares look overvalued as a result, which will likely be a headwind for total returns.

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%***

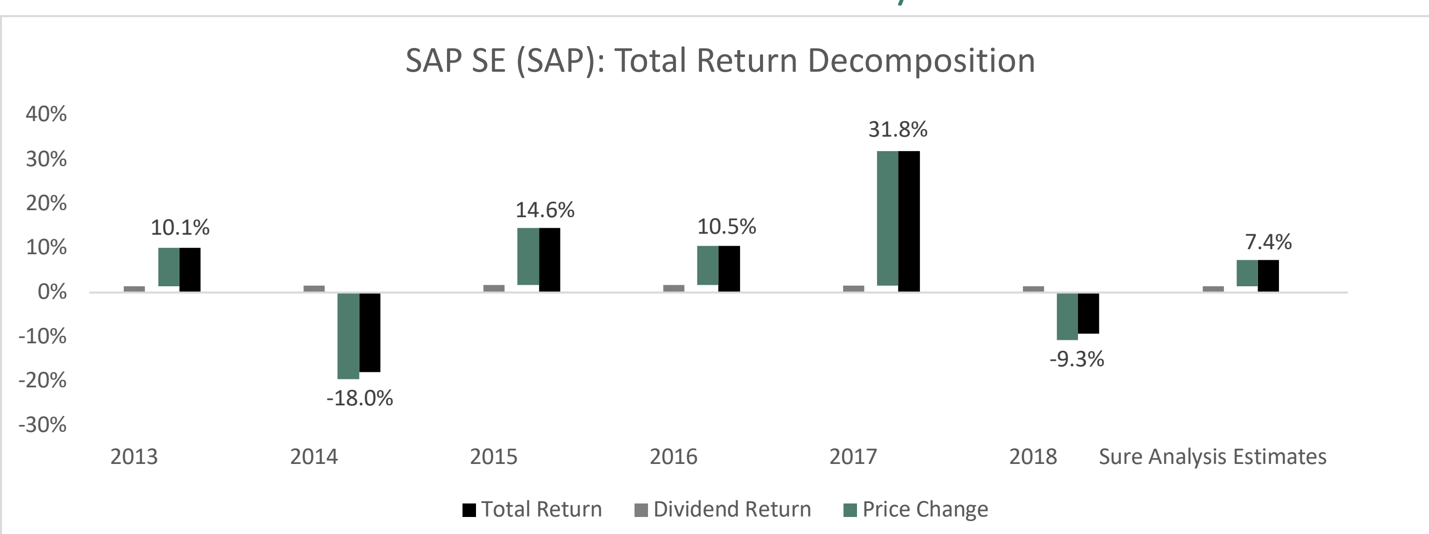
SAP's dividend payout ratio never reached above 50%, even during the last financial crisis. Today, SAP pays out roughly one third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating the payout for US-based investors can vary from year to year, though, and declines are possible.

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

As an enterprise software giant, SAP has established a strong global presence and benefits from scale advantages versus its peers. The company has delivered solid results in the past, including during Q1, and will likely be able to grow its profits at an attractive pace over the coming years as well. It is not overly vulnerable to recessions and has strong fundamentals, but due to the fact that shares are trading above fair value, we rate SAP a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	14882	16521	19845	20857	22332	23352	23074	24419	26570	29175
Gross Profit	9989	11360	13775	14334	15650	16727	16144	17132	18584	20364
Gross Margin	67.1%	68.8%	69.4%	68.7%	70.1%	71.6%	70.0%	70.2%	69.9%	69.8%
SG&A Exp.	3853	4349	5296	6249	6636	7294	7579	8046	9059	9304
D&A Exp.	696	708	1009	1110	1263	1343	1430	1403	1441	1608
Operating Profit	3963	4727	5791	5207	5999	6338	5409	5713	5730	6758
Op. Margin	26.6%	28.6%	29.2%	25.0%	26.9%	27.1%	23.4%	23.4%	21.6%	23.2%
Net Profit	2438	2400	4789	3604	4417	4362	3400	4031	4539	4821
Net Margin	16.4%	14.5%	24.1%	17.3%	19.8%	18.7%	14.7%	16.5%	17.1%	16.5%
Free Cash Flow	3891	3430	4643	4218	4338	3673	3331	4014	4270	3359
Income Tax	955	696	1856	1277	1422	1430	1038	1375	1113	1784

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	19125	27718	30086	34790	37409	46896	45252	46808	50968	58901
Cash & Equivalents	2694	4679	6431	3276	3795	4047	3729	3914	4812	9868
Acc. Receivable	3641	4122	4444	5074	5249	5172	5683	6156	6969	7072
Inventories	16	16	14	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Goodwill & Int.	8420	14373	13905	21723	22986	31135	29485	28646	29078	30830
Total Liabilities	6983	14652	13627	16099	15249	23142	19783	18902	20358	25868
Accounts Payable	912	1226	942	905	884	951	976	1073	1381	1700
Long-Term Debt	9	1462	5126	6579	5894	13480	10053	8330	7558	12930
Total Equity	12122	13043	16449	18680	22149	23711	25438	27884	30573	32981
D/E Ratio	0.00	0.11	0.31	0.35	0.27	0.57	0.40	0.30	0.25	0.39

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.6%	10.2%	16.6%	11.1%	12.2%	10.3%	7.4%	8.8%	9.3%	8.8%
Return on Equity	22.0%	19.1%	32.5%	20.5%	21.6%	19.0%	13.8%	15.1%	15.5%	15.2%
ROIC	19.2%	18.0%	26.5%	15.4%	16.6%	13.4%	9.3%	11.2%	12.2%	11.5%
Shares Out.	1189	1188	1190	1192	1194	1195	1198	1199	1197	1197
Revenue/Share	12.52	13.90	16.68	17.48	18.69	19.51	19.26	20.37	22.18	24.44
FCF/Share	3.27	2.89	3.90	3.54	3.63	3.07	2.78	3.35	3.56	2.81

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

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