SAP SE (SAP)

Updated October 27th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$115	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$137B
Fair Value Price:	$116	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/16/21[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	05/29/21[2]
Dividend Yield:	1.5%	**5 Year Price Target**	$170	**Years Of Dividend Growth:**	5
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.4%

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.

SAP reported its third quarter earnings results on October 27. The company recorded revenues of €6.5 billion during the quarter, which is equal to $7.6 billion. SAP's revenues during the quarter were down 4% year over year, which missed the analyst consensus estimate. SAP's cloud revenues were up by 11% year over year. SAP's operating profit declined by 1% year-over-year during the quarter, the coronavirus crisis has thus not hurt the company to a large extent. Operating earnings totaled €2.1 billion, or $2.4 billion, during the quarter.

SAP's earnings-per-share totaled €1.70, or $1.99 on an adjusted basis during the third quarter. This represents a 31% increase year-over-year, which was caused by an increase in SAP's financial income. Despite the solid profitability during the first three quarters of 2020, SAP has lowered its outlook for the current year. The company now forecasts operating growth of 2% this year, down from a higher previous guidance midpoint. The market reacted very negatively to this announcement, and shares dropped by double digits on the day of the earnings release.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.02	$3.27	$3.12	$3.83	$3.54	$3.21	$3.21	$4.03	$4.96	$5.70	***$5.80***	***$8.52***
DPS	$0.60	$0.87	$0.99	$1.11	$1.36	$1.22	$1.30	$1.36	$1.60	$1.67	***$1.71***	***$2.57***
Shares[3]	1188	1190	1192	1194	1195	1198	1199	1197	1197	1194	***1190***	***1170***

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 13% per year. The data in the above table is impacted by currency rate changes, since 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$. This holds true for the dividends as well, which are also declared in €.

SAP's management has announced near-term goals for 2020, as well as medium-term goals for 2023. The company's goal for company-wide revenues is ~€27.5 billion in 2020, more or less in line with 2019. SAP also plans to grow its cloud computing revenues to €22 billion by 2025, which equates to roughly $26 billion at current exchange rates. This is still several years ahead, but this would equate to an attractive longer-term cloud computing growth rate. SAP has grown consistently in the past, and thanks to management's ambitious growth goals and strong position in the enterprise software industry, we believe that SAP's earnings growth will remain solid in the longer term.

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[1] Estimated date
[2] Estimated date
[3] In Millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	23.4	17.7	21.3	20.3	21.4	22.4	25.6	25.7	20.2	23.9	***19.8***	***20.0***
Avg. Yld.	1.3%	1.5%	1.5%	1.4%	1.8%	1.7%	1.6%	1.3%	1.6%	1.2%	***1.5%***	***1.5%***

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 historic growth rate and strong position in the markets it addresses, it seems justified that SAP trades at somewhat of a premium valuation. Shares have declined substantially since our last update, and they are now trading very close to our fair value estimate, which is why we do not see any large impacts from multiple changes on total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	38.0%	38.4%	29.0%	31.7%	26.6%	29.7%	30.9%	34.7%	32.3%	29.3%	***29.5%***	***30.2%***

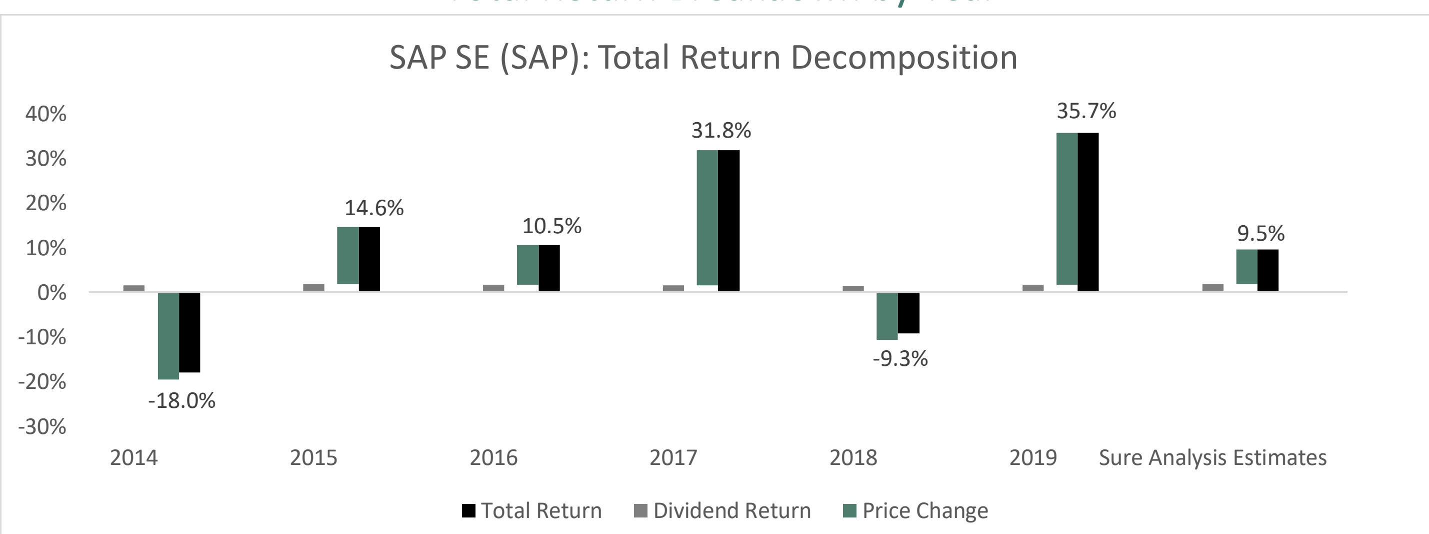
SAP's dividend payout ratio never reached above 50%, even during the last financial crisis. Today, SAP pays out less than one-third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating, the payout for US-based investors can vary from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

SAP's strongest competitive advantage is its recurring revenue business model. During fiscal 2019, more than two-thirds of the company's revenue was recurring in nature, or what management calls predictable revenue. The company expects this metric to rise to at least 70% in 2020. Recurring revenue allows the company to optimize customer retention rates and to use the resulting cash flows to aggressively invest in growth opportunities, such as its cloud business. Due to SAP's global scale and renowned brand, competition is not a major problem.

Final Thoughts & Recommendation

As a leading enterprise software company, 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 the first nine months of 2020, although management sees some headwinds in Q4 and reduced its guidance. SAP is not overly vulnerable to recessions and has strong fundamentals, and shares trade around fair value. We rate SAP a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	16521	19845	20857	22332	23352	23074	24419	26570	29175	30846
Gross Profit	11360	13775	14334	15650	16727	16144	17132	18584	20364	21493
Gross Margin	68.8%	69.4%	68.7%	70.1%	71.6%	70.0%	70.2%	69.9%	69.8%	69.7%
SG&A Exp.	4349	5296	6249	6636	7294	7579	8046	9059	9304	10436
D&A Exp.	708	1009	1110	1263	1343	1430	1403	1441	1608	2096
Operating Profit	4727	5791	5207	5999	6338	5409	5713	5730	6758	6273
Op. Margin	28.6%	29.2%	25.0%	26.9%	27.1%	23.4%	23.4%	21.6%	23.2%	20.3%
Net Profit	2400	4789	3604	4417	4362	3400	4031	4539	4821	3718
Net Margin	14.5%	24.1%	17.3%	19.8%	18.7%	14.7%	16.5%	17.1%	16.5%	12.1%
Free Cash Flow	3489	4720	4268	4411	3734	3407	4084	4379	3427	3079
Income Tax	696	1856	1277	1422	1430	1038	1375	1113	1784	1373

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	27718	30086	34790	37409	46896	45252	46808	50968	58913	67451
Cash & Equivalents	4679	6431	3276	3795	4047	3729	3914	4812	9868	5953
Acc. Receivable	4122	4444	5074	5249	5172	5683	6156	6969	7072	8470
Inventories	16	14								
Goodwill & Int.	14373	13905	21723	22986	31135	29485	28646	29078	30843	37697
Total Liabilities	14652	13627	16099	15249	23143	19783	18902	20358	25881	32925
Accounts Payable	1226	942	905	884	951	976	1073	1381	1706	1771
Long-Term Debt	1462	5126	6579	5894	13480	10053	8330	7558	12930	15313
Total Equity	13043	16449	18680	22149	23711	25438	27884	30573	32981	34441
D/E Ratio	0.11	0.31	0.35	0.27	0.57	0.40	0.30	0.25	0.39	0.44

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.2%	16.6%	11.1%	12.2%	10.3%	7.4%	8.8%	9.3%	8.8%	5.9%
Return on Equity	19.1%	32.5%	20.5%	21.6%	19.0%	13.8%	15.1%	15.5%	15.2%	11.0%
ROIC	18.0%	26.5%	15.4%	16.6%	13.4%	9.3%	11.2%	12.2%	11.5%	7.8%
Shares Out.	1188	1190	1192	1194	1195	1198	1199	1197	1197	1194
Revenue/Share	13.90	16.68	17.48	18.69	19.51	19.26	20.37	22.18	24.44	25.83
FCF/Share	2.93	3.97	3.58	3.69	3.12	2.84	3.41	3.66	2.87	2.58

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