



# SAP SE (SAP)

Updated May 3<sup>rd</sup>, 2021 by Jonathan Weber

## Key Metrics

|                             |       |                                            |       |                                  |                       |
|-----------------------------|-------|--------------------------------------------|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$140 | <b>5 Year CAGR Estimate:</b>               | 7.8%  | <b>Market Cap:</b>               | \$166B                |
| <b>Fair Value Price:</b>    | \$129 | <b>5 Year Growth Estimate:</b>             | 8.0%  | <b>Ex-Dividend Date:</b>         | 05/13/21 <sup>1</sup> |
| <b>% Fair Value:</b>        | 109%  | <b>5 Year Valuation Multiple Estimate:</b> | -1.6% | <b>Dividend Payment Date:</b>    | 05/18/21 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 1.6%  | <b>5 Year Price Target</b>                 | \$190 | <b>Years Of Dividend Growth:</b> | 6                     |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | D     | <b>Last Dividend Increase:</b>   | 17.1%                 |

## 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 103,000 people and has more than 400,000 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 Depositary Receipts that trade on the New York Stock Exchange under the ticker SAP.

SAP reported its first quarter earnings results on April 22. The company recorded revenues of €6.4 billion during the quarter, which is equal to \$7.7 billion. SAP's revenues during the quarter were down 3% year over year, which beat the analyst consensus estimate slightly. SAP's cloud revenues were up by 7% year over year during the quarter, although total company-wide revenues did not rise during the period. SAP's operating profit started to climb again during the quarter, whereas it had been down marginally during the previous quarter.

SAP's earnings-per-share totaled €1.40, or \$1.68 on an adjusted basis during the first quarter. This represents a 63% increase year-over-year on an adjusted basis, and profits were way higher than what analysts had forecasted. During all of 2020, SAP has generated earnings-per-share of \$6.34, which was up significantly from 2019. The had previously guided for a small decline compared to the 2020 tally in 2021, but the updated guidance sees SAP generate slightly higher revenues while also delivering a higher operating profit compared to previous estimates.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$3.27 | \$3.12 | \$3.83 | \$3.54 | \$3.21 | \$3.21 | \$4.03 | \$4.96 | \$5.70 | \$6.34 | <b>\$6.45</b> | <b>\$9.48</b> |
| <b>DPS</b>                | \$0.87 | \$0.99 | \$1.11 | \$1.36 | \$1.22 | \$1.30 | \$1.36 | \$1.60 | \$1.67 | \$1.87 | <b>\$2.19</b> | <b>\$3.29</b> |
| <b>Shares<sup>3</sup></b> | 1190   | 1192   | 1194   | 1195   | 1198   | 1199   | 1197   | 1197   | 1194   | 1194   | <b>1190</b>   | <b>1170</b>   |

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 recently announced updated medium-term goals for the next couple of years, primarily centered around growth in its cloud business. SAP 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, compared to the forecasted cloud revenues of €9.5 billion in 2021. 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.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> 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      | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now         | 2026        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 17.7 | 21.3 | 20.3 | 21.4 | 22.4 | 25.6 | 25.7 | 20.2 | 23.9 | 20.7 | <b>21.7</b> | <b>20.0</b> |
| Avg. Yld. | 1.5% | 1.5% | 1.4% | 1.8% | 1.7% | 1.6% | 1.3% | 1.6% | 1.2% | 1.3% | <b>1.6%</b> | <b>1.7%</b> |

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 risen since our last update, but they are still trading relatively 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   | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021         | 2026         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 38.4% | 29.0% | 31.7% | 26.6% | 29.7% | 30.9% | 34.7% | 32.3% | 29.3% | 27.0% | <b>34.0%</b> | <b>34.7%</b> |

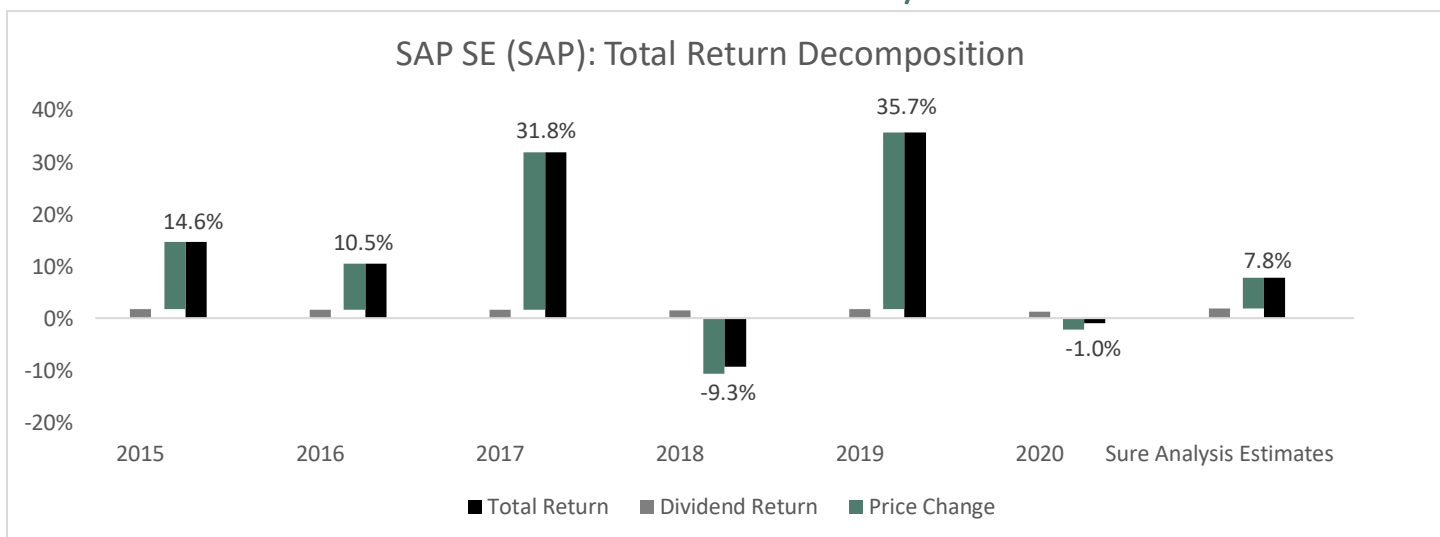
SAP's dividend payout ratio never reached above 50%, even during the last financial crisis. Today, SAP pays out less than one-third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating, the payout for US-based investors can vary from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

SAP's strongest competitive advantage is its recurring revenue business model. During fiscal 2020, more than two-thirds of the company's revenue was recurring in nature, or what management calls predictable revenue. This ratio of predictable revenue has risen consistently in the last couple of years. 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 fiscal 2020, and 2021 will likely be another record year for SAP. SAP is not overly vulnerable to recessions and has strong fundamentals, and shares trade around fair value. We rate SAP a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 19845 | 20857 | 22332 | 23352 | 23074 | 24419 | 26570 | 29175 | 30846 | 31221 |
| Gross Profit     | 13775 | 14334 | 15650 | 16727 | 16144 | 17132 | 18584 | 20364 | 21493 | 22216 |
| Gross Margin     | 69.4% | 68.7% | 70.1% | 71.6% | 70.0% | 70.2% | 69.9% | 69.8% | 69.7% | 71.2% |
| SG&A Exp.        | 5296  | 6249  | 6636  | 7294  | 7579  | 8046  | 9059  | 9304  | 10436 | 9664  |
| D&A Exp.         | 1009  | 1110  | 1263  | 1343  | 1430  | 1403  | 1441  | 1608  | 2096  | 2091  |
| Operating Profit | 5791  | 5207  | 5999  | 6338  | 5409  | 5713  | 5730  | 6758  | 6273  | 7561  |
| Op. Margin       | 29.2% | 25.0% | 26.9% | 27.1% | 23.4% | 23.4% | 21.6% | 23.2% | 20.3% | 24.2% |
| Net Profit       | 4789  | 3604  | 4417  | 4362  | 3400  | 4031  | 4539  | 4821  | 3718  | 5876  |
| Net Margin       | 24.1% | 17.3% | 19.8% | 18.7% | 14.7% | 16.5% | 17.1% | 16.5% | 12.1% | 18.8% |
| Free Cash Flow   | 4643  | 4218  | 4338  | 3673  | 3331  | 4014  | 4270  | 3359  | 2999  | 7284  |
| Income Tax       | 1856  | 1277  | 1422  | 1430  | 1038  | 1375  | 1113  | 1784  | 1373  | 2213  |

## Balance Sheet Metrics

| Year               | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets       | 30086 | 34790 | 37409 | 46896 | 45252 | 46808 | 50968 | 58913 | 67448 | 71918 |
| Cash & Equivalents | 6431  | 3276  | 3795  | 4047  | 3729  | 3914  | 4812  | 9868  | 5953  | 6532  |
| Acc. Receivable    | 4444  | 5074  | 5249  | 5172  | 5683  | 6156  | 6969  | 7072  | 8470  | 7625  |
| Goodwill & Int.    | 13905 | 21723 | 22986 | 31135 | 29485 | 28646 | 29078 | 30843 | 37694 | 38552 |
| Total Liabilities  | 13627 | 16099 | 15249 | 23143 | 19783 | 18902 | 20358 | 25881 | 32922 | 35108 |
| Accounts Payable   | 942   | 905   | 884   | 951   | 976   | 1073  | 1381  | 1706  | 1771  | 1492  |
| Long-Term Debt     | 5126  | 6579  | 5894  | 13480 | 10053 | 8330  | 7558  | 12930 | 15312 | 16338 |
| Total Equity       | 16449 | 18680 | 22149 | 23711 | 25438 | 27884 | 30573 | 32981 | 34441 | 36551 |
| D/E Ratio          | 0.31  | 0.35  | 0.27  | 0.57  | 0.40  | 0.30  | 0.25  | 0.39  | 0.44  | 0.45  |

## Profitability & Per Share Metrics

| Year             | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 16.6% | 11.1% | 12.2% | 10.3% | 7.4%  | 8.8%  | 9.3%  | 8.8%  | 5.9%  | 8.4%  |
| Return on Equity | 32.5% | 20.5% | 21.6% | 19.0% | 13.8% | 15.1% | 15.5% | 15.2% | 11.0% | 16.6% |
| ROIC             | 26.5% | 15.4% | 16.6% | 13.4% | 9.3%  | 11.2% | 12.2% | 11.5% | 7.8%  | 11.4% |
| Shares Out.      | 1190  | 1192  | 1194  | 1195  | 1198  | 1199  | 1197  | 1197  | 1194  | 1194  |
| Revenue/Share    | 16.68 | 17.48 | 18.69 | 19.51 | 19.26 | 20.37 | 22.18 | 24.44 | 25.83 | 26.41 |
| FCF/Share        | 3.90  | 3.54  | 3.63  | 3.07  | 2.78  | 3.35  | 3.56  | 2.81  | 2.51  | 6.16  |

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

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