SAP SE (SAP)

Updated November 7th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$150	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$176 B
Fair Value Price:	$160	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/13/22[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	05/18/22[2]
Dividend Yield:	1.5%	**5 Year Price Target**	$235	**Years Of Dividend Growth:**	6
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	20.9%

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 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 Depository Receipts that trade on the New York Stock Exchange under the ticker SAP.

SAP reported its third quarter earnings results on October 21. The company recorded revenues of €6.8 billion during the quarter, which is equal to $7.9 billion. SAP's revenues during the quarter were up 5% year over year, which represents a sequential improvement. SAP's cloud revenue growth accelerated during the quarter, to 20%, bringing cloud revenues to €2.4 billion, or about $2.8 billion. Unlike during the previous quarter, the strong cloud revenue performance was enough to compensate for lower software sales, allowing the company to generate some revenue growth overall.

SAP's earnings-per-share totaled €1.74, or $2.02 on an adjusted basis during the third quarter. This represents a 3% increase year-over-year on an adjusted basis, which was less than SAP's earnings growth during the previous quarter. During all of 2020, SAP generated earnings-per-share of $6.34, which was a new record year for the company. For the current year, SAP has lifted its operating profit guidance to €8.1 billion - €8.3 billion, from a previous guidance range that saw operating profits coming in around €8.1 billion. This will be a new record for SAP.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.27	$3.12	$3.83	$3.54	$3.21	$3.21	$4.03	$4.96	$5.70	$6.34	***$7.60***	***$11.17***
DPS	$0.87	$0.99	$1.11	$1.36	$1.22	$1.30	$1.36	$1.60	$1.67	$1.87	***$2.26***	***$3.40***
Shares[3]	1190	1192	1194	1195	1198	1199	1197	1197	1194	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 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.

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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	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	***19.7***	***21.0***
Avg. Yld.	1.5%	1.5%	1.4%	1.8%	1.7%	1.6%	1.3%	1.6%	1.2%	1.3%	***1.5%***	***1.4%***

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 been relatively flat since our last update, and they are trading slightly below our fair value estimate. We see some multiple expansion tailwinds for SAP's 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%	***29.7%***	***30.4%***

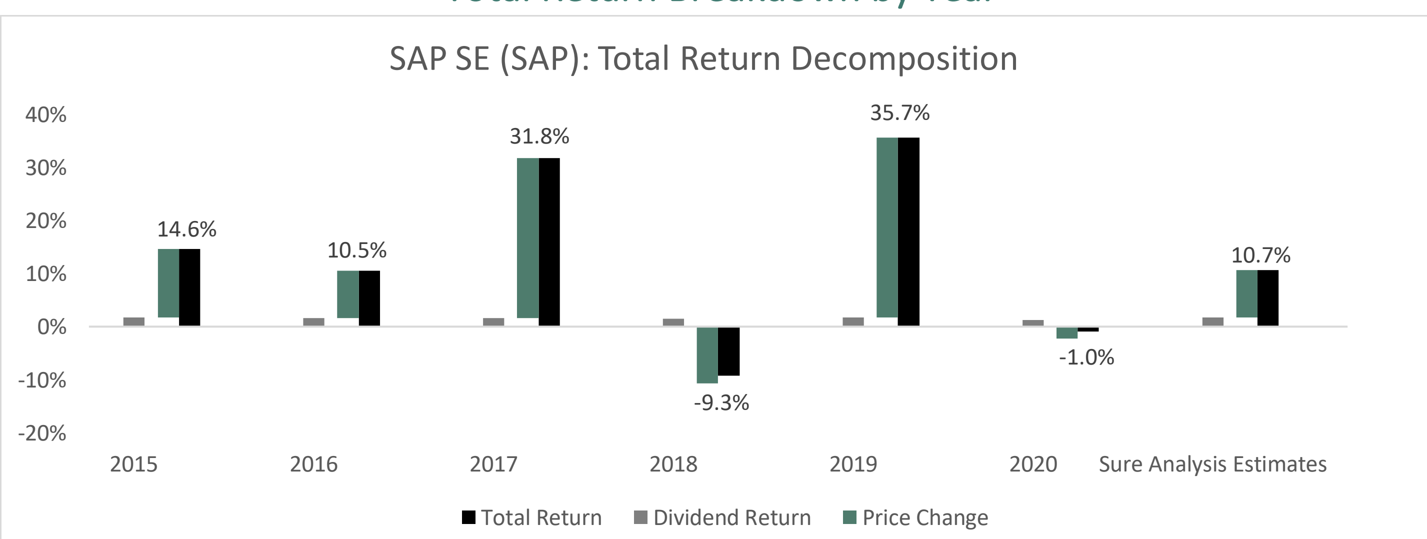
SAP's dividend payout ratio never reached above 50%, even during the last financial crisis. Today, SAP pays out less than one-third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating, the payout for US-based investors can vary from 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 slightly below fair value, we believe. We thus rate SAP a buy 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.