



SAP SE (SAP)

Updated November 20th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$153	5 Year CAGR Estimate:	2.2%	Market Cap:	\$176B
Fair Value Price:	\$106	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/19/24 ¹
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.0%	Dividend Payment Date:	05/23/24 ²
Dividend Yield:	1.5%	5 Year Price Target	\$156	Years Of Dividend Growth:	8
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Sell

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 third quarter earnings results in October. The company recorded revenues of €7.7 billion during the quarter, which is equal to a little more than \$8 billion. SAP's revenues during the quarter were up 4% year over year, decelerating from the previous quarter's growth rate. SAP's cloud revenue growth totaled 16% during the quarter, which was slightly below the growth rate seen in the previous quarter. SAP's strong cloud revenue growth was a key driving factor for the company's overall solid revenue performance during the period.

SAP's earnings-per-share totaled €1.45, or around \$1.58 during the third quarter. This was up compared to the earnings-per-share that the company generated during the previous quarter. During 2021, SAP generated compelling earnings-per-share growth, but profits declined in 2022 on the back of higher costs. For fiscal 2023, the company guides for revenue growth of ~24% at constant currencies in the cloud segment, while cloud and software revenue, overall, is forecasted to grow around 7% at constant currencies.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.83	\$3.54	\$3.21	\$3.21	\$4.03	\$4.96	\$5.70	\$6.34	\$7.75	\$4.37	\$5.60	\$8.23
DPS	\$1.11	\$1.36	\$1.22	\$1.30	\$1.36	\$1.60	\$1.67	\$1.87	\$2.26	\$2.08	\$2.23	\$3.35
Shares³	1194	1195	1198	1199	1197	1197	1194	1194	1190	1170	1150	1100

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 \$25 billion at current exchange rates. This is still years ahead, but this would equate to an attractive longer-term cloud computing growth rate, compared to the forecasted cloud revenues of €15.5 billion in 2023. SAP has grown its revenue consistently in the past. We believe that the strong position in the enterprise software industry will allow SAP to grow its profits meaningfully as well, despite some margin headwinds in the near term.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.3	21.4	22.4	25.6	25.7	20.2	23.9	20.7	18.1	23.6	27.3	19.0
Avg. Yld.	1.4%	1.8%	1.7%	1.6%	1.3%	1.6%	1.2%	1.3%	1.3%	2.0%	1.5%	2.1%

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 and are now trading well ahead of our fair value estimate. We see downside potential for SAP's shares from a valuation perspective over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31.7%	26.6%	29.7%	30.9%	34.7%	32.3%	29.3%	27.0%	29.2%	47.6%	39.8%	40.8%

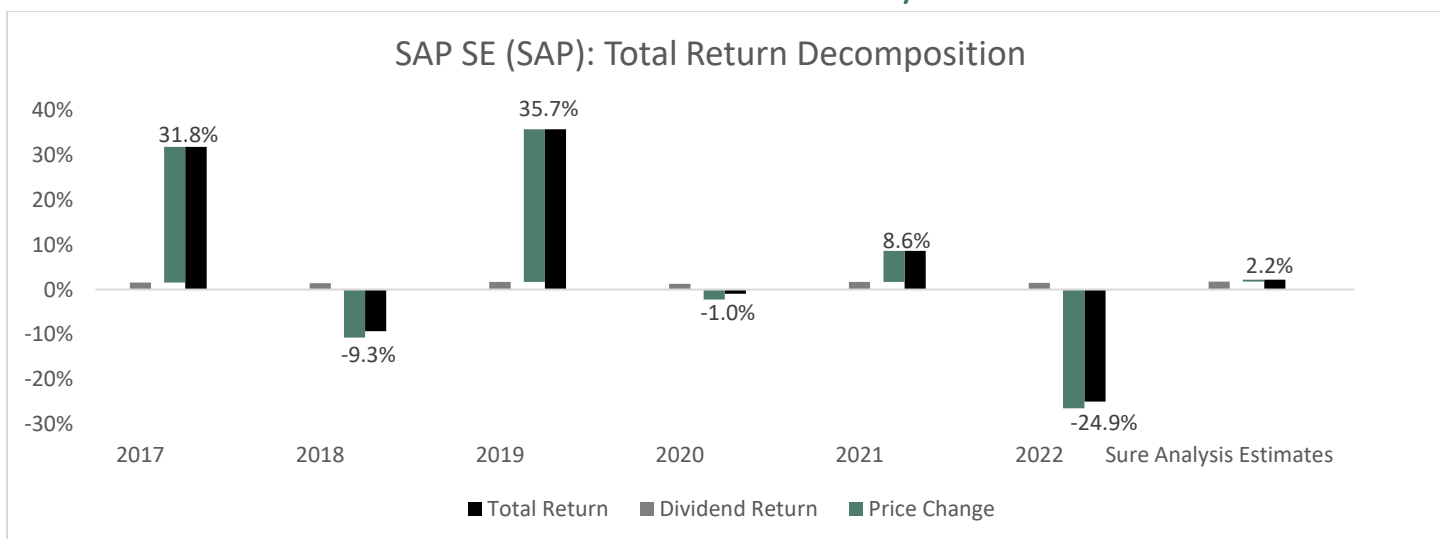
SAP's dividend payout ratio never reached above 50%, even during the last financial crisis. Today, SAP pays out just over one-third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating, the payout for US-based investors can vary from 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 the early phase of the pandemic, although 2022 was a weaker year. SAP has strong fundamentals. The total return outlook is not compelling, however, due to SAP's high valuation, which is why we rate SAP a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	22332	23352	23074	24419	26570	29175	30846	31221	32942	32557
Gross Profit	15650	16727	16144	17132	18584	20364	21493	22216	23542	23134
Gross Margin	70.1%	71.6%	70.0%	70.2%	69.9%	69.8%	69.7%	71.2%	71.5%	71.1%
SG&A Exp.	6636	7294	7579	8046	9059	9304	10436	9664	11756	11616
D&A Exp.	1263	1343	1430	1403	1441	1608	2096	2091	2100	2000
Operating Profit	5999	6338	5409	5713	5730	6758	6273	7561	5696	5074
Op. Margin	26.9%	27.1%	23.4%	23.4%	21.6%	23.2%	20.3%	24.2%	17.3%	15.6%
Net Profit	4417	4362	3400	4031	4539	4821	3718	5876	6219	2415
Net Margin	19.8%	18.7%	14.7%	16.5%	17.1%	16.5%	12.1%	18.8%	18.9%	7.4%
Free Cash Flow	4338	3673	3331	4014	4270	3359	2999	7284	6416	5033
Income Tax	1422	1430	1038	1375	1113	1784	1373	2213	1740	1453

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	37409	46896	45252	46808	50968	58913	67448	71908	80579	77384
Cash & Equivalents	3795	4047	3729	3914	4812	9868	5953	6532	10074	9658
Acc. Receivable	5249	5172	5683	6156	6969	7072	8470	7625	6665	6711
Goodwill & Int.	22986	31135	29485	28646	29078	30843	37694	38525	39691	39616
Total Liabilities	15249	23143	19783	18902	20358	25881	32922	35099	33566	31430
Accounts Payable	884	951	976	1073	1381	1706	1771	1681	1789	2258
Long-Term Debt	5894	13480	10053	8330	7558	12930	15312	16411	14723	15411
Total Equity	22149	23711	25438	27884	30573	32981	34441	36549	43990	43041
LTD/E Ratio	0.27	0.57	0.40	0.30	0.25	0.39	0.44	0.45	0.33	0.36

Profitability & Per Share Metric

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.2%	10.3%	7.4%	8.8%	9.3%	8.8%	5.9%	8.4%	8.2%	3.1%
Return on Equity	21.6%	19.0%	13.8%	15.1%	15.5%	15.2%	11.0%	16.6%	15.4%	5.5%
ROIC	16.6%	13.4%	9.3%	11.2%	12.2%	11.5%	7.8%	11.4%	10.8%	3.9%
Shares Out.	1194	1195	1198	1199	1197	1197	1194	1194	1190	1170
Revenue/Share	18.69	19.51	19.26	20.37	22.18	24.44	25.83	26.41	27.92	27.71
FCF/Share	3.63	3.07	2.78	3.35	3.56	2.81	2.51	6.16	5.44	4.28

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

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