SAP SE (SAP)

Updated February 5th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$177	**5 Year CAGR Estimate:**	0.4%	**Market Cap:**	$204B
Fair Value Price:	$113	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/09/24[1]
% Fair Value:	157%	**5 Year Valuation Multiple Estimate:**	-8.6%	**Dividend Payment Date:**	05/23/24[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$166	**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 Depository Receipts that trade on the New York Stock Exchange under the ticker SAP.

SAP reported its fourth quarter earnings results on January 24. The company recorded revenues of €8.5 billion during the quarter, which is equal to around $9.1 billion. SAP's revenues during the quarter were up 5% year over year, accelerating from the previous quarter's growth rate. SAP's cloud revenue growth totaled 20% during the quarter, which was slightly above 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 €1.41, or around $1.51 during the fourth quarter. This was up 44% compared to the earnings-per-share that the company generated during the previous year's quarter. After hitting record profits in 2021, SAP experienced weaker results in 2022 and 2023. For fiscal 2024, 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 meaningfully as well. This should translate into some earnings-per-share growth as well.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.54	$3.21	$3.21	$4.03	$4.96	$5.70	$6.34	$7.75	$4.37	$5.36	***$5.65***	***$8.30***
DPS	$1.36	$1.22	$1.30	$1.36	$1.60	$1.67	$1.87	$2.26	$2.08	$2.23	***$2.23***	***$3.35***
Shares[3]	1195	1198	1199	1197	1197	1194	1194	1190	1170	1160	***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 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.

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

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.4	22.4	25.6	25.7	20.2	23.9	20.7	18.1	23.6	28.9	***31.3***	***20.0***
Avg. Yld.	1.8%	1.7%	1.6%	1.3%	1.6%	1.2%	1.3%	1.3%	2.0%	1.4%	***1.3%***	***2.0%***

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 significant downside potential for SAP's shares from a valuation perspective over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	26.6%	29.7%	30.9%	34.7%	32.3%	29.3%	27.0%	29.2%	47.6%	41.6%	***39.5%***	***40.4%***

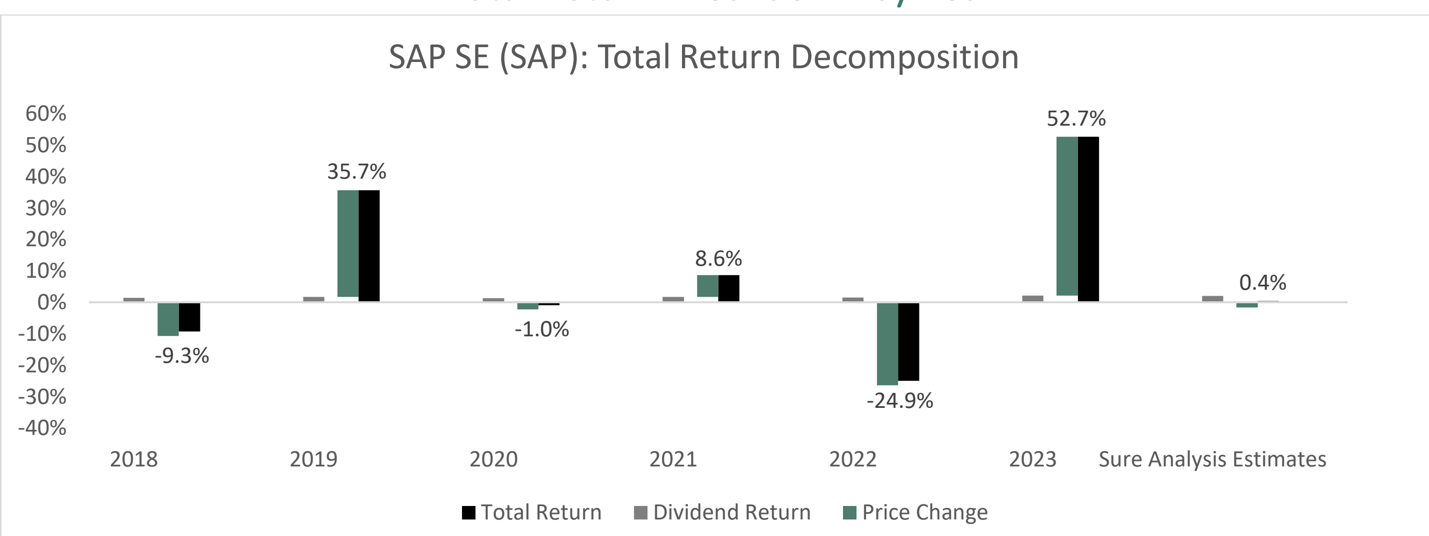
SAP's dividend payout ratio never reached above 50%, even during the last financial crisis. Today, SAP pays out just over one-third of its net profits in the form of dividends, which makes the dividend look quite safe. Due to currency rates fluctuating, the payout for US-based investors can vary from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

SAP's strongest competitive advantage is its recurring revenue business model. About two-thirds of the company's revenue is 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. 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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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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	23352	23074	24419	26570	29175	30846	31221	32942	32556	33785
Gross Profit	16727	16144	17132	18584	20364	21493	22216	23542	23133	24388
Gross Margin	71.6%	70.0%	70.2%	69.9%	69.8%	69.7%	71.2%	71.5%	71.1%	72.2%
SG&A Exp.	7294	7579	8046	9059	9304	10436	9664	11756	11616	11032
D&A Exp.	1343	1430	1403	1441	1608	2096	2091	2100	2000	1486
Operating Profit	6338	5409	5713	5730	6758	6273	7561	5696	5070	6495
Op. Margin	27.1%	23.4%	23.4%	21.6%	23.2%	20.3%	24.2%	17.3%	15.6%	19.2%
Net Profit	4362	3400	4031	4539	4821	3718	5876	6219	2409	6607
Net Margin	18.7%	14.7%	16.5%	17.1%	16.5%	12.1%	18.8%	18.9%	7.4%	19.6%
Free Cash Flow	3673	3329	4014	4271	3358	2998	7285	6418	5035	5987
Income Tax	1430	1038	1375	1113	1784	1373	2213	1740	1457	1871

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	46896	45252	46808	50968	58913	67448	71908	80585	77383	75489
Cash & Equivalents	4047	3729	3914	4812	9868	5953	6532	10074	9660	8980
Acc. Receivable	5172	5683	6156	6969	7072	8470	7625	6665	6201	7031
Goodwill & Int.	31135	29485	28646	29078	30843	37694	38525	39688	39616	34923
Total Liabilities	23143	19783	18902	20358	25881	32922	35099	33571	31433	27553
Accounts Payable	951	976	1073	1381	1706	1771	1681	1789	2301	1962
Long-Term Debt	13480	10053	8330	7558	12930	15312	16411	14719	11737	10696
Total Equity	23711	25438	27884	30573	32981	34441	36549	43990	43095	47660
LTD/E Ratio	0.57	0.40	0.30	0.25	0.39	0.44	0.45	0.33	0.27	0.22

Profitability & Per Share Metric

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.3%	7.4%	8.8%	9.3%	8.8%	5.9%	8.4%	8.2%	3.0%	8.6%
Return on Equity	19.0%	13.8%	15.1%	15.5%	15.2%	11.0%	16.6%	15.4%	5.5%	14.6%
ROIC	13.4%	9.3%	11.2%	12.2%	11.5%	7.8%	11.4%	10.8%	4.0%	11.4%
Shares Out.	1195	1198	1199	1197	1197	1194	1194	1190	1170	1160
Revenue/Share	19.51	19.26	20.37	22.18	24.44	25.83	26.41	27.92	27.71	28.63
FCF/Share	3.07	2.78	3.35	3.56	2.81	2.51	6.16	5.44	4.28	5.07

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