

SAP SE

CORE HOLDING*

Recommended since 30.05.24

10.01.2025



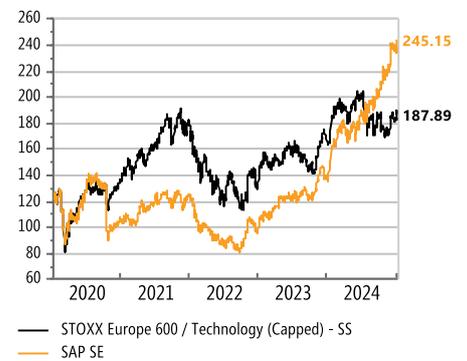
Country DE	Market capitalization (bn) EUR 308.3	Perf. since reco. (%)
Sector Technology	Free float 83.8%	SAP SE 45.4
Factset SAP-DE	Closing price EUR 245.15	Sector -2.6
ISIN DE0007164600	ESG Risk score* 14.4 Low risk	



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

SAP was founded in 1972 as an enterprise software development company. Initially focused on enterprise resource planning (ERP) solutions, the group gradually diversified its activities to cover a wide range of software solutions designed to improve business management. Through a policy of strategic acquisitions, SAP has strengthened its position in cloud computing and integrated enterprise solutions, becoming a key player in the sector.



Market - competition - positions - barriers to entry

The total addressable market for SAP is estimated at over \$500 billion in 2023 (ERP, LoBs, BTP), and is growing by 11% a year thanks to digital transformation. SAP holds around 16% of the ERP market, ahead of Oracle and Microsoft, and ranks among the top five cloud solution providers. Barriers to entry are high due to technological complexity and development costs, ensuring SAP's strong, competitive position.

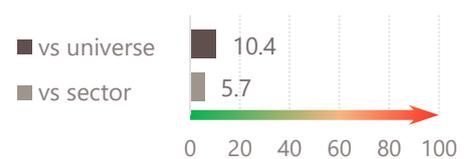
Investment case

- Historically focused on ERP solutions for enterprise resource planning, SAP has diversified its activities by integrating Supply Chain Management (SCM), Analytics Platforms (AP), Financial Management Suite (FMS) and Human Capital Management (HCM) solutions. The group has undertaken a major transformation by moving into the cloud under the 'RISE With SAP' era, where SAP will be able to deliver double-digit revenue growth and improved margins. The company is now positioning itself as a leader in integrated cloud solutions, capitalising on the growing demand from businesses for SaaS & AI solutions (particularly for real-time data processing) while working with Azure, AWS and Google Cloud to strengthen its technology platform.
- The group generates 43.8% of its 2023 sales via the cloud (SAP S/4HANA, Success Factors, Ariba, Concur, SAP BTP, etc.), 36.8% via support (for licences and transition), 13.7% via services (consulting, training, premium services) and 5.7% via licences (on-premise). The strategic transition is being supported by cross-selling and upselling of modules, as well as partnerships with other application providers, which is increasing the uptake of diverse solutions among existing customers. The management estimates that this strategy will enable cloud revenues to be multiplied by 2 to 3x compared with current support revenues. This approach not only increases the value of existing customers, but also attracts new customers, particularly in emerging markets and small and medium-sized enterprises.
- We therefore believe that SAP is entering a new cycle of growth for the next 4 to 5 years, this one being the most important and transformative. The management is targeting sales of €37.5 billion by the end of 2025 and FCF of €8 billion, which should be reiterated at the Capital Market Day in June 2024. SAP should also be able to generate significant margin improvement over time, and we believe that a steady-state non-IFRS EBIT margin of 35% is largely achievable through operational leverage and efficiency (similar to Microsoft's transition) and the integration of AI.
- Given this new paradigm, SAP should be trading in line with its peers in the sector, where a PE 2025e of 28x is amply justified.

ESG - risks and key points

- SAP's ESG risk level is low, with its management of ESG issues in line with standards in the technology sector.
- As a provider of business-critical solutions, SAP must guarantee the security and reliability of its products to avoid any harm to customers.
- Given the importance of innovation and competition in the industry, the Group must be able to attract and retain highly qualified professionals and diversify its teams to maintain its competitive edge.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in EUR

Current price	Value Bordier Scenario
245	225

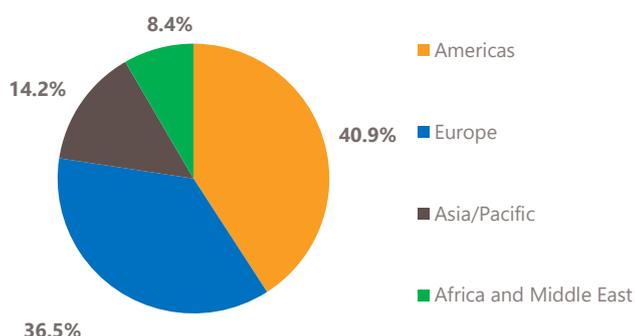
Our scenario assumes a European 10-year interest rate of 2.5%; average annual sales growth of 11%; and a steady-state EBIT margin (non-IFRS) of 35%.

**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2022	2023	2024e	2025e	2026e
Sales revenue	29 520	31 207	34 016	37 757	42 288
Sales growth %	9.5%	5.7%	9.0%	11.0%	12.0%
<i>a/w organic</i>	9.5%	5.7%	9.0%	11.0%	12.0%
EBIT adjusted	7 989	8 722	7 892	10 194	11 841
% of sales	27.1%	27.9%	23.2%	27.0%	28.0%
Net income	4 720	5 879	5 131	7 381	8 621
Adjusted EPS	4.03	5.04	4.40	6.39	7.46
Adjusted EPS growth	-40.1%	24.9%	-12.7%	45.3%	16.8%
Capex/Sales	2.6%	2.2%	2.8%	2.1%	2.2%
Free cash-flow	4 865	5 646	5 417	7 901	9 061
FCF/Sales	16.5%	18.1%	15.9%	20.9%	21.4%
Dividend per share	2.05	2.20	2.20	2.30	2.50
Dividend yield	2.1%	1.6%	0.9%	0.9%	1.0%
ROCE - WACC	4.2%	7.6%	6.1%	11.6%	15.0%
ROE (%)	11.7%	13.6%	11.9%	17.1%	20.0%
Net debt/Ebitda	55.9%	15.4%	16.8%	13.3%	11.7%

Sales breakdown - 12/2023



Governance and ownership structure

Since 2019- CEO Christian Klein

Key shareholders (if any):

Float 83.6%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainability, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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Source: Factset, Bordier estimates

Ratios

	SAP SE	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
PE (x)***		Euro Technology	Stoxx 600
2023	27.7	30.3	14.6
2024e	55.8	25.5	13.5
2025e	38.4	21.0	12.3
P/B (x)***			
2023	3.8	4.8	2.0
2024e	6.6	4.3	1.8
2025e	6.6	3.9	1.7
Beta (2Y, daily) vs market:			1.01

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Agenda

22.07.2024: earnings Q2-FY2024

21.10.2024: earnings Q3-FY2024