



SAP

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EQUITY RESEARCH REPORT

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retention rates surpass 120%, meaning existing clients spend more each year, not less.

This structural entrenchment creates one of the widest competitive moats in enterprise technology. Cloud-native competitors like Workday and Salesforce compete at the edges (HR, CRM), but neither has displaced SAP from core ERP. Oracle competes in the same tier but carries a debt-to-equity ratio of 3.9x compared to SAP's 0.17x. Microsoft Dynamics targets the mid-market segment, not the Fortune 500 stronghold where SAP dominates.

SAP holds approximately 24% of the global ERP market, making it the largest provider by revenue. Annual contractual price escalators of 3–5% compound over decades of customer relationships. When 77% of global GDP transacts through your systems, pricing power becomes self-reinforcing.

Financial Fortress: Balance Sheet and Profitability

SAP's balance sheet passes every stress test in our wealth preservation framework.

The company holds €11.2 billion in cash against total debt that leaves a net cash position of approximately €2 billion. SAP could retire every euro of outstanding debt tomorrow and still have billions remaining. Interest coverage on a non-IFRS basis exceeds 21x, meaning operating profits could decline by 95% before debt service becomes problematic.

Metric				Value				Threshold				Assessment			
—	—	—	—	Debt / Equity < 1.0x				PASS (Excellent)							
Interest Coverage	21.0x	Non-IFRS	Excellent	Cash / Debt	128%	> 20%	PASS (Excellent)	Net Cash / Debt	52.0%	Positive	PASS	FCF Positive	55%	PASS	

Profitability tells the same story. FY2025 IFRS operating profit surged 111% as the SAP cloud transition matured beyond its investment-heavy phase. Gross margins reached 73.8%. Free cash flow hit €8.2 billion, up 95% year over year, translating to a 22.4% FCF margin. Operating cash flow exceeds net income by over 30%, confirming that reported profits convert to real cash.

ROIC ranges between 10% and 17% depending on methodology, exceeding the weighted average cost of capital of 6–8% across every calculation. SAP creates value on every euro of invested capital.

Management has authorized a €10 billion buyback program starting February 2026. At current prices, that program retires approximately 2.5–3% of outstanding shares annually. Combined with the 1.63% dividend yield, total capital return approaches 4–4.5% before any price appreciation.

SAP Cloud Transition: The €77 Billion Backlog

Cloud revenue grew 26% at constant currencies in FY2025, reaching €21 billion. The mix shift tells the story of a company transforming its revenue base: 86% of FY2025 revenue qualified as “more predictable” (cloud plus support), up from 80% two years prior. Legacy software license revenue declined as customers migrated to S/4HANA Cloud.

The total cloud backlog of €77 billion provides visibility into three to five years of revenue that customers have contracted but SAP has not yet recognized. That backlog alone exceeds two full years of current annual revenue. Investors who fixate on quarterly cloud growth deceleration miss the structural certainty embedded in this contracted pipeline.

SAP's S/4HANA migration deadline creates additional urgency. Legacy support ends in 2027, forcing customers who have delayed migration to commit. Over 440,000 customers represent a conversion pipeline that will feed cloud revenue growth for years.

AI capabilities through Joule and Business AI features add 2–3 percentage points of incremental growth potential. SAP's decades of customer process data across procurement, finance, and supply chain create a proprietary training dataset that cloud-native competitors cannot replicate. Management guides for FY2026 revenue of €44.0–44.4 billion and non-IFRS operating profit of €10.3–10.6 billion, implying continued margin expansion.

SAP SE Valuation: 15th Percentile Compression

SAP trades at the lower quartile of its five-year valuation range on every major metric. The 44% drawdown from the 2025 peak has compressed multiples to levels the stock last visited during periods of maximum pessimism.

Metric					Current					5Y Average					Percentile vs. History				
—	—	—	—		P/E (TTM)	32x	15th	EV/EBITDA	17.0x	20th	P/FCF	22.7x	32x	10th	P/S	5.1x	6.5x	25th	

Our blended fair value calculation uses three independent methods.

Earnings-based: Normalized IFRS EPS of €6.28 at the 10-year average P/E of 28x yields €176. At the 5-year average of 32x: €201. Mid-point: €188.

FCF-based: FY2025 FCF per share of €7.06 at the 10-year average P/FCF of 30x yields €212. At a conservative 25x: €176.

Forward earnings: Consensus FY2026 EPS of €7.24 at 28x forward P/E yields €203.

The blended fair value range of €195–€210 places the base case target at €210, representing a 26.8% margin of safety from the current price of €153.82. SAP SE valuation at these levels prices the stock as though cloud growth has ended, when €77 billion in backlog says otherwise.

For additional enterprise software investment research and institutional-grade equity analysis, explore the Moschovakis Capital Equities Hub.

Scenario Analysis: Bear, Base, and Bull

Scenario	Rev. CAGR	EPS CAGR	Terminal P/E	10Y Price	Total CAGR	Weight
—	—	—	—	—	—	—
Bear	3%	5%	18x	€162.4	2.4%	25%
Base	8%	12%	25x	€480.0	10.1%	50%
Bull	11%	16%	30x	€780.6	16.5%	25%

Probability-Weighted Expected Total Return: 10.1% CAGR

The bear case assumes a prolonged enterprise spending recession, accelerated competition from Oracle and Microsoft, and AI monetization failure. Revenue grows at 3% CAGR, EPS reaches €10.2 by 2036, and the market assigns an 18x trough P/E. Including cumulative dividends of approximately €32, total return reaches 2.4% CAGR. Capital preserved.

The base case assumes SAP executes the cloud transition as guided. The €77 billion backlog converts over 3–5 years. AI features drive incremental growth. Revenue grows at 8% CAGR, margins expand toward 33%, and EPS reaches €19.50 by 2036. At 25x P/E, the price target hits €480. Total return: 10.8% CAGR.

The bull case assumes SAP’s AI-driven ERP becomes the platform standard. Cloud ERP Suite growth re-accelerates. Revenue grows at 11% CAGR, margins reach 35%, and EPS hits €31 by 2036. At 30x P/E: €780. Total return: 16.5% CAGR.

The principal alternative to this position is a 4% high-yield savings account. At the base case, SAP turns €100 into €279 over ten years versus €148 from cash savings. That €131 outperformance compensates for the volatility premium.

SAP Dividend Growth: 36 Years Without a Cut

SAP has paid dividends every year since its 1988 IPO. No cut through the dot-com crash. No cut through the Global Financial Crisis. No cut through COVID-19. The proposed FY2025 dividend of €2.50 per share represents a 6.4% increase year over year.

The payout ratio of 40.7% (non-IFRS) leaves enormous headroom. Free cash flow covers the dividend 2.8x. Even if earnings dropped 50% in a severe recession, the payout ratio would still sit below 85%. SAP’s dividend policy commits to distributing at least 40% of non-IFRS profit after tax, providing a floor for income-oriented investors.

The current yield of 1.63% appears modest in isolation. Combined with 7–10% expected SAP dividend growth, the forward yield on cost accelerates. At 8% annual growth, today’s 1.63% yield becomes 3.5% in ten years.

Stress test: a 40% earnings decline still leaves the dividend covered 1.7x by remaining FCF. No cut required.

Risk Assessment and Peer Comparison

Risk Category	Score (1–10)	Key Concern	Mitigation
Balance Sheet	1	High debt-to-equity ratio	Conservative capital structure
Revenue Growth	2	Slower growth than peers	AI-driven ERP Suite growth
Profitability	3	Lower margins than peers	Cloud transition efficiency
Dividend	4	Modest yield	Consistent dividend growth
Valuation	5	Higher P/E than peers	AI features drive incremental growth
Recession Resilience	6	ERP systems are essential	Existing subscriptions and maintenance contracts
Competition	7	Strong competition from Oracle and Salesforce	SAP’s AI-driven ERP becomes the platform standard
Regulatory	8	GDPR compliance	Strong data privacy focus
ESG	9	Carbon footprint	Renewable energy investments
Overall	3.0	Low-Moderate Risk	

Aggregate Risk: 3.0 / 10 (LOW-MODERATE)

Recession resilience deserves emphasis. The 2020 COVID shock produced zero revenue decline. The 2008–2009 crisis caused only an 8% revenue dip. Enterprises do not cancel ERP systems in a downturn. Existing subscriptions and maintenance contracts continue regardless of economic conditions.

Among the three enterprise software giants, SAP offers the lowest valuation relative to its own history (15th percentile), the highest dividend yield (1.63% vs. Oracle’s 1.23% and Salesforce’s 0.5%), and the most conservative balance sheet alongside Salesforce. Oracle’s 3.9x debt-to-equity ratio disqualifies it from a fortress assessment. Salesforce trades at 42x earnings for lower revenue growth. SAP occupies the value sweet spot: growth comparable to peers, priced as though it were a utility. Data sourced from SAP SE Investor Relations and public financial databases.

Monitoring Framework and Exit Triggers

Quarterly review items: cloud revenue growth rate, cloud backlog trajectory, dividend maintenance, net cash position, competitive retention rates (>95%), management guidance versus actual results, AI adoption metrics, and S/4HANA customer count.

Exit triggers that warrant immediate reassessment or sale:

- Dividend cut (reassess and likely sell)
- Debt-to-equity ratio rises above 1.0x (fortress compromised)
- ROIC falls below WACC for two or more consecutive quarters
- Cloud revenue growth turns negative
- Customer retention drops below 90% (moat erosion)
- Stock reaches €250+ where forward returns compress below 5% (trim to lock gains)

Next catalyst: Q1 2026 earnings release on 23 April 2026. Focus areas include the cloud revenue growth rate, updated FY2026 guidance, and AI monetization commentary.

This thesis is live. Prefer managed equity exposure over manual execution? Copy the Moschovakis Capital equity portfolio on eToro, where every position reflects published research like this SAP stock analysis. Copy the portfolio [here](#).

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Conclusion

SAP SE qualifies for the Wealth Preservation mandate across all five absolute requirements. The bear case preserves capital. The fortress balance sheet eliminates solvency risk. A 36-year unbroken dividend record provides income reliability through every market cycle. And the 26.8% margin of safety at current prices compresses the range of adverse outcomes.

The entry strategy: scale in with 60% of the target position at current levels near €153, reserving 40% for further weakness toward €135–140. No stop-loss. Fundamental exit triggers replace arbitrary price-based exits.

At the base case, €100 invested today becomes approximately €279 over ten years. The risk profile justifies the equity premium over cash alternatives.

Execution Infrastructure

For the execution of positions discussed in our research, we utilize the following institutional-grade platforms due to their regulatory compliance, liquidity, and reliability.

Platform	Purpose
eToro	Equity execution — regulated, social trading infrastructure
Revolut	Multi-currency banking and FX
Interactive Brokers	Institutional-grade brokerage

Platform	Purpose
Vantage	MT4/MT5 execution
Binance	Digital asset infrastructure
Hostinger	Web infrastructure

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