

Borussia Dortmund

Update

Christmas comes early

Travel & leisure

19 December 2017

Price €6.26
Market cap €575m

Net cash (€m) at September 2017 including finance leases	38.3
Shares in issue	92.0m
Free float	60.5%
Code	BVB
Primary exchange	Frankfurt
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.9)	(20.5)	19.7
Rel (local)	(7.1)	(25.0)	2.5
52-week high/low		€8.3	€5.1

Business description

The group operates Borussia Dortmund, a leading German football club, DFB Cup winners in 2016/17 and competing in this season's UEFA Champions and Europa Leagues (Champions League quarter-finalists in 2016/17).

Next events

Europa League round of 32 against Atalanta	15 and 22 February 2018
Half-year results	28 February 2018

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Immediate back-to-back Bundesliga wins under new coach Peter Stöger is at least a welcome change of fortune for beleaguered Dortmund. Now the winter break allows for renewed stability and the return of key players. The team remains very much in the mix for UEFA competition next season, while a deep run in the current Europa League may significantly make up for a premature Champions League exit, as evident in our newly-introduced minor downgrades. Recent Q1 results show the success of Dortmund's transfer policy, which is generating substantial hidden reserves in player values. Quarterly EBITDA of €81.4m, driven by the remarkable sale of Dembélé to Barcelona, provides ample scope for reinvestment and alone all but guarantees a record outturn this year.

Year end	Revenue* (€m)	EBITDA (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/16	281.3	86.7	73.8	0.68	0.06	6.3
06/17	328.4	74.1	61.1	0.56	0.06	7.4
06/18e	335.0	98.0	83.0	0.77	0.06	5.2
06/19e	378.0	94.0	80.0	0.74	0.07	5.2

Note: *Before player transfer income. **EPS is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Après Champions League, pas de déluge!

Despite disappointment at Dortmund's recent dip in form, the financial implications may not be significant, assuming progress in the Europa League (we look for round of 16) and top-four qualification for next season's Champions League (currently third in Bundesliga, albeit in a very tight race). As detailed on page 2, the reduction now in our FY18 gross EBITDA forecast is just €4m (from €102m to €98m) on €5m lower pre-transfer revenue, primarily broadcasting. The projected halving of EBITDA for the rest of this period reasonably reflects a near double-digit rise in costs on flat revenue. Risk to all this is epitomised by a new coach, whose contract is only to the season end, but so far, so good. A win against Bayern in the imminent DFB Cup tie would be an unexpected bonus to our numbers.

Reassurance from hidden reserves

Sporting Director Michael Zorc's new admission of the challenge of squad planning in the face of shortening player retention (hitherto about five years) is also confirmation of Dortmund's sustained ability to generate high levels of transfer income as emerging talent attracts the attention of major clubs at ever younger ages. While exceptional and at some sporting detriment, Q1's Dembélé deal underpins current year financials with more to follow.

Valuation: Chance to regroup

On-field stabilisation may allow renewed appreciation of Dortmund's riches (the Dembélé move alone fuelled a 40% share price rise in early season). Given the scale of the remaining surplus of market value to net player assets (c €240m per www.transfermarkt.de) and endemic lively player transfer inflation, we do not expect market speculation to abate.

Revenue and profit analysis

Exhibit 1: Revenue and profit analysis							
Year end June (€m)	Q117	Q2-Q417	FY17	Q118	Q2-Q418e	FY18e	FY19e
					▲	▲	▲▲
Home matches:							
Bundesliga	3	14	17	3	14	17	17
Champions League	1	4	5	1	2	3	4
Europa League	-	-	-	-	2	2	-
DFB Cup	-	2	2	-	-	-	2
SuperCup	1	-	1	1	-	1	-
Away matches:							
Champions League	1	4	5	1	2	3	4
Europa League	-	-	-	-	2	2	-
DFB Cup	1	2+final	3+final	1	2	3	3
Revenue							
Match operations:							
Bundesliga	4.7e	22.3e	27.0	4.8e	22.2	27.0	27.5
Champions League	1.9e	7.6e	9.5	2.0e	4.0	6.0	8.0
Europa League	-	-	-	-	4.0	4.0	-
DFB Cup/SuperCup	1.1e	4.2e	5.3	1.2e	0.3	1.5	3.5
Other	0.8e	1.4e	2.2	2.6e	1.9	4.5	2.5
Total	8.5	35.4	43.9	10.6	32.4	43.0	41.5
Broadcasting:							
Bundesliga	16.2	49.9	66.1	21.6	68.4	90.0	95.0
Champions League	19.6	30.5	50.1	18.9	11.1	30.0	68.0
Europa League	0.9	-	0.9	-	4.0	4.0	-
DFB Cup/SuperCup	1.6	7.0	8.6	1.8	1.2	3.0	4.5
Total	38.3	87.5	125.8	42.3	84.7	127.0	167.5
Advertising	17.8	69.6	87.4	21.3	74.7	96.0	99.0
Merchandising	9.2	30.3	39.5	8.7	28.3	37.0	37.0
Catering / other	7.8	24.1	31.9	5.8	26.2	32.0	33.0
Revenue before transfers	81.6	246.8	328.4	88.7	246.3	335.0	378.0
Transfers	45.2*	32.1	77.3	136.1**	33.9	170.0	82.0***
Total revenue	126.8	278.9	405.7	224.8	280.2	505.0	460.0
Other operating income							
Other operating income	1.0	3.2	4.2	0.5	2.5	3.0	4.0
Labour costs							
Labour costs	(38.4)	(139.5)	(177.9)	(43.9)	(151.1)	(195.0)	(205.0)
Share of revenue before transfers							
Share of revenue before transfers	47%	56%	54%	49%	61%	58%	54%
Material costs							
Material costs	(5.8)	(20.1)	(25.9)	(5.6)	(18.4)	(24.0)	(25.0)
Other operating costs							
Other operating costs	(43.4)	(88.6)	(132.0)	(94.4)	(96.6)	(191.0)	(140.0)
EBITDA	40.1	34.0	74.1	81.4	16.6	98.0	94.0

Source: Edison Investment Research. Note: ▲ Assuming Europa League Round of 16 on transfer from Champions League and DFB Cup Round of 16. ▲▲ Assuming Champions League Round of 16 and DFB Cup semi-final. *Including disposal of Mkhitaryan. **Including disposals of Dembélé, Bender, Merino and Mor. ***Notional (assumed average of transfer revenue of three previous years excluding "exceptional" Dembélé transaction).

Exhibit 2: Financial summary

	€'000s	2016	2017	2018e	2019e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		376,300	405,700	505,000	460,000
EBITDA		86,700	74,100	98,000	94,000
Operating Profit (before amort. and except.)		75,900	62,600	86,000	82,000
Intangible Amortisation		(32,000)	(51,900)	(64,000)	(65,000)
Exceptionals		(7,500)	(100)	(1,100)	0
Other		0	0	0	0
Operating Profit		36,400	10,600	20,900	17,000
Net Interest		(2,100)	(1,500)	(3,000)	(2,000)
Other financial items		0	0	0	0
Profit Before Tax (norm)		73,800	61,100	83,000	80,000
Profit Before Tax (FRS 3)		34,300	9,100	17,900	15,000
Tax		(4,900)	(900)	(3,500)	(2,500)
Profit After Tax (norm)		62,700	51,900	70,500	68,000
Profit After Tax (FRS 3)		29,400	8,200	14,400	12,500
Minority interests		0	0	0	0
Net income (normalised)		62,700	51,900	70,500	68,000
Profit after tax (FRS3)		29,400	8,200	14,400	12,500
Average Number of Shares Outstanding (m)		92.0	92.0	92.0	92.0
EPS - normalised (c)		68.2	56.4	76.6	73.9
EPS - (IFRS) (c)		32.0	8.9	15.7	13.6
Dividend per share (c)		6.0	6.0	6.0	7.0
EBITDA Margin (%)		23.0	18.3	19.4	20.4
Operating Margin (before GW and except.) (%)		20.2	15.4	17.0	17.8
BALANCE SHEET					
Fixed Assets		302,800	354,900	330,000	308,000
Intangible Assets		65,300	141,500	120,000	100,000
Tangible Assets		188,400	184,700	182,000	180,000
Investments		49,100	28,700	28,000	28,000
Current Assets		121,800	123,700	145,000	169,000
Stocks		10,200	9,000	10,000	10,000
Debtors		51,100	48,800	50,000	50,000
Cash		51,700	49,300	81,000	102,000
Other		8,800	16,600	4,000	7,000
Current Liabilities		(78,800)	(140,900)	(127,000)	(125,000)
Creditors		(76,200)	(130,600)	(117,000)	(115,000)
Short term borrowings		0	0	0	0
Finance leases		(2,600)	(10,300)	(10,000)	(10,000)
Long Term Liabilities		(36,200)	(25,400)	(27,000)	(25,000)
Long term borrowings		0	0	0	0
Finance leases		(19,000)	(8,700)	(8,000)	(8,000)
Other long term liabilities		(17,200)	(16,700)	(19,000)	(17,000)
Net Assets		309,600	312,300	321,000	327,000
CASH FLOW					
Operating Cash Flow		44,400	12,200	5,200	31,000
Net Interest		(1,400)	(2,000)	(2,000)	(2,200)
Tax		(300)	(5,500)	(6,000)	(6,000)
Capex		(9,400)	(8,100)	(9,000)	(9,300)
Acquisitions/disposals		(20,500)	9,100	50,000	13,000
Financing		(7,700)	0	0	0
Dividends		(4,600)	(5,500)	(5,500)	(5,500)
Net Cash Flow		500	200	32,700	21,000
Opening net debt/(cash)		(29,600)	(30,100)	(30,300)	(63,000)
Finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(30,100)	(30,300)	(63,000)	(84,000)

Source: Source: Borussia Dortmund accounts, Edison Investment Research

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