



Borussia Dortmund GmbH & Co. KGaA

Not relegated

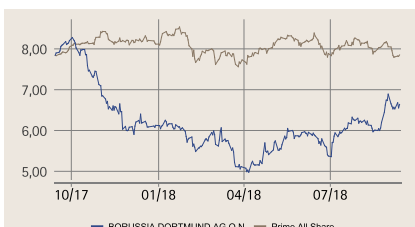
14/09/2018

Buy	(Buy)
10.00 EUR	(9.40 EUR)

Close 12/09/2018	6.64 EUR
Bloomberg: BVB GY	WKN: 549309
Sector	Media

Share price performance

52 week high	8.28 EUR
52 week low	4.98 EUR
Compared to	Prime All Share
YTD	11.7%
1 month	10.5%
12 months	-16.0%



Share data

EV (m EUR; 2018)	594.8
Market Cap (m EUR)	610.9
No. of shares (m)	92.0
Free float	60.8%

Next event

Annual Results	28/09/2018
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Change in model

	Sales	EBIT	EPS
2017/18	---	---	---
2018/19e	4.1%	186.8%	186.0%
2019/20e	1.1%	50.6%	47.4%

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See end of document for disclaimer.

After the transfer window closed on 31 August and BVB has not been relegated from the SDAX, it is time to reassess the investment case. All in all, we maintain our BUY rating for the stock and raise our price target from € 9.40 to € 10.00.

INVESTMENT CASE

The last transfer period very clearly showed that in most cases, the transfer values of the players were considerably higher than their IFRS book value. However, in the FY 2017/18 statement BVB also booked extraordinary depreciation on the squad of roughly € 30 m to strengthen the balance sheet. In addition, the financial numbers showed a clear correlation between sporting success and financial performance in some segments (e.g. Merchandising).

BVB management has a good track record of developing young players and significantly increasing their transfer values. Recent examples include Julian Weigl and Christian Pulisic, to name only a few. Mahmoud Dahoud, Marius Wolf and Jadon Sancho may be next in line, in our view.

CATALYSTS

The business case needs the team to be successful in the core competitions, including Bundesliga, DFB Cup and Champions League. The outcome of cup competitions (loss/win or elimination/next round) has a rather large impact on all business segments.

VALUATION

We currently calculate an adjusted value for the squad of € 397 m. BVB has systematically decreased its debt ratio in recent years. In our model we project net liquidity of € 25 m as per the end of the fiscal year. The independent brand valuation and strategy consultancy Brand Finance puts the brand value for BVB at US\$ 587 m, which we believe should be included in the valuation. Based on the current US dollar rate, this corresponds to a value of € 499 m. Overall, we arrive at a fair value for the share of € 10.00 and therefore confirm our BUY rating.

in m EUR	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Sales	405.7	536.0	443.0	462.5	462.8
EBIT	10.7	36.1	29.0	36.3	36.8
EBIT margin	2.6%	6.7%	6.5%	7.8%	8.0%
Net financial debt	13.0	-16.1	-24.9	-54.7	-86.6
Free cash flow	5.8	27.6	13.6	35.4	37.4
EPS (in EUR)	0.09	0.31	0.21	0.26	0.26
DPS (in EUR)	0.06	0.06	0.06	0.06	0.06
Dividend yield	1.1%	0.9%	0.9%	0.9%	0.9%
EV/sales	1.3	1.1	1.3	1.2	1.1
EV/EBIT	6.9	4.7	5.9	5.2	4.9
P/E	60.2	21.5	32.2	25.4	25.1

Source: Company information, Bankhaus Lampe Research estimates

Our valuation bases on the adjusted value of the squad

Our company valuation is primarily based on the adjusted value of the professional squad, the company's core asset. Transfermarkt.de, the leading valuation platform for German professional football, calculates a value for the BVB squad of € 413.3 m (as per 12/09/2018). However, for valuation purposes, we must also consider that the transfer value of players with contracts expiring in the next twelve months will drop to zero in mid-2019. We do not regard these players as assets anymore because they will then no longer generate transfer income. Of the current squad, this only concerns Eric Oelschlägel, Dzenis Burnic and Paco Alcácer, whose contracts with BVB expire on 30/06/2019. They are currently valued at € 16.3 m. We calculate an adjusted value for the squad of € 397.0 m.

Borussia Dortmund has systematically decreased its debt ratio in recent years. In our model we project net liquidity of € 24.9 m as per the end of the fiscal year.

Increased debt ratio

The independent brand valuation and strategy consultancy Brand Finance put the brand value for Borussia Dortmund at US\$ 587 m in May 2018, which should be taken into consideration for the valuation. Based on the current US dollar rate, this corresponds to a value of € 499 m.

Overall, we arrive at a fair value for the share of € 10.00 and therefore confirm our BUY rating.

Fair value per share

	Valuation
adj. value of the squad [mn €]	397.0
Net liquidity	24.9
Brand Value	499.0
Total	920.8
Num. of shares [mill.]	92.00
Discount	0%
Fair value per share [€]	10.01

Source: Company information, Bankhaus Lampe Research

Sensitivity of fair value per share

Change in adj. Value of the squad or Brand Value		
+50 m	10.55	
+25 m	10.28	
0 m	10.01	
-25 m	9.74	
-50 m	9.47	

Source: Company information, Bankhaus Lampe Research

Our P&L estimates based on the segment model below have changed as follows:

Changes in estimates

EUR m	2018/19e old	2018/19e new	Change	2019/20e old	2019/20e new	Change	2020/21e old	2020/21e new	Change
Sales	425.5	443.0	4.1%	457.5	462.5	1.1%	---	462.8	---
EBIT	10.1	29.0	187.1%	24.1	36.3	50.6%	---	36.8	---
EBIT margin	2.4%	6.5%	4.2 PP	5.3%	7.8%	2.6 PP	---	8.0%	---
EPS (€)	0.07	0.21	194.7%	0.18	0.26	45.0%	---	0.26	---
DPS (€)	0.06	0.06	0.0%	0.06	0.06	0.0%	---	0.06	---

Source: Bankhaus Lampe Research

Changes in estimates

Bankhaus Lampe EUR m	2016/17	2017/18	2018/19e			2019/20e			2020/21e		
			old	new	Change	old	new	Change	old	new	Change
Bor. Dortmund	405.7	536.0	425.5	443.0	4.1%	457.5	462.5	1.1%	---	462.8	---
Broadcasting	125.8	122.3	144.0	144.0	0.0%	174.0	174.0	0.0%	---	174.0	---
Advertising	87.4	94.0	89.0	94.0	5.6%	90.0	94.0	4.4%	---	94.0	---
Merchandising	39.5	29.5	39.5	35.0	-11.4%	39.5	40.0	1.3%	---	40.0	---
Transfers	77.3	222.7	80.0	100.0	25.0%	80.0	80.0	0.0%	---	80.0	---
Match operations	43.9	42.3	41.0	42.0	2.4%	42.0	42.5	1.2%	---	42.8	---
Catering/others	31.9	25.2	32.0	28.0	-12.5%	32.0	32.0	0.0%	---	32.0	---

Source: Company information, Consensus FactSet, Bankhaus Lampe Research

Our estimates compare with the FactSet consensus for 2018/19 are as follows
(FactSet consensus for 2019/20 and 2020/21 is not available):

BHL vs. Consensus EUR m	2018/19e			2019/20e			2020/21e		
	BHL	Consensus	Delta	BHL	Consensus	Delta	BHLe	Consensus	Delta
Sales	443.0	440.0	0.7%	462.5	---	---	462.8	---	---
EBIT	29.0	15.0	93.3%	36.3	---	---	36.8	---	---
EBIT margin	6.5%	3.4%	3.1 PP	7.8%	---	---	8.0%	---	---
EPS (€)	0.21	0.68	-69.4%	0.26	---	---	0.26	---	---
DPS (€)	0.06	0.06	0.0%	0.06	---	---	0.06	---	---

Source: Company information, Consensus FactSet, Bankhaus Lampe Research

Quarterly performance overview

	Sales	EBITDA	EBIT	Net Income	EBITDA margin	EBIT margin	Net margin
Q1	224.8	81.4	62.5	52.6	36.2%	27.8%	23.4%
Q2	87.0	2.5	-14.8	-13.2	2.8%	-17.0%	-15.1%
Q3	143.5	44.6	27.3	22.2	31.1%	19.0%	15.5%
Q4	80.8	-1.8	-38.9	-33.1	-2.3%	-48.2%	-41.0%
2017/18	536.0	126.6	36.1	28.5	23.6%	6.7%	5.3%
Q1	126.8	40.1	24.1	20.7	31.6%	19.0%	16.3%
Q2	87.4	9.7	-5.9	-5.1	11.1%	-6.7%	-5.8%
Q3	71.3	0.7	-16.0	-14.2	1.0%	-22.4%	-19.9%
Q4	120.2	23.5	8.4	6.8	19.5%	7.0%	5.7%
2016/17	405.7	74.1	10.7	8.2	18.3%	2.6%	2.0%
Q1	90.0	13.9	-5.2	-5.6	15.4%	-5.8%	-6.2%
Q2	78.2	11.6	1.3	1.0	14.8%	1.7%	1.2%
Q3	72.4	2.2	-8.1	-8.8	3.0%	-11.2%	-12.1%
Q4	135.7	59.0	48.4	42.8	43.5%	35.7%	31.6%
2015/16	376.3	86.7	36.4	29.4	23.0%	9.7%	7.8%
Q1	70.0	13.9	3.8	2.4	19.9%	5.5%	3.4%
Q2	80.4	16.8	6.3	1.3	20.9%	7.8%	1.6%
Q3	53.8	2.7	-8.2	-8.4	5.0%	-15.2%	-15.7%
Q4	71.9	22.2	11.2	10.3	30.9%	15.6%	14.3%
2014/15	276.0	55.6	13.16	5.5	20.1%	4.8%	2.0%
Q1	59.5	9.7	2.3	1.4	16.3%	3.8%	2.3%
Q2	77.1	17.0	9.3	6.9	22.0%	12.1%	8.9%
Q3	56.4	9.1	1.5	0.2	16.1%	2.7%	0.3%
Q4	67.8	13.4	5.4	3.2	19.8%	7.9%	4.8%
2013/14	260.7	49.1	18.5	11.7	18.8%	7.1%	4.5%
Q1	52.0	9.8	4.2	2.6	18.9%	8.0%	4.9%
Q2	74.0	20.6	14.9	11.7	27.8%	20.1%	15.8%
Q3	55.7	9.2	3.7	2.1	16.5%	6.7%	3.8%
Q4	123.4	48.0	42.4	34.5	38.9%	34.3%	28.0%
2012/13	305.0	87.5	65.1	50.8	28.7%	21.3%	16.7%
Q1	43.1	11.2	6.5	4.2	26.0%	15.0%	9.6%
Q2	58.3	16.0	11.2	8.6	27.5%	19.2%	14.8%
Q3	39.0	6.1	1.5	0.0	15.7%	3.7%	0.1%
Q4	74.8	26.6	22.2	14.6	35.5%	29.7%	19.5%
2011/12	215.2	60.0	41.4	27.4	27.9%	19.2%	12.7%

Source: Company reports, Bankhaus Lampe Research

MAIN RISKS TO OUR INVESTMENT CASE

The main risk to our investment case is the fact that sporting success cannot be relied upon. Elimination from a cup competition reduces the brand value, while going through to the next round is positive. Moreover, a higher-than-expected bid for a player could drive up the squad value, while an injury of a highly valued player could drive it down. And in terms of numbers, major deviation from our forecasts is possible as transfers are not predictable.

Key figures

Borussia Dortmund GmbH & Co. KGaA – Income statement

in m EUR	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Sales	405.7	536.0	443.0	462.5	462.8
Own work capitalised	0.0	0.0	0.0	0.0	0.0
Total sales	405.7	536.0	443.0	462.5	462.8
Material expenses	-25.9	-20.1	-26.0	-26.5	-27.0
Personnel expenses	-177.9	-186.7	-190.0	-195.7	-196.0
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-127.7	-202.6	-128.0	-134.0	-133.0
EBITDA	74.1	126.6	99.0	106.3	106.8
Depreciation	63.4	90.6	70.0	70.0	70.0
EBITA	10.7	36.1	29.0	36.3	36.8
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0
EBIT	10.7	36.1	29.0	36.3	36.8
Financial result	-1.5	-4.3	-1.5	-1.5	-1.5
Income on ordinary activities	9.1	31.8	27.5	34.8	35.3
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	9.1	31.8	27.5	34.8	35.3
Taxes	-0.9	-3.3	-8.5	-10.8	-10.9
Net income from cont. operations	8.2	28.5	19.0	24.0	24.4
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Net income (adj.)	8.2	28.5	19.0	24.0	24.4
No. of shares	92.0	92.0	92.0	92.0	92.0
EPS	0.09	0.31	0.21	0.26	0.26

Source: Company information, Bankhaus Lampe Research estimates

	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Gross margin	93.6%	96.3%	94.1%	94.3%	94.2%
EBITDA margin	18.3%	23.6%	22.3%	23.0%	23.1%
EBITA margin	2.6%	6.7%	6.5%	7.8%	8.0%
EBIT margin	2.6%	6.7%	6.5%	7.8%	8.0%
EBT margin	2.2%	5.9%	6.2%	7.5%	7.6%
Net profit margin	2.0%	5.3%	4.3%	5.2%	5.3%
Tax rate	10.0%	10.4%	31.0%	31.0%	31.0%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Sales	7.8%	32.1%	-17.4%	4.4%	0.1%
EBITDA	-14.5%	71.0%	-21.8%	7.4%	0.5%
EBIT	-70.7%	>100%	-19.6%	25.2%	1.4%
EBT	-73.4%	>100%	-13.4%	26.5%	1.4%
Net income (adj.)	-72.1%	>100%	-33.3%	26.5%	1.4%
EPS	-72.1%	>100%	-33.3%	26.5%	1.4%

Source: Company information, Bankhaus Lampe Research estimates

Borussia Dortmund GmbH & Co. KGaA – Balance sheet

Assets (in m EUR)	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Fixed assets	354.9	341.9	329.5	306.5	283.5
Property, plant and equipment	184.7	180.7	178.0	175.0	172.0
Intangible assets	141.5	109.7	100.0	80.0	60.0
Financial assets	0.1	0.1	0.1	0.1	0.1
Other long-term assets	28.6	51.5	51.5	51.5	51.5
Current assets	123.7	136.4	138.9	178.7	220.6
Inventories	9.0	5.6	9.0	9.0	9.0
Accounts receivable	48.8	23.0	50.0	60.0	70.0
Other current assets	16.7	48.4	30.0	30.0	30.0
Securities	0.0	0.0	0.0	0.0	0.0
Cash	49.3	59.5	49.9	79.7	111.6
Total assets	478.6	478.3	468.4	485.3	504.1
Equity and liabilities in m EUR					
Shareholders' equity	312.3	336.3	349.8	368.3	387.1
Shareholders' equity (before minority)	312.3	336.3	349.8	368.3	387.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	25.4	23.0	17.0	17.0	17.0
Pension provisions	0.0	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0	0.0
Long-term financial debt	8.7	6.7	0.0	0.0	0.0
Other long-term debt	16.7	16.3	17.0	17.0	17.0
Current liabilities	140.9	119.0	101.7	100.0	100.0
Short-term debt	53.6	36.6	25.0	25.0	25.0
Other accruals short-term	1.2	1.1	0.0	0.0	0.0
Accounts payable	63.6	54.6	50.0	50.0	50.0
Other liabilities	22.6	26.7	26.7	25.0	25.0
Total equity and liabilities	478.6	478.3	468.4	485.3	504.1

Source: Company information, Bankhaus Lampe Research estimates

Borussia Dortmund GmbH & Co. KGaA – Balance sheet structure

Assets	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Fixed assets	74.1%	71.5%	70.4%	63.2%	56.2%
Property, plant and equipment	38.6%	37.8%	38.0%	36.1%	34.1%
Intangible assets	29.6%	22.9%	21.3%	16.5%	11.9%
Current assets	25.9%	28.5%	29.6%	36.8%	43.8%
Inventories	1.9%	1.2%	1.9%	1.9%	1.8%
Accounts receivable	10.2%	4.8%	10.7%	12.4%	13.9%
Cash	10.3%	12.4%	10.6%	16.4%	22.1%
Equity and liabilities					
Shareholders' equity	65.3%	70.3%	74.7%	75.9%	76.8%
Non-current liabilities	5.3%	4.8%	3.6%	3.5%	3.4%
Pension provisions	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term financial debt	1.8%	1.4%	0.0%	0.0%	0.0%
Current liabilities	29.4%	24.9%	21.7%	20.6%	19.8%
Short-term debt	11.2%	7.7%	5.3%	5.2%	5.0%
Accounts payable	13.3%	11.4%	10.7%	10.3%	9.9%

Source: Company information, Bankhaus Lampe Research estimates

Borussia Dortmund GmbH & Co. KGaA – Cash flow statement

in m EUR	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Net income (adj.)	8.2	28.5	19.0	24.0	24.4
Depreciation	63.4	90.6	70.0	70.0	70.0
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	-0.2	0.0	-1.1	0.0	0.0
Other	-108.1	46.8	0.0	0.0	0.0
Operating cash flow before changes in w/c	-36.6	165.8	87.8	94.0	94.4
Change in inventory	1.2	3.4	-3.4	0.0	0.0
Change in accounts receivable	2.3	25.8	-27.0	-10.0	-10.0
Change in accounts payable	48.9	-9.0	-4.6	0.0	0.0
Change in other working capital positions	-11.0	-27.6	18.4	-1.7	0.0
Operating cash flow	4.8	158.4	71.2	82.4	84.4
Capex, incl. capitalized R&D	0.0	-130.8	-57.6	-47.0	-47.0
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	1.0	0.0	0.0	0.0	0.0
Income from financial investments	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	1.0	-130.7	-57.6	-47.0	-47.0
Free cash flow	5.8	27.6	13.6	35.4	37.4
Capital measures	0.0	0.0	0.0	0.0	0.0
Increase/decrease in debt position	-2.6	-11.9	-18.4	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	0.0	0.0	0.7	0.0	0.0
Dividend paid	-5.5	-5.5	-5.5	-5.5	-5.5
Cash flow from financing activities	-8.2	-17.5	-23.1	-5.5	-5.5
Increase/ decrease in liquid assets	-2.4	10.2	-9.6	29.8	31.8
Effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at beginning of period	51.7	49.3	59.5	49.9	79.7
Change in total cash and cash equivalents	-2.4	10.2	-9.6	29.8	31.8
Cash at end of period	49.3	59.5	49.9	79.7	111.6

Source: Company information, Bankhaus Lampe Research estimates

Borussia Dortmund GmbH & Co. KGaA – Ratios

	2016/17	2017/18	2018/19e	2019/20e	2020/21e
Per Share Data					
EPS	0.09	0.31	0.21	0.26	0.26
Book value per share	3.39	3.66	3.80	4.00	4.21
Free Cash-flow per share	0.06	0.30	0.15	0.38	0.41
Dividend per share	0.06	0.06	0.06	0.06	0.06
Valuation ratios					
EV/Sales	1.3	1.1	1.3	1.2	1.1
EV/EBITDA	6.9	4.7	5.9	5.2	4.9
EV/EBIT	47.6	16.5	20.2	15.3	14.2
P/E	60.2	21.5	32.2	25.4	25.1
Price to book (total equity)	1.6	1.8	1.7	1.7	1.6
Dividend yield	1.1%	0.9%	0.9%	0.9%	0.9%
Profitability ratios					
EBITDA margin	18.3%	23.6%	22.3%	23.0%	23.1%
EBIT margin	2.6%	6.7%	6.5%	7.8%	8.0%
Net return on sales	2.0%	5.3%	4.3%	5.2%	5.3%
Return on capital employed (ROCE)	2.8%	9.5%	7.7%	9.2%	8.9%
Productivity ratios					
Capital turnover	86.0%	58.9%	76.4%	70.4%	67.5%
Operating leverage	-9.0	7.4	1.1	5.7	21.2
Sales per employee (in thousands)	579,560	765,776	632,857	660,714	661,143
EBIT per employee (in thousands)	15,226	51,534	41,429	51,857	52,571
Number of employees (in thousands)	0.7	0.7	0.7	0.7	0.7
Financial ratios					
Equity ratio	65.3%	70.3%	74.7%	75.9%	76.8%
Net financial debt (in m EUR)	13.0	-16.1	-24.9	-54.7	-86.6
Net debt / Equity	4.1%	-4.8%	-7.1%	-14.9%	-22.4%
Interest cover	6.9	8.3	0.0	0.0	0.0
Net debt / EBITDA	0.17	-0.13	-0.25	-0.51	-0.81
Working Capital (in m EUR)	-5.8	-26.0	9.0	19.0	29.0
Change in working capital (in m EUR)	-52.4	-20.2	35.0	10.0	10.0
WC /sales	-1.4%	-4.9%	2.0%	4.1%	6.3%
Stocks in days of sales	8	4	7	7	7
Trade debtors in days of sales	44	16	41	47	55
Trade creditors in days of COGS/Material cost	57	37	41	39	39
Cash conversion cycle	-5	-17	7	15	23
Invest. (property/plant/equity) / Depreciation	0.0%	144.4%	82.3%	67.1%	67.1%
Others					
Sales CAGR (last 3 years)	15.9%	24.8%	5.6%	4.5%	-4.8%
EBIT CAGR (last 3 years)	-16.7%	40.0%	-7.3%	50.5%	0.7%
Net income CAGR (last 3 years)	-11.0%	72.7%	-13.6%	43.0%	-5.1%
Pay-out ratio	67.2%	19.4%	29.1%	23.0%	22.7%
Free cash flow (in m EUR)	5.8	27.6	13.6	35.4	37.4
Free cash flow yield	1.2%	4.5%	2.2%	5.8%	6.1%

Source: Company information, Bankhaus Lampe Research estimates

Disclaimer

The creation of this recommendation was finalised on 13/09/2018 02:50 PM (CEST) and first published on 14/09/2018 07:01 AM (CEST).

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Date of publication	Price at recommendation	Rating	Price target
05/12/2017	6.09 EUR	Buy	9.40 EUR

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Company	Disclosure
Borussia Dortmund GmbH & Co. KGaA	---

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14 September 2018

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