

# Borussia Dortmund

Travel & leisure

## Meeting its goals

Ahead of Q1 results on 13 November, a positive annual report and continued on-field success reinforce confidence in our current-year forecasts and a possible step change in returns in FY17, assuming Champions League qualification. Forecasts for next year suggest a near-doubling in pre-transfer EBITDA (our key metric) and strong cash generation for player investment (we estimate €74m net cash at June 2017). An EV/EBITDA (pre-transfer) of 5x FY17e seems to ignore the long-term potential of powerful brand development and valuable media rights.

## Current-year resilience

Assuming progress to Europa League's knockout stage (on course after three of six group matches), we expect pre-transfer EBITDA to lag only slightly behind FY15 (before the estimated c €12m benefit of a 'negative outcome' insurance claim), which is impressive, given the absence of the Champions League. Profit should be bolstered by a new deal on the international marketing of Bundesliga media rights and by higher Europa League fees. Excluding transfers, our forecasts are in line with annual report guidance. Although surprising, given robust finances, the halving of the FY15 dividend reflects management focus on sporting achievement.

## FY17 Champions League kicker

Our forecasts assume qualification for next year's Champions League (also on track after a third of the Bundesliga season) and an advance to its knockout stage, as in the three years to FY15. As well as clearly boosting advertising and merchandising, the Champions League may be expected to generate c €30m more TV marketing revenue for Dortmund than the Europa League in the current period. While mindful of cost pressures associated with success, we look for just a 7% rise in labour expenses as the squad is already run on Champions League lines.

## Valuation: Too low

Dortmund's season has begun as well as could have been envisaged, hence justifiable optimism about renewed access to Champions League riches, yet the FY17e EV/EBITDA rating is not extravagant. In addition, the scope for transfer gains remains high. Albeit notional, the surplus of market value to net player assets is c €190m if the reported June 2015 carrying value of €96m is set against sports website [www.transfermarkt.de](http://www.transfermarkt.de)'s current valuation of €287m.

### Edison estimates

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA* (x)
06/14	256.3	44.7	37.1	0.51	0.10	9.2
06/15	263.6	48.0***	44.2***	0.43***	0.05	7.1
06/16e	256.0	34.0	25.5	0.23	0.05	9.8
06/17e	300.0	60.0	51.0	0.47	0.05	4.9

Source: Borussia Dortmund, Edison Investment Research. Note: \*Before player transfer income. \*\*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. \*\*\*Including insurance claim benefit (our estimate c €12m).

**Price** €4.00  
**Market cap** €368m

### Share price graph



### Share details

Code	BVB
Shares in issue	92.0m
Net cash (€) as at June 2015 including finance leases	29.6m

### Business description

The group operates Borussia Dortmund, a leading German football club, recent back-to-back champions of the Bundesliga and competing in this season's UEFA Europa League (Round of 16 participant in 2014/15 UEFA Champions League).

### Bull

- One of the best supported clubs in Europe with major brand and stadium assets.
- Successful squad of players with significant transfer value potential.
- Strong finances (net cash).

### Bear

- Unpredictable business (eg yet to prove return to forthcoming Champions League), although increasingly mitigated by long-term commercial contracts.
- Subject to external governing bodies.
- Pressures on consumer spending.

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