

# Borussia Dortmund

Travel & leisure

## Quick off the mark

Bundesliga leaders and unbeaten in their last 14 matches in all competitions, Borussia Dortmund could not have wished for a stronger start under new head coach, Lucien Favre. Indeed an impressive home win over Atlético Madrid already all but assures qualification for the knockout stages of the Champions League, which is in marked contrast to last season's disappointment. This reinforces our current-year forecast of robust pre-transfer revenue growth (c 12%), driven by international TV marketing, even if the bumper transfers of Dembélé and Aubameyang make FY18 a hard act to follow. Progress may be more measured in FY20 but subject as ever to surprise from Dortmund's ability to generate substantial hidden reserves from player transfers.

## Q418: Tough comparative

The quarter to June was predictably subdued as a lack of involvement in UEFA and DFB Cup competition, fewer Bundesliga home games (3 vs 5) and a halving of transfer activity drove revenue down by a third. However, domestic TV marketing was a rare bright spot owing to the new broadcasting deal and new Champion Partners buoyed advertising. The impact on profit was at least mitigated by a 12% reduction in bonus-led labour costs and a halving of material costs in line with revenue. Finances remained typically disciplined with net cash €50m at year end.

## Shaping up

Despite current elation, epitomised by Atlético Madrid's record Champions League defeat, we are not changing our assumption of Champions League Round of 16. It is early days and we are mindful that last year Dortmund's Bundesliga season also began well only to fall apart with a 29-point deficit to winners, Bayern. Ahead of Q1 results on 14 November, our maintained forecast of 12% higher pre-transfer revenue largely reflects a doubling from the revamped Champions League, while our EBITDA forecast (also held) now assumes a further €15m rise in transfers. Our new FY20 forecast sees continued progress and scope for transfer gain surprise.

## Valuation: So far, so good

An EV/EBITDA of 9.7x FY19e does not fully recognise the long-term potential of powerful brand development, valuable media rights and strong cash flow, backed by season ticket sales and hidden reserves from player investment (broadly, c €300m surplus of market value to net player assets, per [www.transfermarkt.de](http://www.transfermarkt.de)).

Edison estimates						
Year end	Revenue* (€m)	EBITDA (€m)	PBT** (€m)	EPS** (€m)	DPS (€)	EV/EBITDA (x)
06/17	328.4	74.1	61.1	0.56	0.06	11.3
06/18	313.3	126.6	111.2	1.03	0.06	6.6
06/19e	350.0	87.0	76.0	0.70	0.06	9.7
06/20e	365.0	90.0	80.0	0.74	0.06	9.3

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

**Price** €9.68  
**Market cap** €891m

### Share price graph



### Share details

Code	BVB
Shares in issue	92.0m
Net cash (€m) at end June 2018 including finance leases	50.8

### 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 League (quarter-finalists in 2016/17).

### 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, although increasingly mitigated by long-term commercial contracts.
- Subject to external governing bodies.
- Pressures on consumer spending.

### Analysts

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