

Borussia Dortmund

Capital increase

Brand appeal

Travel & leisure

Evonik's consolidation of its partnership with Borussia Dortmund is a strong endorsement of management's development of the BVB brand. Long-term extension of its leading sponsorship agreement enhances Dortmund's revenue security while c €26m proceeds from Evonik's new 9% stake will address a current spike in net player spend. The prospect of further partnerships, secured by capital increases, is welcome in terms of cash and the scope for a step-change in profit even if a stated readiness to extend ownership in quick order risks looking opportunistic.

10 July 2014

Price €5.01
Market cap €338m

Net debt including finance leases at March 2014 (€m)	62.7
Shares in issue (post subscription)	67.5m
Free float	67%
Code	BVB
Primary exchange	Frankfurt
Secondary exchange	N/A

Year end	Revenue* (€m)	EBITDA* (€m)	PBT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)
06/12	189.1	36.8	45.1	0.55	0.06	10.9
06/13	253.4	42.1	71.6	0.99	0.10	9.2
06/14e	254.0	45.0	36.5	0.51	0.06	8.3
06/15e	256.0	49.0	38.0	0.48	0.06	7.2

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

Share price performance



%	1m	3m	12m
Abs	14.2	29.7	59.6
Rel (local)	16.5	25.7	31.1
52-week high/low		€5.2	€3.1

Business description

The group operates Borussia Dortmund, a leading German football club, recent back-to-back champions of the Bundesliga and quarter-finalist in last season's Champions League (finalist in 2012/13).

Next events

German Super Cup	13 August 2014
Full-year results	14 August 2014
First 2014/15 Bundesliga match	23 August 2014

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Win, win

Evonik's extension of its shirt agreement to 2025 and its participation in a capital increase should bring clear financial benefit to Dortmund; we assume a €3m EBITDA gain in FY15 from a favourable contract renewal, while the proceeds of the capital increase should contribute substantially to the cost of recent player acquisitions (Immobile, Ramos and Sahin), which amounted to c €36m according to www.transfermarkt.de. On a broader front, the Evonik partnership should help Dortmund to build its brand in south-east Asia where the Ruhr-based chemicals company is well established. It should complement Dortmund's planned opening of an office (reassuringly low cost, at initially just two persons) in Singapore, where reportedly 10% of the population has expressed an affinity for the club.

More to come

Management is confident of agreeing further 'strategic partnerships' on the lines of that with Evonik, notably by the end of the current quarter to September. The company has 24.6m authorised shares available for intended capital increases after the issue of 6.1m shares in the Evonik transaction.

Valuation: Likely breakout

The market's positive appreciation of investment by Evonik and of apparent additional interest is understandable, given such concerted backing of Dortmund's strategy and a possible step-change in the business on a material provision of resources. Scepticism about the pace and scale of mooted capital increases would thus appear unjustified. Even after recent share price buoyancy an EV/EBITDA of 7.2x FY15e arguably does not recognise the long-term potential of powerful brand development, valuable media rights and strong cash flow, backed by substantial season ticket sales and hidden reserves from player investment.

Exhibit 1: Financial summary

	€'000s	2012	2013	2014e	2015e
June		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		189,100	253,400	254,000	256,000
EBITDA		36,800	42,100	45,000	49,000
Player transfers		23,200	45,400	3,500	0
Operating Profit (before amort. and except.)		49,900	76,700	40,500	41,000
Intangible Amortisation		(8,500)	(11,600)	(22,000)	(28,000)
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		41,400	65,100	18,500	13,000
Net Interest		(4,800)	(5,100)	(4,000)	(3,000)
Profit Before Tax (norm)		45,100	71,600	36,500	38,000
Profit Before Tax (FRS 3)		36,600	60,000	14,500	10,000
Tax		(9,100)	(8,800)	(2,200)	(1,500)
Profit After Tax (norm)		36,000	62,800	34,300	36,500
Profit After Tax (FRS 3)		27,500	51,200	12,300	8,500
Average Number of Shares Outstanding (m)		61.4	61.4	61.4	67.5
EPS - normalised (c)		55.0	99.2	50.5	47.9
EPS - (IFRS) (c)		44.8	83.4	20.0	12.6
Dividend per share (c)		6.0	10.0	6.0	6.0
EBITDA Margin (%)		19.5	16.6	17.7	19.1
Operating Margin (before GW and except.) (%)		26.4	30.3	15.9	16.0
BALANCE SHEET					
Fixed Assets		210,400	212,200	248,000	261,000
Intangible Assets		25,700	28,400	60,000	70,000
Tangible Assets		182,600	178,400	184,000	187,000
Investments		2,100	5,400	4,000	4,000
Current Assets		38,300	90,200	56,000	75,000
Stocks		5,800	7,600	7,000	7,000
Debtors		24,500	65,900	20,000	21,000
Cash		5,300	12,500	24,000	42,000
Other		2,700	4,200	5,000	5,000
Current Liabilities		(61,900)	(74,400)	(68,100)	(65,600)
Creditors		(54,600)	(68,500)	(62,500)	(61,000)
Short term borrowings		(6,000)	(4,500)	(4,000)	(3,000)
Finance leases		(1,300)	(1,400)	(1,600)	(1,600)
Long Term Liabilities		(93,300)	(87,300)	(87,400)	(91,400)
Long term borrowings		(41,300)	(40,800)	(37,000)	(35,000)
Finance leases		(21,100)	(19,700)	(20,400)	(20,400)
Other long term liabilities		(30,900)	(26,800)	(30,000)	(36,000)
Net Assets		93,500	140,700	148,500	179,000
CASH FLOW					
Operating Cash Flow		32,700	40,700	42,000	46,000
Net Interest		(4,900)	(5,000)	(4,000)	(3,000)
Tax		(1,100)	(8,800)	(8,000)	(2,000)
Capex		(7,300)	(6,500)	(10,100)	(8,800)
Acquisitions/disposals		(1,500)	(7,600)	2,000	(33,500)
Financing		0	0	0	26,000
Dividends		100	(3,600)	(6,100)	(3,700)
Net Cash Flow		18,000	9,200	15,800	21,000
Opening net debt/(cash)		69,900	64,400	53,900	39,000
HP finance leases initiated		(12,500)	1,300	(900)	0
Other		0	0	0	0
Closing net debt/(cash)		64,400	53,900	39,000	18,000

Source: Edison Investment Research

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