EDISON

QuickView

Manchester United

Travel & leisure

29 July 2015

On the break

Expectation of a step change in profit over the medium term is not mere pre-season whimsy but justified by confidence in management's positive development of its powerful worldwide brand, on a platform of sustained playing success. A proliferation of commercial initiatives, allied with favourable media deals, is reinforcing a growth message, while alleviating risk. This is evident in the company's resilience last year without European competition and in its recent transformative refinancing to 2025-27 at attractive rates.

Greater clarity

Despite uncertainty early in the summer transfer window and the need to qualify for the lucrative Champions League group stage via late-August play-offs, we are encouraged by the progress of commercial activities and the visibility of significant profit drivers this year and next. New sponsorship and licensing deals continue apace, headed by first receipts from the landmark 10-year agreement with adidas, while increasingly effective use of digital and social media (100m+ social media connections) is driving traffic to branded services and e-commerce. Importantly, the company retains full control of worldwide intellectual property rights.

A likely step change in EBITDA

Consensus forecasts of a near-doubling in pre-transfer EBITDA, our key metric, over the next two years, do not appear fanciful. The aforementioned trading buoyancy apart, an assumed return to Champions League is complemented by the promise of increased fee distribution (a rise of over 25%) to participants as well as a boost to broadcasting revenue from BT Sport's exclusive rights deal for European competition, which is worth more than double that of the existing contract with Sky and ITV. In addition, the adidas deal (average minimum annual guarantee of £75m) is well ahead of its preceding agreement with Nike. FY17 should benefit from the c 70% hike in value of the new Premier League broadcast rights, awarded to Sky and BT Sport. EBITDA guidance for FY15, raised after Q3, may prove light, given a weak Q4 comparative and confirmation of likely higher fourth-quarter revenue.

Valuation: Exciting but no room to disappoint

At an EV/EBITDA of 10x, FY17e recognises 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.

Consensus estimates

Year end	Revenue* (£m)	EBITDA* (£m)	PBT (£m)	EPS (p)	DPS (p)	EV/EBITDA (x)
06/14	433.2	130.1	40.5	14.5	0.0	16.4
06/15e	394.0	110.0	(14.0)	(4.0)	0.0	19.8
06/16e	516.0	166.0	40.0	18.0	0.0	12.6
06/17e	600.0	206.0	74.0	29.0	0.0	9.9

Source: Bloomberg. Note: *Before player transfer income.

Price	**$17.3**
Market cap	**$3bn**
	$1.56/£

Share price graph

Share details

Code	MANU
Listing	NYSE
Shares in issue	163.8m

Business description

Manchester United is a leading English football club, with a record 20 league titles and three European Cup/UEFA Champions League triumphs.

Bull

- One of the most widely-supported sports teams with major brand and stadium assets.
- Successful squad of players with significant transfer value potential.
- Strong finances (debt now 10- and 12-year maturities).

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.
- Low share liquidity.

Analysts

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