Manchester United is seeking a public offering of shares in Singapore, which is expected to be launched in Sep 2011. Here's why you probably shouldn't even think about it.

Manchester United (Man Utd) has consistently been ranked as one of the "richest" football clubs in the world. It is said to have chosen Asia for its US$1 billion listing as more than half of its 330 million fans are based in Asia.

The Glazer family took over Man Utd for £790 million (S$1.5 billion) in 2005, funded in large part by high-interest loans secured against the club's assets, loans which are now to be paid off by proceeds from the proposed IPO.

1. High losses and even higher debt

For the year ended June 2010, Man Utd had £522 million in gross debt despite revenue of only £286m . The club made operating profits exceeding £100m, yet incurred a record net loss of £84m, mainly as a result of interests on its debt. The interest on its bonds alone is about £45m annually.{loadposition advert1}

If early reports are to be believed, the IPO could value Man Utd at as much as £2 billion (or 7 times revenue) even though Forbes valued it at closer to £1.1 billion (US$1.86b) in Jul 2011.

Seven times revenue is clearly a stratospheric valuation and suggests this IPO would be richly valued by any investment yardstick.

2. Finances highly dependent on success on the pitch

Manchester United is currently undoubtedly one of the world's most successful football club, with a record 16 consecutive appearances in the Champions League since the 1996-97 season. The risk is in assuming that this streak will continue.

With a Champions League berth worth an estimated £20 million in annual television revenue (or nearly 10% of turnover), a club such as Man Utd can ill-afford missing out, without going into a financial death spiral.

To put this into perspective, Liverpool Football club was in the 1970-80s in Man Utd's position now, but as unlikely as it may seem then, Liverpool spent nearly 10 years in the 1990s outside of the Europe's premier club tournament and in the doldrums.

3. Poor transparency and corporate governance

The Singapore Exchange has in recent years attracted many overseas-based businesses to list, many of which have only proved that it is inherently difficult to monitor the governance of a listed-company that is based abroad.

The potential challenge is apparently even greater in the case of Man Utd, whose owners have run it with an impunity and secrecy that would not be acceptable had it been a public company. For instance, the prospectus for its 2010 bond issue revealed that the current owners (legally) paid themselves £22.9m in management fees and loans since taking control of the club. They also paid themselves a £70m dividend within a year of the takeover.

Certainly, there could nothing worse than Chairmen or CEOs who treat companies as their personal ATM machines.

4. IPO likely to be poorly-supported

Although Man Utd managed to refinance £500 million of bonds in early 2010, that particularly issue was shunned by institutional investors because it was unrated (i.e. not given a risk grade by a rating agency such as Standard and Poor).

In the eyes of sophisticated investors, the doubtful quality of Man Utd's bonds would almost certainly extend to its shares. It is likely that Man Utd would not meet the investment profiles required by cornerstone institutional investors such as pension funds, which would provide much needed stability in an IPO.

5. Passed over by Hong Kong

Various news reports have suggested that Hong Kong was the original preferred IPO destination, but SGX eventually "won" the deal by shortening the listing process to 4 weeks from the usual 2-3 months needed for due-diligence related work.{loadposition advert1}

That the Hong Kong Stock Exchange did not offer the same waiver (despite the publicity the IPO would bring to HKSE) could suggest that there are concerns about Man Utd's viability as a listed company in Hong Kong, concerns that could not be addressed in 4 weeks.

While it is debatable whether HKSE has a more stringent set of listing criteria, it is notable that HKSE ***does*** allow for loss-making companies to list, albeit with possible restrictions. For example, in 2010, debt-laden and loss-making Russian aluminum giant Rusal was approved to be listed in Hong Kong. It was however subjected to curbs that limited participation by retail investors, a decision vindicated by Rusal's 10.6% plunge on its first-day debut.

Conclusion

The Manchester United IPO is in the category of alternative investments, which would probably include wine, time-share villas and old coins. For serious fans only.