

7 July 2011

Leisure: Punch Taverns (PUB): 74p De-merger expected effective 1 Aug

- Following recent speculation that the process was gathering pace, Punch Taverns has this morning updated on the proposed demerger of its Spirit and Punch Taverns businesses
- Terms of the demerger, which is still dependent upon a vote at a general meeting of the group's shareholders on 26 July, are outlined and a prospectus has been issued for the proposed new Spirit shares
- The demerger is expected to become effective on 1 August, with the two new companies' shares trading from that date
- Group cash & 'unrestricted liquid resources' of some £235m will be allocated as to £30m on costs, £92m to Punch and £113m to Spirit
- **Spirit** – Has 803 managed and 549 leased pubs; the group intends to 'adopt a progressive dividend policy' and to pay out around 1/3 of net income to shareholders
- Walker Boyd is chairman, Ian Dyson is CEO, Mike Tye is Deputy CEO and Russell Margerrison is Interim FD
- **Punch Taverns** – Has 2,954 core pubs and 2,126 in its non-core division & the latter will be sold over time. Stephen Billingham joins as chairman in September, Roger Whiteside will be CEO and Steve Dando is FD
- Current CEO Ian Dyson says the demerger will allow both companies to 'execute their plans to deliver long term sustainable value for all of our stakeholders' & the group will update further at a 9am meeting

Langcap view: Punch has thus confirmed suggestions that the demerger was running somewhat ahead of plan, that its operational demerger took place on 4 July and that the formal listing of the two new equity classes should take place on 1 August. It is understood that there have been no discussions with bond holders to date.

The demerger seems sensible, Punch needed to take the cash in order to avoid breaching covenants for the next couple of years and a free-standing Spirit could be attractive to investors but lots and lots remains to be done.

Punch needs to sell 2,000 not-brilliant pubs and Spirit needs to address both its 549 leased pubs and the reversionary leases that have returned to it following the 'sale' of a number (around a couple of hundred) of leased units. It will also invest in its estate and take part in further consolidation, though as an acquirer or an acquiree remains to be seen. Trading is likely to have become more challenging (after a better April) and we remain of the view that a great deal of execution risk remains and that the outlook for Punch is too uncertain to make it a potential core investment for non-holders.

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