



27 Nov 2013

## PUNCH TAVERNS (PUB): 9.5p Q1 Trading Update; 12w to 9 Nov 2013

*Group reports 'profits in line with management expectations' and 'Q1 core net income in growth...'*

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2012 (A)	52.4	7.2	1.3	Nil	Nil
2013 (A)	17.0	5.7	1.7	Nil	Nil
2014 (E)	44.5	5.1	1.9	Nil	Nil

Source: Company & Broker Estimates

### Q1 Trading Update to 9 Nov 2013:

Punch Taverns has this morning updated on Q1 trading for its FY14 and our comments are set out below:

#### Trading:

- Punch Taverns has updated on trading for its Q1 (the 12w to 9 November) saying that trading is in line with expectations and that core net income was in LfL growth in Q1
- When the group last reported (full year numbers on 25 September), it said that it was in a 'strong cash position' and that it was seeing 'improving LfL trends in net income'
- The core estate was up 0.4% in Q4 (down 2.4% in the full year to 1 August) and was up by a markedly better 1.4% in Q1 this year
- Some 96% of the group's core estate was let on substantive leases (was 94% in August 2012) as at the end of September
- Punch goes on to say that trading was somewhat 'assisted by weak weather comparatives' but says that it 'delivered growth in average net income per pub across our entire estate.'
- Re the future, Punch reports 'expectations remain unchanged with management expecting the core estate to return to full year like-for-like net income growth of up to 1% for the current financial year.'
- The group is therefore being realistic in not expecting weather-assisted numbers to persist for the full financial year – though underlying trends should remain in place

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Market Cap: £63m  
12m range 6.5p 15.5p

- The group has said that 'trading in the quarter represented the 4<sup>th</sup> consecutive quarter of improving LfL trends' and recent trends are shown below:
- **Tab.1. Punch Taverns LfL EBITDA Per Pub Trends:**

Period	LfL EBITDA/pub (tot. estate) (%)	LfL EBITDA/pub (core estate) %	LfL EBITDA/pub (non-core) %
FY 07/08	-3.4		
H1 08/09	-11.3		
FY 08/09	-11.0		
H1 09/10	-11.0		
FY 09/10	-11.0		
H1 10/11	-7.0		
FY 10/11	-5.2	-2.1	-13.0
H1 11/12		-2.1	
FY 11/12		-3.7	
Q1 12/13		-5.2	
Q2 12/13		-3.5	
Q4 12/13		+0.4	
FY 12/13		-2.4	
Q1 13/14		+1.4	

Source: Company Reports

- The investment and non-core pub disposal programmes remain on track 'with full year capital investment expected to be c.£45m and disposal proceeds anticipated to be of c.£100m'
- Re its proposed capital restructuring, Punch reiterates it 'is continuing to work with a number of stakeholders with the objective of delivering a restructuring proposal that can achieve as broad support as possible.'
- It intends to announce such a restructuring proposal 'in December 2013' (last seen was 'first week of December' with the formal launch of implementation shortly thereafter).
- Chairman Stephen Billingham comments 'we have made a positive start to the financial year and our results are benefiting from the operational improvements we have made over the last 12 months.'
- He concludes 'profits are in line with our expectations and we have reiterated our guidance for the full year.'
- There is no comment at this stage on debt, margins or other balance sheet issues

**Langton Comment:** Punch Taverns' shares have fallen over recent weeks ahead of what it has announced will be its final proposal re the restructuring of its debt 'in the first week of December – although the implication is that this may slip until later in the month.

At that point, it has said that it will 'announce a revised restructuring proposal...with the broadest level of support achievable at that time and will then formally launch the implementation of that restructuring proposal shortly thereafter'.

The group's trading is, of course, important but, for the short term, its debt position is what will drive its shares.

Last seen, Punch announced that LfL EBITDA was up by 0.4% in its Q4 and it suggested that positive trading had continued into the current year. It updated on 4 November, saying that trading was in line with expectations and today has reiterated that the trend has continued with LfL profits in the core estate up by 1.4%.

This is weather-assisted and it only covers the core estate. However, the group does say that average profit (including all pubs) was also higher in Q1.

All eyes will be on the proposed restructuring but the suggestion that trading has continued to improve can only be helpful. Not that it means a great deal, but Punch's shares trade on a PER of less than two times earnings and the NAV per share sits at around 44p per share.

Net assets, however, are only £295m, meaning that the group's share price is very sensitive to movements in the value of debt (some of which could be redeemed at a discount) and property prices (which may have stopped or at least slowed going down). Versus equity, freehold values total around £2.4bn and debt is around £2.3bn with other assets making up the difference.

An investment in the group's equity, therefore, is risky. An agreement with bond holders might not be possible, in which case the company is likely to move into default on its securitisations at some point in the next 15 months or so.

It would, even at that point (assuming no collapse in earnings) be able to pay its interest suggesting that the restructuring game is worth the candle. Major risks remain and the potential downside is still 100% but Punch's equity could offer material upside.

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