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## PUNCH TAVERNS (PUB): 12p Further Debt Restructuring Proposals

*Senior Bond Holders say proposals 'moving in the right direction' but would still vote against them as they stand...'*

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2012 (A)	52.4	7.2	1.7	Nil	Nil
2013 (A)	17.0	5.7	2.1	Nil	Nil
2014 (E)	44.5	5.1	2.4	Nil	Nil

Source: Company & Broker Estimates

### Counter Proposals from Senior Bond Holders:

Following Punch Taverns' Monday comments re its proposed debt restructuring, the Committee representing Senior Bond Holders has updated on their position and our comments are set out below:

#### The Senior Bond Holders' Position:

- Whilst most senior bonds are trading at or around par and holders have no right to a premium, bondholders are in a position to vote down restructuring proposals should they choose to do so
- Senior Bondholders concede that some progress has been made but they say that they would vote against the proposals as they currently stand
- The Committee makes a number of suggestions / demands, largely aimed at preventing leakage from the securitisations (and therefore a diminution of the relevant covenants)

#### Punch A:

- The Committee says that it does not agree that securitisation cash should be used to redeem junior bonds. This would be at a discount to par but at a premium to market value
- The Committee wishes to prevent 'cash leakage to the shareholder', that is Punch Taverns PLC – until total leverage is below 3x EBITDA
- It wants to see any PIK notes created stripped of covenants and to effectively assume an 'equity-style' risk

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Market Cap: £80m  
12m range 6.5p 15.5p

### Punch B:

- The Committee wants to reduce cash leakage from the securitisation and says 'we remain cautious about leverage'.
- It says that new junior bonds 'should have no covenants or security'
- Cash leakage to PLC is 'unacceptable' until debt is below 3x EBITDA

### Other Demands:

- The Committee wants its members to be paid a 0.25% fee for voting in favour
- It wants restrictions on capital spending, restrictions on pub disposals, and 'board observers at the appropriate levels in the Punch Group'
- It also asks for the right to change the Board if leverage exceeds 8x

### The Committee's Conclusion:

- The Committee says 'we continue to believe that a consensual deal is the best way forward for all parties'
- It says 'such an agreement is capable of being reached and within the gift of the shareholders of Punch'
- It reminds observers that its members could vote down proposals in both securitisations

### Where We Stand Now:

- Such a response was to be expected and it is, perhaps, somewhat less fiery than might have been anticipated
- The senior bonds want perfect security, maybe higher coupons, guaranteed repayment, board representation and a 25bp fee for compliance
- Equity may decline some or all of these demands as the group has never not paid its interest let alone actually gone into default
- The proposals have yet to be seen in their entirety; they will be published by 15 January
- At that point either:
  - They (the proposals) will have been modified in full or in part and the AIB Committee will agree to the restructuring
  - The company will call the AIB's bluff and take the unaltered proposals to the vote
- If the latter is the case, then the ABI needs to either fall into line or carry through its threat to reject the proposals
- At that point the management's bluff will have been called and it will have to decide whether to resign, call in administrators or refine its proposals further – it would, as both sides admit, be better if we agree the deal before this stage is reached

**Langton Comment:** The above brinkmanship is in line with expectations.

Punch Taverns' shares are extremely risky but they provide something of an option over two very large but out of the money securitisations.

As with all options, the value could fall to zero but the potential upside is significant. Equity is tiny in comparison to the two largest numbers on the balance sheet (fixed assets and debt) and material movements in either of those figures could wither wipe shareholders out or see them make very material returns.

There was no mention of warrants or options for bond holders in Punch's Monday statement but they could be made to attach to the PIK notes that the junior bondholders may have to take in part settlement of their bonds.

Whether warrants are created (and if they are, then in what quantity) will influence the value of Punch's equity going forward but survival should surely bring a reward of some sort.

Warrants attached to Thomas Cook's equity when the banks extended facilities in 2011 and 2012 and the shares have risen by more than 10-fold.

There is no certainty whatsoever that Punch's shares will react as well to what is a more complicated restructuring but there remains considerable potential upside, albeit at considerable very real risk.

Whilst value-destroying decisions are made on a depressingly frequent basis, the senior bondholders do not wish to lose their money, the group has always paid its interest and the restructuring game continues to be worth the candle.

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