



17 Sept 2014

PUNCH TAVERNS (PUB): 9.2p **Restructuring Approved by Equity & Bond Holders** **voting later today**

Equity shareholders vote by c99.5% to 0.5% to approve refinancing proposals. Bond holders vote now, further results this evening

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	17.0	5.7	1.6	Nil	Nil
2014 (E)	41.0	4.7	2.0	Nil	Nil
2015 (E)	65.0	1.1	8.4	Nil	Nil

Source: Company & Consensus Broker Estimates, 2015 adjusted for proposed dilution

Equity Votes on Restructuring:

Punch Taverns' equity shareholders voted at 2pm on the proposal that the group should be restructured along the lines outline by the group on 18 August. The proposals were recommended to shareholders by management. Bondholders will vote in a series of meetings up until 5pm this evening.

Equity Vote:

- Punch Taverns has announced that its equity holders have voted to 'approve the restructuring proposals set out in the combined circular and prospectus dated 18 August 2014'
- The 'yes' votes (there were six resolutions) carried between 99.1% and 99.8% of votes cast
- The group reports that 'meetings of note-holders in the Punch A and Punch B securitisations to approve the restructuring proposals are also taking place today.'
- It concludes 'a further announcement will be made once these meetings have concluded.'
- The Board has previously announced that the proposals 'have the support of a broad range of stakeholders' speaking for 65% of the A and B notes and 54% of equity
- Stakeholders announced to have agreed to the proposals (prior to today's vote) include the ABI Special Committee and Ambac, the monoline insurer for the Punch A securitisation

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Market Cap: £61m
12m range 8.5p 16.5p

- Bondholders will now vote on the proposals. The last bond vote is due to be held at around 5pm and an RNS can be expected from the company after hours this evening
- Punch has previously warned that 'failure to obtain approval for the Proposals from shareholders, noteholders and these other securitisation creditors is expected to lead to near-term default in the Punch A and Punch B securitisations.'

Where we are now:

- The Bondholders need to approve the deal this evening
- Whilst nothing in this process can be guaranteed, it is more likely than not that this will happen
- The group has consistently said that the proposals being voted on today are the least bad outcome for equity and says they 'will create a more robust and sustainable debt structure for the Punch Group'
- Should the proposals be adopted, debt will fall by £0.6 billion, and debt to EBITDA will fall to 7.7x – around a half of this fall will be a debt write-off and a half will be a debt for equity swap
- Equity, as previously announced, will be diluted to around 15% of the restructured company. The shares will undergo a 20 for 1 consolidation

Conclusion:

- The time for talking is past. Within a short period of time we will know whether Punch is going to emerge as a reasonably-gearred company with a future or whether its management will have to attempt to change its proposals once again
- Exhaustion is a feature. If the proposals are turned down, unlikely in our view, management could be forgiven if it walked away and threw the keys in the river

The Potential Material Upside:

- As a moderately geared company, Punch has the potential to perform well. We would highlight that:
 - Debt would be manageable
 - Management could move from fire-fighting to running the business
 - There would be funds available for capital spending
 - There is plenty of 'low hanging fruit' when it comes to investment opportunities across an estate that has been cash-strapped for seven years. This has worked to Spirit Group's advantage over the last two years
 - Current trading is positive at the LfL EBITDA line (up 1.3% LfL in the year to w48)
 - EPS, perhaps 1.2p (on the 9p share, prior to the 20:1 consolidation) is the difference between two large numbers, EBITDA and interest
 - If the former goes up and the latter goes down, there is the potential for Punch to trade strongly.
 - It may not be 'growth stock' per se but that doesn't mean that that profits may not grow

Langton Comment: The equity vote is a move in the right direction. It is necessary but not sufficient to trigger the restructuring & we need the bond holders to play ball.

This is more likely than not to happen but we would not expect to hear from the company on this matter until after the markets have closed.

Punch may be on the very of buying itself a future. There could be a perceived stock overhang but junior bondholders (who were already equity holders and who now own even more), have the same broad interests as do other shareholders.

It wouldn't do to count one's chickens but, come the morning, Punch could be, should be and probably will be, a radically different proposition to the firm that has flirted with administration for the last half decade. The group's PE ratio will mean something for the first time in many years and the stock will trade at a material discount to assets.

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