25 Sep 2013

Leisure: Punch Taverns (PUB): 15p
FY numbers to 17 Aug 2013

Punch Taverns has this morning reported full year numbers to its 17 August year end and our comments are set out below:

- Punch Taverns has this morning reported full year numbers to 17 August saying that EBITDA came in at £216m against £238m last year – it guided to 'between £210m and £220m' on 2 September
- The group has reported a PBT of £49m against £64m in 2012 and generated earnings per ordinary share of 5.7p (2012: 7.2p)
- The group says that it has a 'strong cash position' with net debt having fallen by £122m (being 6%)
- Re trading, the group updated to its year end on 2 September, so new trading news is limited
- The group has seen 'improving LfL trends in net income' with core estate net income up 0.4% in Q4
- Core LfL income is down 2.4% on the year (though on a rising trend) with the group saying this is 'ahead of guidance of -3% to -4%' and recent trends are shown below:

Period	*LfL EBITDA/pub % (Total estate)*	*LfL EBITDA/pub % (Core estate)*	*LfL EBITDA/pub % (Non-core estate)*
FY 07/08	-3.4		
H1 2008/09	-11.3		
H2 2008/09			
Full year 2008/09	-11.0		
H1 FY 2009/10	-11.0		
Full year 2009/10	c-11		
H1 2010/11	-7.0		
FY 2010/11	-5.2	-2.1	-13.0
H1 (28w) 2011/12		-2.1	
FY 2011/12		-3.7	
First 16w 2012/13		-5.2	
Second 12w of 12/13		-3.5	
FY 2012/13		-2.4	
Q4 FY 2012/13		+0.4	

Source: Punch Taverns

- **Trading:** The group has benefited from a continued improvement in like-for-like trends in net income through the year
- Some 96% of the core estate is now let on substantive agreements, up from 94% at August 2012

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- During the year, the group has made 476 core investments at an average spend of £102k per pub – the group plans to invest in 2,900 units over five years
- Food mix has picked up, the group is providing 'increased field support' and the Punch Buying Club is now used by 90% of lessees, up from 72% a year ago
- The group has introduced the Punch Foundation Tenancy (PFT) under which it provides partners with a refurbished unit, ready to go
- Some 48 pubs are operating under PFTs, drink sales are up by 50% in such units and the group says 'we plan to extend to c200 pubs in 2014'
- Some 433 pubs have been sold for £149 million; this is ahead of book value and has been achieved at a multiple of 18x EBITDA
- A total of 116 units have been transferred back to the core division 'following the improvement in the performance of a number of pubs'
- **Debt restructuring:** There is no change to guidance.
- Here the group says it 'has continued an extensive process of engagement with a broad range of stakeholders'
- This has 'taken longer than previously anticipated (but) the Board believes that a consensual restructuring can be launched in the fourth quarter of the 2013 calendar year'
- It will update 'in due course' but seems here to be reassuring that the process is ongoing and the group, whilst cautioning that there are 'material uncertainties', has reported its numbers as a Going Concern
- The group has traded in line with expectations and Executive Chairman Stephen Billingham says 'we have made excellent progress in implementing operational changes' and reassures that 'expectations of future income growth for the core estate remain unchanged'
- The core should 'return to like-for-like net income growth of up to 1% in the new financial year and between 1% and 2% (in 2015) before returning to a long-term net income growth rate of c.2% in the 2016 financial year

Langcap Comment: Punch has reported numbers in line with its management's expectations and is now registering positive LfL EBITDA numbers, at least in its core estate.

And it is selling non-core units, investing in those units that it intends to keep and its discussions with its bond holders are ongoing. Crucially, the group considers itself to still be a Going Concern and believes that an agreement can be concluded before the end of December.

If the group is successful in selling off its non-core units at above book, in turning around the performance of its core estate and in refinancing its debt, then its shares are very cheap indeed.

On the other hand, if any or all of the above things do not happen, then there may not be a short term trigger for the failure of the group but its future would nonetheless look bleak.

Forecasts are relatively meaningless at the moment but, for the sake of completeness, the market is expecting something in the region of 5.2p of earnings in the new financial year, suggesting that the group's shares trade on a PER of a little over 3x.

Any move to re-schedule the company's debts along the lines proposed early in the year would be very welcome news but this is 'taking longer' than had been anticipated and may require concessions to be made to bondholders.

In the meantime, the group's equity represents a small cash pile in PLC (perhaps 8p - 10p), a 50% share in Matthew Clark and what may be arguably thought of as options on two large, but very out of the money securitisations.

Any uptick in inflation would arguably bring the attractions of fixed nominal levels of debt to the fore. Punch's shares carry a material level of risk but the potential upside is also significant – and non-symmetrical in that the shares can only fall by 100% but are theoretically capable of rising by much more.

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