28 Feb 2014

PUNCH TAVERNS (PUB): 12p
Q2 Trading Update; Period to end-Feb 2014

Group reports 'trading has continued in line with management expectations…'

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*

Q2 Trading Update & Debt Restructuring Comment:

Punch Taverns has this morning updated on Q2 trading for its FY14 and commented further on its debt-restructuring proposals and our comments are set out below:

Trading:

- Punch Taverns has this morning commented on trading saying that it 'has continued in line with management expectations'
- The group says 'core estate like-for-like net income for the half year (is) expected to be broadly in line with the 1.5% growth reported for the first 20 weeks to 4 January 2014.
- Punch says that 'expectations for the full year remain unchanged with the core estate expected to deliver like-for-like net income growth of up to 1%.'
- It says 'the pub 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 c.£100m. Recent trends are shown below:
- **Tab.1. Punch Taverns LfL EBITDA Per Pub Trends:**

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Market Cap: £63m
12m range 6.5p 15.5p

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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

Debt Restructuring:

- The group has 'extended the period of engagement with stakeholders and the Board remains of the view that a consensual restructuring is in the best interests of all stakeholders.'
- It goes on to say that it has withdrawn support for its securitisations
- Trading in the securitisations 'is expected to be broadly in line with management expectations' but this does mean that 'while we cannot predict with certainty…we anticipate that one or both securitisations will fail their respective DSCR financial covenants with respect to the covenant testing date of 1 March 2014 when they are next tested and reported on 15 April 2014.
- This will lead to a default in the relevant securitisation within a further 30 days.
- Punch goes on to say that 'failure to effect a restructuring in the near-term will lead to a default in both the Punch A and Punch B securitisation, which is expected to have a material negative impact on the business'

Conclusion:

- Executive Chairman Stephen Billingham says 'we are convinced that a consensual restructuring is by far the best outcome for all stakeholders, and we will continue to work with all stakeholders to reach a consensus on the restructuring.'
- He continues 'we call on all parties to work together constructively to agree a re-structuring' and maintains 'everyone has something to gain by agreeing a restructuring that will retain the material financial synergies and provide certainty and stability for the business from which all stakeholders will benefit.'

Langton Comment: Trading is in line with expectations. Calendar Q1 provides easy comps given the snow last year but trading at Punch Taverns is not the major issue.

The bondholders' vote, which was to have taken place on 14 February, was postponed in order to allow further negotiations and these are ongoing.

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This leads us to find ourselves once again quoting Mr Rumsfeld in agreeing that there's an awful lot we know we don't know.

Our ignorance is lifting bit by bit and a default is now likely. This was perhaps the most natural outcome of the ongoing discussions and it should help to focus minds.

We still believe that there would appear to be a tenable future for equity if the securitisation(s) go into administration – and the outcome would be better yet if they did not.

It is not obvious that the company would or should suspend its shares and there is value in PLC. The cash, pubs and stake in Matthew Clark are obvious but the potential value of the tax losses is something of an unknown. This is a gamble and it is probably an 'un-investable' situation for most but, should the group trade through its current problems, it offers very material upside albeit at very considerable risk.

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