Langton Capital Limited

27 June 2014

PUNCH TAVERNS (PUB): 9.75p
Update on Restructuring & Trading

ABI agrees to proposals, Board says they are 'in best interests of shareholders', current trading 'in line'

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	17.0	5.7	1.7	Nil	Nil
2014 (E)	44.0	4.9	2.0	Nil	Nil
2015 (E)	65.0	1.1	8.8	Nil	Nil

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

Restructuring Update:

Punch Taverns yesterday evening reported its IMS for the 16w to 21 June and updated on its restructuring negotiations. Our comments are set out below:

Trading Update:

- Punch has said that profits year to date are 'in line with management expectations' and that it is 'on track to meet full year profit expectations'
- The group reports that 'core estate like-for-like net income (was) up 1.4% in the third quarter (+1.4% 44 weeks to 21 June 2014)'
- It reports 'the disposal programme remains on track to deliver at least £100 million of net proceeds for the full year'
- It says it has a 'strong investment pipeline in core pubs' and it is spending around £100k per unit
- **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	

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Market Cap: £65m
12m range 9.25p 16.5p

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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	
H1 13/14	+1.4	+0.4
Q3 13/14	+1.4	

Source: Company Reports

Restructuring Update:

- Following on from the group's 27 May announcement that a group of its junior bond (and equity) holders had proposed a debt for equity swap and placing, Punch has updated on discussions
- It says that the now-detailed term sheets have been considered by the company; it says the terms are 'broadly similar' to those outlined in May
- It says that the ABI (representing the group's senior bondholders) now supports the proposals
- The stakeholder groups (54% of senior bonds, 62% of junior bonds and 54% of equity) will vote in favour of the resolutions – provided these are launched prior to 11 August 2014

Impact of the Restructuring:

- Debt would be reduced by £0.6bn. Some would be written off with the remainder converted into equity.
- Existing equity holders would own 15% of the group going forward
- The group says the 'reduction in net debt…of £0.6 billion would result in a sustainable capital structure for the Group with the pro-forma net debt to EBITDA leverage of the Punch group falling to c.7.6x at transaction close.
- Interest including PIKs would average 7.9% and cash interest would be 7.1%
- Equity would be materially diluted but the group would have a future

Where to From Here?

- The board reports that 'it has considered all feasible alternatives to the Proposals and it has sought to minimise the level of equity dilution for shareholders.'
- It says there are no feasible alternatives hence 'the Proposals are in the interests of shareholders as a whole and (it) has therefore initiated the process to finalise and implement the Proposals as soon as appropriate.'
- Punch will need an extension to its debt waivers and the group has convened note-holder meetings in order to secure the necessary agreements
- The new waiver will expire on 19 November and will be dependent upon a restructuring being launched by 11 August
- The Board says that, all going well, it 'expects that implementation of the Proposals will be completed in the final quarter of the calendar year.'

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Langton Comment: As we have previously commented, securitisations were never meant to be unpicked and, as a result, this restructuring has been somewhat problematic and drawn out to say the least.

The junior bondholders also own 54% of the equity but a special resolution (over 75% of those voting) will be required in order for the additional shares to be issued and for the debt-for-equity proposals to be enacted.

We continued to believe that shareholders are getting a somewhat raw deal and consider that a debt for equity swap at a share price of say 12p, a placing of £12m worth of equity also at 12p and 3 for 2 Rights Issue of 1bn shares at 3.8p would achieve much the same as that being proposed above.

That said, it would be a shame to see the company flounder at this late stage and the Board's body language suggests that it will recommend the deal.

Forecasts will need to be recast should the proposals be accepted and there will be a deemed overhang of stock in the hands of the junior bondholders. A lock-up would be nice but, with perhaps a penny or more of earnings likely, the shares have some earnings support and would trade at a (post debt write off) discount to assets.

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