Langton Capital Limited

17 Sept 2014

PUNCH TAVERNS (PUB): 9.2p
Restructuring Approved by Equity & Bond Holders

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 voted in a series of meetings later in the afternoon and also approved the proposals.

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 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

Bond Votes:

- Punch and its advisers have successfully herded a group of cats such that each of sixteen (yes, sixteen) note-holders' meetings voted in favour of the 18 August proposals
- The group announced late Wednesday that 'resolutions to approve the restructuring proposals…were passed earlier today'
- 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

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- Punch had 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.'

The Current Situation:

- The major stakeholders have now approved the restructuring
- However, Punch reports that 'completion of the restructuring remains subject to the consent of The Royal Bank of Scotland plc…and Lloyds Bank plc'
- It says 'Punch is continuing the process of obtaining the consent of these creditors.'
- Whilst nothing in this process can be guaranteed, it is more likely than not that the banks will agree to the above restructuring
- 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 with 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

Where we are now:

- It now looks likely that Punch will restructure
- The company is likely to emerge as a reasonably-geared operator with a future
- Exhaustion has clearly played a part in proceedings. Nobody wanted these talks to fail but sometimes bad things happen. Fortunately, here, this does not appear to have happened
- Had management been obliged to start again, they could have been forgiven for walking away and throwing the keys in the river
- Provided the banks agree, the closing date of the restructuring will be 8 October 2014
- Dealings in new shares will commence on 8 October and the 20:1 share capital consolidation 'is now expected to become effective on 13 October 2014
- Executive chairman Stephen Billingham reports 'we are delighted the resolutions have been passed by our note-holders and shareholders today'
- He says 'this has been a long and complex process and reflects an enormous amount of work that has been required by all parties'
- The group concludes 'we have now entered into the final stage of the restructuring process and look forward to completion on 8 October following the receipt of outstanding consents'

The Potential Material Upside:

- Whilst again not wishing to take the banks' approvals for granted, we would suggest that, as a moderately geared company, Punch has the potential to perform well. We would highlight that:

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- Debt will be manageable
- Management will move from fire-fighting to running the business
- Staff retention and recruitment should improve
- There will 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 and bond holders’ votes represent major moves in the right direction. They are necessary and almost sufficient to trigger the restructuring – but we still require the two named banks to play ball.

This is more likely than not to happen and we would expect to hear from the company on this matter in due course.

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

It wouldn’t do to count one’s chickens but, we would suggest, New Punch may be a radically different proposition to the firm that had flirted with administration for the last half decade.

The group’s PE ratio will mean something for the first time in many years, the stock will trade at a material discount to assets and LfL EBITDA is in growth.

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