12 Nov 2014

PUNCH TAVERNS (PUB): 148.75p
Full Year Results; Year to 23 Aug 2014

Group's restructuring and further debt repayments 'creates a compelling investment case…'

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	17.0	114.0	1.3	Nil	Nil
2014 Est	68.6	181.5	0.8	Nil	Nil
2015 Est	65.0	24.0	6.2	Nil	Nil

Source: *Company & Broker Estimates*

Full Year Results:

Following the announcement of its full year numbers this morning, Punch Taverns hosted a meeting for analysts and our comments are set out below:

Trading:

- Punch Taverns points out that the average EBITDA generated in its core estate is higher than that at Enterprise Inns
- EBITDA rose across core units grew marginally (excluding 53rd week)
- Group is cash-generative, despite costs re the restructuring
- Food? This is important but a 35% level is no longer being targeted.

Strategy:

- The number of applicants is on an encouraging, upward trend
- Has sold 1,600 pubs over recent years & core estate is 77% of total (by pub number, not value) & 88% of EBITDA
- Group should shrink from its current c3,950 units to around 3,000
- Target is to have between 93% and 95% of pubs let on substantive leases – and this has been the case over last 2yrs
- Target is to invest 'meaningfully' in 65% of estate – figure now is 37% & target pubs have now been lined up
    - Group is also 'investing' in people via training, Punch buying club etc. Some two thirds are using buying club.

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Market Cap: £330m
12m range 125p 335p

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- Pubs categorised between 'sell now' and 'protect and sell later'. Group is '2/3 of way through disposal of non-core units' and has 'c1/4 being marketed'
- Market Rent option? Thinks this will not be legislated.
- Central overheads? This will come down as non-core estate is sold – but around half of the c£31m is fixed. Field teams will 'flex'

Balance sheet, capital structure etc.:

- Interest payable is now down by c£30m per annum; there are now no capital repayments until 2021
- £1.5bn of debt, freehold £2.1bn. NAV is £675m or c300p per share.
- Debt repayment will focus on 'super-senior' debt

Outlook:

- Group should earn £193m to £200m of EBITDA this year (on 52wks v 53wks in 2014)
- Disposal proceeds should be not less than £60m
- Disposals will slow and be focussed on the bottom-end
- A dividend is 'unlikely'. Matthew Clark should pay a dividend.

Conclusion:

- Executive Chairman Stephen Billingham says that the group has delivered to date and will de-lever going forward
- Debt should fall by £200m over next 3yrs & this forms basis for 'compelling investment case'

Langton Comment: Arguably, until the costs and exceptional items associated with the refinancing have washed through, some investors may shy away from Punch as an investment opportunity.

However, we would suggest that the shares offer an interesting opportunity. The group trades at half asset value and, whilst asset prices have stabilised and perhaps should grow, debt is coming down.

The group remains very cash generative and has only invested in around 37% of its estate. Low-hanging fruit should be plentiful and returns should be good leading us to the view that there is material potential upside in this situation.

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