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PUNCH TAVERNS (PUB): 134.3p
Full Year Results: 52w to 22 August 2015

Group reports performance 'in line with expectations'

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2014 (A)	50.8	n/a	n/a	Nil	Nil
2015 Est	57.2	21.1	6.4	Nil	Nil
2016 Est	59.6	21.4	6.3	Nil	Nil

Source: *Company & Broker Estimates*

FY Results:

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

Structure, outlook etc.:

- We would normally begin a secondary analysis by talking about trading but, as Punch is to evolve as regards its structure, it may be appropriate to invert coverage on this occasion
- Punch maintains it has made 'significant progress' in addressing fundamental issues re structure
- The core estate will be c95% of pub profits in FY16 vs around 80% two years ago. The group has sold around 75% of its original non-core pubs
- The group remains supportive re the Statutory Code but sees the MRO as a risk
- It is unclear to what extent shortfalls in beer profits would be made up by higher rents – but there would be a shortfall
- Details will be clear but the financial impact may not be apparent until, perhaps, the end of FY16
- The group is making clear to its publicans that there are many advantages to staying within a tied structure and these benefits, such as membership of the Punch Buying Club, are to be enhanced
- Nonetheless, the group expects to operate a 'small' managed business alongside Retail Agreement sites, existing tied units and a Free of Tie estate

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Market Cap: £304m
12m range 87p 155p

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- The group will also continue to sell pubs – although the pace of disposals is to slow
- A key area to be clarified re the MRO is the definition of 'significant investment'. Punch is currently investing almost wholly in pubs where it has a degree of control either now or over the short term

Trading etc.:

- Results are 'in line'. Last year had a 53rd week and more than all of the EBITDA reduction is due to this and sold pubs.
- Operating cash flow is better, capex is being held back and the group has about 53% of its estate where it would target high-returning capex if the MRO legislation makes it worthwhile
- The group has seen a c20% uplift in sales in Retail sites and, though costs have also risen a little, returns have been net positive
- Punch will have benefitted from the Rugby World Cup but no specific figures were given

Langton Comment: Punch points out that the MRO remains a major change within the tenanted & leased pub industry.

It runs the risk of further reducing pub numbers and of pushing some publicans back into beer ties with the brewers via trade loans. Beer choice may be restricted and some pubs could become chronically under-invested (at least until Punch (or Enterprise) was able to take them back).

In addition, a low-cost entry point to the industry may be closed off and non-tied operators would lose out when it came to help with utility buying, help with other costs, legal and other advice etc. that has been associated with being a tied pub.

Punch's response is to become more hands on. It will offer a more varied mix of business solutions and, though costs will rise modestly, returns should also increase. It will look to its estate & attempt to source value from 1st floors and excess land. It may even extend its franchise option to 3rd parties. The initiation of a REIT is not possible under the securitisation structure as it stands but, longer term, nothing is off the table.

The group is husbanding its Matthew Clark cash and is to hold back on the sale of core pubs until it has a clearer view on the implications of the MRO and, in the latter case, is not restricted in the need to pre-pay super-senior debt.

The group's shares trade at 40% of book value, assets have been sold at a high multiple and at or in excess of book value & debt should fall further.

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