12 Nov 2015

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:

Punch Taverns has this morning reported full year numbers for the 52wks to 22 August 2015 and our comments are set out below:

Headline numbers:

- Punch Taverns has this morning reported full year numbers for the 52wks to 22 August saying that its 'performance [was] in line with expectations'

- EBITDA was £196m million (2014: £205m) and the statutory loss is £105m. The latter is inclusive of £166m of one-off charges re refinancing & property valuations

- Core LfL net income grew by 0.3% (the core estate will account for 95% of outlet in FY16)

- Average EBITDA per pub is up 4% y-o-y reflecting disposals of non-core units and recent trading details are set out below:

- **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

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Market Cap: £228m
12m range 87p 155p

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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	
H1 13/14	+1.4	+0.4
Q3 13/14	+1.4	
FY 13/14	+1.3	
10w 14/15	+0.8	
H1 14/15	+0.5	
FY 14/15	+0.3	

Source: Company Reports

Balance sheet, debt etc.:

- The group says 'property estate [has been] externally valued at £2,097 million; £692 million in excess of nominal net debt'
- It says nominal net debt is down by £513 million in the year to £1,406 million
- This puts consolidated nominal net debt at 7.2 times EBITDA vs 9.5 times last year
- The group adds that 'post year end disposal of non-core assets (including the disposal of our 50% investment in Matthew Clark for gross proceeds of £100.7 million; and pub disposals of £53.5 million) further enhance our ability to pursue our strategic objectives.'

Strategy, development, restructuring etc.:

- The group has reviewed its strategy in the light of legislative changes and says:
    - It will present a 'consistent consumer offer'. That is it will improve its operations
    - It will offer a 'broad range of operating models' in response to changes re the beer tie. It has introduced three new operating formats 'including the Retail contract, our first managed pub, and commercial free-of-tie arrangements'
    - The group will 'drive operational delivery'
    - It will enhance the value offered through the Punch Buying Club
    - And it will continue releasing additional value from its property portfolio
- The group says 'in summary, our strategic plan enables us to maximise the value in our properties through a phased, lower risk approach to addressing an evolving pub market, taking greater control of the property and retail offer, without the risk of added overhead that comes with directly employing pub staff.'

Conclusion:

- CEO Duncan Garrood reports 'since joining in June, I have undertaken a detailed review of the business and today I set out a clear plan for the future.'
- He adds 'in recent years, Punch has been at the forefront of change within the leased and tenanted pub sector' and says 'the conclusions announced today represent an evolution of

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our existing plan. It is also designed to address the many structural and regulatory changes impacting our market.'

- Mr Garrood says 'our strategy enables us to maximise the value in our properties through a phased, lower risk approach to addressing an evolving pub market, taking greater control of the property and retail offer, but without the added overhead that comes with directly employing pub staff.'

- He concludes 'we have already made significant steps towards evolving our operating model and financial position, and while we have a lot to do, we are well placed to deliver on our plan.'

Langton Comment: FY15 is to some extent historic with added value in today's statement coming via the group's comments on its changing business model.

Here the group, for understandable reasons, is following broadly the same course as Enterprise Inns in that it will introduce managed and retail units as well as FoT lease.

Though we still have no firm news re the FoT option that will be introduced under legislation now in its secondary phase in the House of Commons, uncertainty should begin to clear over the coming months both with regard to the legislation (exemptions for 'significant investment' etc.) and with regard to the corporate response.

As regards trading, this appears to have stabilised. In FY16, the group should already have benefitted from the Rugby World Cup and its estate is in a better shape than it was this time last year.

We remain of the view that shareholders' funds are the difference between freeholds and debt. A bout of inflation, whilst this is some way off, could move this number materially and the group should also be able to de-gear under its own steam.

Whilst many will be put off by the remaining lack of clarity with regard to the MRO, we believe that this is clearing. Punch's shares will comprise a large part of the small cap index and, as such, the upside represents a risk to those non-holders who are benchmarked against it. We would suggest that the shares are worth a look.

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