20 Apr 2016

PUNCH TAVERNS (PUB): 97p
H1 Results: Analysts' Meeting

Group reports performance 'in line with management expectations'

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	60.9	22.3	4.3	Nil	Nil
2016 Est	60.0	22.0	4.4	Nil	Nil
2017 Est	64.0	23.0	4.2	Nil	Nil

Source: *Company & Broker Estimates*

H1 Results:

Post the announcement of its H1 numbers for the 28wks to 3 March 2016, Punch Taverns hosted a meeting for analysts and our comments are set out below:

H1 Trading:

- Punch pointed out that its total estate, including non-core units, increased LfL EBITDA in H1 by 0.7%
- Core units increased LfL EBITDA by 1.6%
- The estate size declined by 8%. Inclusive of the Matthew Clark disposal, this had a £9.8m negative impact on EBITDA
- This is the 3rd year of positive LfL EBITDA growth. The core numbers are the best since before the Credit Crunch

Trading Outlook etc.:

- The group welcomes the certainty that the MRO secondary legislation has provided
- Only around 7% of Punch's pubs will have >5yrs to go on their leases when they are next reviewed
- Group will therefore have more control over its assets
- Co is pleased with the way its Retail Agreement units are trading. Sales uplifts have been significant
- Food sales are up to 30% in some units – around 1 in 3 new lettings will fall into this category
- Mercury units are benefiting from capex, albeit at lower levels of spend

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Market Cap: £215m
12m range 92p 140p

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- Rent from unlicensed properties will increase – shops, offices, accommodation etc.

Balance Sheet, Assets, Debt:

- All disposals have been at above book value. Pubs were sold for an aggregate £12.8m profit & M Clark achieved £46.1m > book value
- The bulk of disposals have now been completed but the group should continue to sell around 100 pubs per annum
- There are no major debt repayment bullets. The group will have a chance to redeem 15% PiK notes at par from this October
- The group says that it believes its NAV (c382p per share) is reasonable
- Group now has £117m of cash outside its securitisation

Langton Comment: Punch accepts that it is at an early stage in its transformation but, having said that, it believes that things are progressing well.

Retail uplifts have been material and have come through quickly. There is more to be done here and, though running a business the size of Punch (or Enterprise) will never be the hands-off, spreadsheet exercise that it perhaps was in the past, incremental profits should accrue to shareholders over time.

We believe that, though extremely thinly-traded, Punch's shares deserve to be re-rated. This because both firstly we should acknowledge that it is no longer in imminent danger of going out of business and secondly, that it has a model upon which it can and should build an increasing profit stream going forward.

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