20 Apr 2016

PUNCH TAVERNS (PUB): 97p
H1 Results: 28w to 5 March 2016

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:

Punch Taverns has this morning reported H1 numbers for the 28wks to 3 March 2016 and our comments are set out below:

Headline numbers:

- Punch Taverns has this morning reported H1 numbers for the 28wks to 3 March August saying that its 'performance [was] in line with management expectations'
- Group has seen 'continued growth from a higher quality pub estate' with average EBITDA per pub +3.0% and core LfLs +1.6%
- Underlying EBITDA was £94m million (2015: £105m – down this year on disposals)
- Group reports non-underlying profit of £59m on disposals this H1 and 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
H1 11/12		-2.1	

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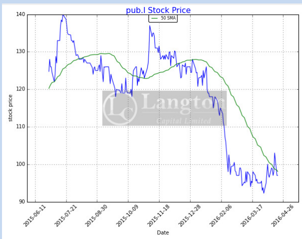

Market Cap: £215m
12m range 92p 140p

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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	
H1 13/14		+1.4	+0.4
FY 13/14		+1.3	
H1 14/15		+0.5	
FY 14/15		+0.3	
H1 15/16	'in growth'	+1.6	

Source: Company Reports

Balance sheet, debt etc.:

- The group says nominal net debt is down by £191m in H1 and down by £293m since the October 2014 refinancing
- It says that it has cash on its balance sheet of £235m with debt amortisation of only £36m p.a. for the next 5yrs
- Punch says its 'disposal programme [is] ahead of target with £199 million of net proceeds' comprising '£47 million - individual property and land sales; £12 million above book value, £53 million - package disposal of 158 non-core pubs (previously announced), £99 million - disposal of 50% holding in Matthew Clark (previously announced)'
- Loan to Value is down to 59% from 64% in August last year
- Property values exceed debt by £847m or 382p per share

More on Trading, Strategy, development, restructuring etc.:

- Punch says its 'retail division [is] operating ahead of expectations'
- It has 121 pubs now identified to operate under the Retail contract with 50 open – and a target of 100 by year-end
- Here it notes 'profit and sales are ahead of management expectations' with 'anticipated pub EBITDA of between £90,000 and £110,000, representing a profit uplift of between £15,000 and £25,000 as compared to historical EBITDA under the tied tenanted and leased model'
- Its Mercury pub division will manage lower profitability sites
- Punch has a 'growing commercial free-of-tie lease division with 41 pubs in operation with an average rent of £72,000'
- It says its 'strategic disposal programme is now substantially complete, with focus now on realising additional value from the non-trading parts of our extensive freehold property and land estate'

Conclusion:

- CEO Duncan Garrood reports 'we are already making good progress delivering on the strategy we set out in November 2015.'
- He says 'we have launched new operating models, renewed our focus on customer service and delivered improved support to our publicans.'

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- Mr Garrood adds ‘the roll-out of our new Retail contract is progressing well with underlying profit and sales post conversion being ahead of our initial expectations.’
- Overall, the CEO concludes ‘the combination of our growing cash balances, strong cash flow and limited scheduled amortisation over the next five years puts the Group in a stronger financial position going forward.’

Langton Comment: Punch has updated on its evolving business model and, so far, it would appear that things are progressing well.

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.

As regards trading, this appears to have stabilised.

Debt continues to be reduced and NAV is around 382p per share.

Debt amortisation is untroublesome and the group has cash on its balance sheet sufficient that it should be able to maintain and refurbish its units where necessary.

Here, 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 continue to de-gear under its own steam.

The MRO is now increasing in clarity and both Punch and Enterprise are adopting new business models. We note that 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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