Langton Capital Limited

31 Aug 2016

PUNCH TAVERNS (PUB): 95p
FY Trading Update: 52w to 20 Aug 2016

Group reports 'full year profits in line with management expectations…'

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	63	25	3.8	Nil	Nil
2016 Est	49	17	5.6	Nil	Nil
2017 Est	51	22	4.3	Nil	Nil

Source: *Company & Broker Estimates*

FY Trading Update:

Punch Taverns has this morning updated on trading for the 52wks to 20 August 2016 and our comments are set out below:

Key numbers:

- Punch Taverns has this morning reported on trading for its full year to 20 August saying that its 'performance [was] in line with management expectations'
- Group will report FY numbers on 8 November
- Punch has seen 'continued growth from a higher quality pub estate' with average profit per pub across the entire estate up c.4%
- It has reported 'core estate like-for-like net income growth of 1.0% and details are given 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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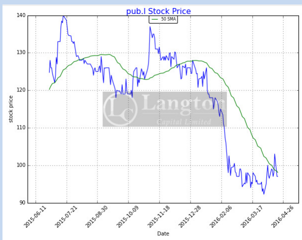

Market Cap: £215m
12m range 92p 140p

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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	
FY 15/16		+1.0	

Source: Company Reports

Further comments:

- The group reports that its 'retail division [is] operating ahead of expectations
- Punch reports '177 pubs identified to operate under the Retail contract, with 97 pubs trading or in progress of conversion at 20 August 2016'
- It says its pub roll-out plans have been accelerated to c.150 pubs per year (up from previous guidance of 100-120 pubs per year)

Balance sheet, cash flow…:

- Punch reports that it has further strengthened its balance sheet
- Nominal net debt has been 'reduced by approximately £225 million (16% reduction in the year)' with nominal net debt to EBITDA now at c6.6x vs 7.2x in August 2015
- Punch's property estate has been externally valued by GVA at c.£2,030 million; c.£850 million in excess of nominal net debt.
- The group reports 'the 2016 property valuation represents a net uplift of approximately £40 million on the prior year valuation, after accounting for pub disposals.'
- Debt now stands at around 58% of pub values (64% a year ago)

Strategy, disposals etc.:

- Punch reports its 'strategic disposal programme is now complete, having delivered ahead of expectations'
- The group has sold c£83m worth of property & land with £53m of pubs disposed and previously announced
- The group's 50% holding in Matthew Clark (£99m) was also sold during the year

Conclusion:

- CEO Duncan Garrood reports 'the business has ended the year with a solid set of results, in line with our expectations, and which reflects the completion of our strategic disposal programme.'
- He adds 'the roll-out of our Retail division is progressing well and we now plan to accelerate the roll-out to c.150 pubs per year.'

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- Mr Garrood concludes 'I look forward to updating the market fully when we present our full set of results on 8 November.'

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

There has been some performance ahead of expectations and, though numbers are not yet forthcoming, that should come as something of a pleasant surprise to the market.

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 debt amortisation is untroublesome. Punch 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.

Both Punch and Enterprise are adopting new business models in response to the MRO. Whilst this adds uncertainty, performance, to date, has been ahead of plan.

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, which have been optically very cheap for some time now, are worth a look.

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