8 Nov 2016

PUNCH TAVERNS (PUB): 112p
FY Numbers – Analysts' Meeting:

Group reports full year profits in line, debt to fall further…

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	63	25	4.5	Nil	Nil
2016 Est	51	19	5.9	Nil	Nil
2017 Est	62	23	4.9	Nil	Nil

Source: *Company & Broker Estimates*

FY Results:

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

Key trading numbers:

- See earlier Flash Note for fuller details.
- Group confirms that core LfL EBITDA +1.0%. Adds that, even if the c300 pubs that had been moved to the Mercury estate were included, the number would still have been +0.2%
- Overall EBITDA was down only due to pub & Matthew Clark disposals
- Underlying trading was 'broadly stable' and cash flow, even after spending c£60m on maintenance capex, was £45.7m
- The group reports that c2/3 of group pubs have yet to benefit from any capex spend over recent years – as the group has been consistently hitting its 20% hurdle rate for return on capex, this bodes relatively well for future profits

Strategic progress, managed houses etc.:

- The group says the Pubs Code 'should be a positive'
- It is adding a little cost & delaying lettings this year as lettings that were already in progress had to be renegotiated post the 21 July 2016 implementation
- Punch 'has the resources to make its community pubs special'
- The group is now focused on the customer (i.e. the tenant) and lines of communication are much better

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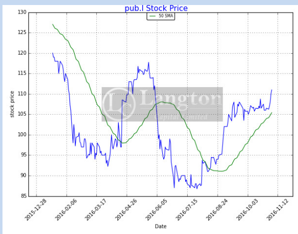

Market Cap: £249m
12m range 87p 137p

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- The retail contract (franchise) model allows Punch to keep the offer, pricing & quality more consistent over time and across the estate. Uplifts here to EBITDA should be around £20k in year 2.
- We will see more tenancies, fewer leases in future
- Around 40 publicans to date (out of a possible 160) have asked for Free of Tie numbers
- The Mercury estate (non-core pubs) should be in growth from end-17

Balance sheet, cash flow…:

- Punch's property portfolio has been independently valued at £2.03bn. This represents a £37m uplift over the last couple of years. The valuation seems fair and disposals last year were being made for above book value
- TNAV is therefore c285p per share
- Group has identified a further £100m of property values (development of land, upper floors etc.), which is not included in the above £2.03bn
- Overall, debt is manageable and is coming down. There are no major amortisation events in the next 5yrs
- The remaining PIKs (coupon 15%) may be redeemed for cash or swapped for a cash note with a lower coupon

Langton Comment: Punch has confirmed that debt is manageable & falling and trading is stable.

Punch's shares trade on a PER of little more than 5x and net assets are some 175p higher than the share-price.

There are plenty of shares to choose from out there but, at some point, attention will focus on Punch and its shares are likely to rise.

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