8 Nov 2016

PUNCH TAVERNS (PUB): 112p
FY Numbers: 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	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:

Punch Taverns has this morning reported full year numbers for the 52wks to 20 August 2016 and our comments are set out below:

Key numbers:

- Punch Taverns has this morning reported full year numbers for the 52wks to 20 August saying that its 'performance [was] in line with management expectations and reflects the completion of our strategic disposal programme'.

- Group reports average profit per pub across the entire estate up 4%; benefiting from the disposal of non-core pubs

- It says 'core estate like-for-like net income growth [was] 1.0%' – this had already been reported in August

- Although no numbers are given for post year-end trading, the group reports 'we are making good progress delivering on our strategy' and recent trading trends 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		

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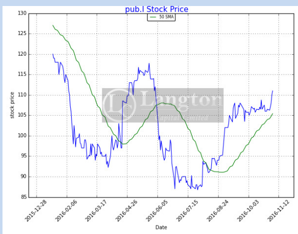

Market Cap: £249m
12m range 87p 137p

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H1 10/11	-7.0		
FY 10/11	-5.2	-2.1	-13.0
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	
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 underlying EBITDA of £178 million (August 2015: £196 million)
- This reflects the impact of £324 million of disposals over the last 24 months
- Punch reports underlying PBT of £53 million (August 2015: £61 million, estimates for 2016 as show above of around £51 million)
- Reported PBT is £60m (2015: £105m)

Strategic progress, managed houses etc.:

- The group reports its .strategic disposal programme is now complete, having delivered ahead of expectations with net proceeds of £234 million in the year; £75 million above book value'
- Punch says that its retail division (managed houses) is 'operating ahead of expectations'
- Here the group says '242 pubs identified to operate under the Retail contract, of which 109 pubs are trading at November 2016 (November 2015: 32 pubs trading)'
- The group will roll out its retail contract (franchised) offer to around 150 pubs per year. Previous guidance had been 100-120 pubs per year
- Punch reassures that 'under the Retail contract, anticipated pub EBITDA is between £100,000 and £110,000, representing an expected profit uplift of between £15,000 and £25,000 as compared to historical EBITDA under the tenanted and leased model'
- Punch says 'Mercury pub division, our smaller drink led pub estate, is on target to deliver like-for-like growth from the end of 2017'
- The group adds that it is making 'positive progress in realising additional value from the non-trading parts of our extensive freehold property and land estate, having identified the potential for upwards of £100 million of additional value (not currently recognised in the external property valuation), of which £11 million was realised in the year.'

Balance sheet, cash flow…:

- Punch announced in October that it was redeeming £65m of its PIK notes for cash. This will materially reduce the level of interest paid for the current year

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- The group reports it has strengthened its balance sheet saying nominal net debt is down by 16% or £223m

- Debt stands at 6.6x EBITDA (2015: 7.2x)

- Punch's property estate was externally valued by GVA at £2,030 million; £848 million in excess of nominal net debt

- Loan to value therefore is reduced to 58% (August 2015: 67%)

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 says 'we have made good progress towards delivering on the strategy we set out in November 2015. In particular the roll-out of our Retail division is progressing well and we are accelerating the roll-out to c.150 pubs per year.'

- Mr Garrood comments 'the new Pubs Code Regulations has resulted in us having to re-market all lets in line with the new regulatory requirements. While this is impacting letting activity in the short-term, our expectations for the longer-term growth prospects for the business remain unchanged.'

- The CEO concludes 'Punch has a clear plan for the future, a strategy that is progressing well, and a unique operating model that is expected to drive improved performance over the coming years.'

Langton Comment: Punch has slightly beaten estimates and the tone of its statement is positive. Its managed operation, though still in its early stages, is performing ahead of expectations.

It says that the Pubs Code Regulations is impacting lettings activity in the short term, but it expects this to have little impact over the longer term.

Good pubs may now be managed going forwards and shorter lets are likely elsewhere.

Trading has stabilised. The group has been in LfL growth for a number of years now.

Debt is declining & is manageable. The repayment of a portion of the group's PIKs will positively impact reported numbers. More repayments are likely. A dividend may not be on the cards for a while but share buybacks are not out of the question.

Debt now stands at 6.6x EBITDA. LTV is sensible and the group's NAV is around 284p per share.

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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