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PUNCH TAVERNS (PUB): 9.2p Restructuring Launched

Punch board recommends shareholders sign up to restructuring, says 'will provide stability for the business'

Year to end-Aug	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	17.0	5.7	1.6	Nil	Nil
2014 (E)	41.0	4.7	2.0	Nil	Nil
2015 (E)	65.0	1.1	8.4	Nil	Nil

Source: Company & Consensus Broker Estimates, 2015 adjusted for proposed dilution

Restructuring Update:

Punch Taverns this morning announced the full terms of its restructuring proposals. Our comments are set out below:

Restructuring Launched:

- Punch has said today announced the full terms of its restructuring proposals which it says 'represent the completion of an extensive period of engagement and negotiation with stakeholders.'
- It says 'the terms of the Proposals are broadly similar to those announced on 26 June 2014.'
- The board is unanimously recommending that shareholders vote in favour of the resolutions and approve the proposals.
- The Proposals 'have the support of a broad range of stakeholders' speaking for 65% of the A and B notes and 54% of equity
- The agreeing stakeholders include the ABI Special Committee and Ambac, the monoline insurer for the Punch A securitisation
- Shareholders now need to agree the deal in addition to which RBS must support the proposals
- Punch warns that 'failure to obtain approval for the Proposals from shareholders, noteholders and these other securitisation creditors is expected to lead to near-term default in the Punch A and Punch B securitisations.'

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Market Cap: £61m
12m range 8.5p 16.5p

Impact of the Proposals:

- The group reiterates 'the Group's existing debt structure is unsustainable' and says that leverage would 'be expected to increase following a default'
- It says the proposals are the least bad outcome for equity and says 'the Proposals will create a more robust and sustainable debt structure for the Punch Group'
- Debt will fall by £0.6 billion, and debt to EBITDA will fall to 7.7x
- Equity, as previously announced, will be diluted to around 15% of the restructured company. The shares will undergo a 20 for 1 consolidation

Conclusion on the Proposals:

- The group's Board 'has carefully considered...the Proposals and...believes that it has considered all feasible alternatives'
- It says there is insufficient support for alternative proposals to succeed and 'is therefore unanimously recommending that shareholders vote in favour of [the] resolutions'
- An AGM will be held on 17 September. On the same date, bondholders will meet and the deal should be done by 8 October
- Chairman Stephen Billingham says 'the benefits of approving the restructuring are clear and of benefit to all stakeholders'
- He continues 'it is of critical importance that shareholders and noteholders vote in favour of the resolutions in order to implement the restructuring and avoid the adverse consequences for the Group of the restructuring not proceeding.'

Current Trading:

- The group also updates briefly on trading saying that since 26 June 'trading performance has been in line with management expectations'
- It says 'trading for the 48 weeks to 19 July 2014 was good, with like-for-like net income in the Core Estate up 1.3 per cent'
- Re disposals 'the Group has realised its target of generating £100 million of proceeds from pub disposals, having raised net proceeds of £103 million over the 48 weeks to 19 July 2014.'
- **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	
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	
Q1 13/14	+1.4	
H1 13/14	+1.4	+0.4
Q3 13/14	+1.4	
48w to 19 July	+1.3	

Source: Company Reports

Langton Comment: As we have previously commented, securitisations were never meant to be unpicked and, as a result, this restructuring has been somewhat problematic and drawn out to say the least.

The deal is now being proposed to shareholders. It is the least bad achievable option, says management, and it is hard to disagree.

Punch may be in the process of buying itself a future and, with the management hopefully able to concentrate on building and maintaining a business rather than on fire-fighting, this should be a very positive development.

Shareholders may be annoyed that bondholders are placing shares with themselves at less than 4p but it would be a great shame to see the company flounder at this late stage and the Board's recommendation should be taken seriously.

Forecasts will need to be recast should the proposals be accepted and there will be a deemed overhang of stock in the hands of the junior bondholders. However, with perhaps a penny or more of earnings likely, the shares have some earnings support and would trade at a (post debt write off) discount to assets. There is material upside.

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