

Don't write off infrastructure & construction spend

13th April 2023

Are investors talking themselves into a recession? We suspect so. In fact, take the UK Construction Purchasing Managers Index (PMI) which remains in positive territory at 50.7 in March.

Things are not perfect given the softness in homebuilding and parts of commercial real estate (eg South east offices & retail). Yet equally, after the widespread sell-off, the plant hire sector is rated at a historically low 11x PER. This implies that future earnings will drop off a cliff, which we certainly don't think will happen in light of the strategic importance of infrastructure and construction to the health of the wider UK economy and jobs.

Solid demand, improved efficiency & pricing power

Today's "in line" FY23 trading update from Vp reiterates that it had made "good progress within its core markets" since the interims in Nov'22. It has benefitted from strength in civil engineering (eg highways) and infrastructure (eg water, rail & energy), alongside successfully lifting prices to cover input inflation as well as rightsizing some parts of the group to further reduce costs.

Elsewhere, the international energy & testing divisions also performed well, while residential housing has stabilised at lower levels - partly supported by robust RMI activity where millions of properties need modernisation.

As such, we retain our projections and £11.30/share valuation. Based on forecasted FY'23 revenues, adjusted PBTA and EPS of £365.5m, £40.2m & 75.9p (+6.5% YoY) respectively - climbing to £376.5m, £43.3m and 81.3p (7.2%) in FY'24.

This in turn puts the stock (at 670p) on attractive FY'24 EV/EBITDA, EV/EBIT & PE multiples of 4.2x, 8.2x and 8.2x – whilst paying a 6.0% dividend yield. We believe this is simply far too cheap for a best-in-class, economically resilient business with a proven track record through thick & thin.

On track to again grow profitably in FY'24

CEO Neil Stothard commenting: "Since we reported our Interims , the Group has continued to make good progress across our core markets and we are pleased that our performance for the full year will be in line with the Board's expectations."

"In the period, we have worked hard to successfully mitigate cost inflationary pressures and we believe Vp is well placed to optimise performance in the current environment. We are confident that we will continue to deliver value growth for our shareholders and will be able to react quickly to both challenges and opportunities as specific markets recover."

Company Data

EPIC	LSE: VP.
Price (last close)	£6.70
52 week Hi/Lo	£9.80/£6.40
Market cap	£268m
Est Mar23 net debt (ex IFRS16)	£138m
Share count	40.154m
ED valuation	1,130p/share

Share Price, p



Source: Yahoo Finance

Description

Vp is a specialist equipment rental business providing equipment and services to a wide range of markets including civil engineering, rail, oil/gas exploration, construction, outdoor events and industry, primarily within the UK (91% of pre-covid turnover), but also overseas.

In terms of sector split: circa 36% sales is derived from infrastructure, 41% construction, 7% housing building, 9% Energy and 7% other.

Member of FTSE SmallCap Index.

Next news: Prelims in June

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Summary projections (£'000s)							
Vp (March year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Act £'000s	2023 Est £'000s	2024 Est £'000s
Turnover							
UK	271,989	350,330	331,005	281,309	320,203	333,011	343,001
International	31,650	32,500	31,922	26,688	30,712	32,555	33,531
Total	303,639	382,830	362,927	307,997	350,915	365,566	376,533
% growth	22.1%	26.1%	-5.2%	-15.1%	13.9%	4.2%	3.0%
UK	23.6%	28.8%	-5.5%	-15.0%	13.8%	4.0%	3.0%
International	10.2%	2.7%	-1.8%	-16.4%	15.1%	6.0%	3.0%
EBITDA	84,337	101,339	98,050	72,701	88,868	92,241	96,532
% Margin	27.8%	26.5%		23.6%	25.3%	25.2%	25.6%
EBITDA (post IFRS16)			123,817	96,660	112,827	116,200	120,491
Adjusted EBIT							
UK	43,001	49,838	50,190	27,156	41,829	43,835	47,037
International	1,017	1,733	1,700	565	1,504	1,920	2,313
Total	44,018	51,571	51,890	27,721	43,333	45,755	49,349
EBIT (post IFRS16)			55,480	30,928	45,601	47,607	50,809
% Margin	14.5%	13.5%	14.3%	9.0%	12.3%	12.5%	13.1%
UK	15.8%	14.2%	15.2%	9.7%	13.1%	13.2%	13.7%
International	3.2%	5.3%	5.3%	2.1%	4.9%	5.9%	6.9%
Interest charge (pre IFRS 16)	-3,421	-4,742	-4,791	-4,448	-4,428	-5,500	-6,000
Adjusted PBT (pre amortisation)	40,597	46,829	47,099	23,273	38,905	40,255	43,349
PBT (post IFRS16)			46,640	23,176	38,808	40,158	43,252
Adjusted earnings	33,520	37,677	35,740	18,435	28,210	30,191	32,512
Adjusted Basic EPS (p) - pre IFRS 16	84.9	95.1	90.2	46.6	71.2	75.9	81.3
EPS growth rate	22.1%	12.0%	-5.2%	-48.4%	53.0%	6.5%	7.2%
Adjusted EPS diluted	83.9	92.9	88.8	45.8	70.5	75.1	80.5
Basic EPS (post IFRS16)			88.9	46.2	72.5	75.7	81.1
Dividend (pence)	26.0	30.2	8.5	47.0	36.0	37.5	40.2
Dividend growth	18.2%	16.2%	-72.0%	456.2%	-23.4%	4.3%	7.2%
Valuation benchmarks							
P/E ratio (pre IFRS 16)	7.9	7.0	7.4	14.4	9.4	8.8	8.2
P/E ratio (post IFRS 16)			7.5	14.5	9.2	8.9	8.3
EV/Sales	1.3	1.1	1.1	1.3	1.2	1.1	1.1
EV/EBITDA (pre IFRS 16)	4.8	4.0	4.2	5.6	4.6	4.4	4.2
EV/EBITDA (post IFRS 16)			3.7	4.8	4.1	4.0	3.9
EV/EBITA (pre IFRS 16)	9.2	7.9	7.8	14.7	9.4	8.9	8.2
EV/EBITA (post IFRS 16)			8.4	15.0	10.2	9.7	9.1
PEG ratio	0.4	0.6	-1.4	-0.3	0.2	1.4	1.2
Dividend yield	3.9%	4.5%	1.3%	7.0%	5.4%	5.6%	6.0%
Dividend cover	3.3	3.2	10.7	1.0	2.0	2.0	2.0
EBIT drop through rate (%)		9.5%	-1.6%	44.0%	36.4%	16.5%	32.8%
Corporate tax rate	-17.4%	-19.5%	-20.0%	-21.1%	-26.0%	-25.0%	-25.0%
Net debt / EBITDA (pre IFRS 16)	2.0	1.7	1.6	1.7	1.5	1.5	1.3
Return on average capital employed	14.8%	14.5%	14.5%	9.2%	14.5%	15.0%	15.0%
Net cash/(debt) - pre IFRS16	-179,172	-168,100	-159,806	-121,906	-130,604	-138,000	-129,492
Fleet capital expenditure (gross)	64,900	63,800	49,100	40,200	59,800	60,000	60,000
Investment as % sales	21.4%	16.7%	13.5%	13.1%	17.0%	16.4%	15.9%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,595	39,597	39,795	39,994
Shareprice (p)	670						

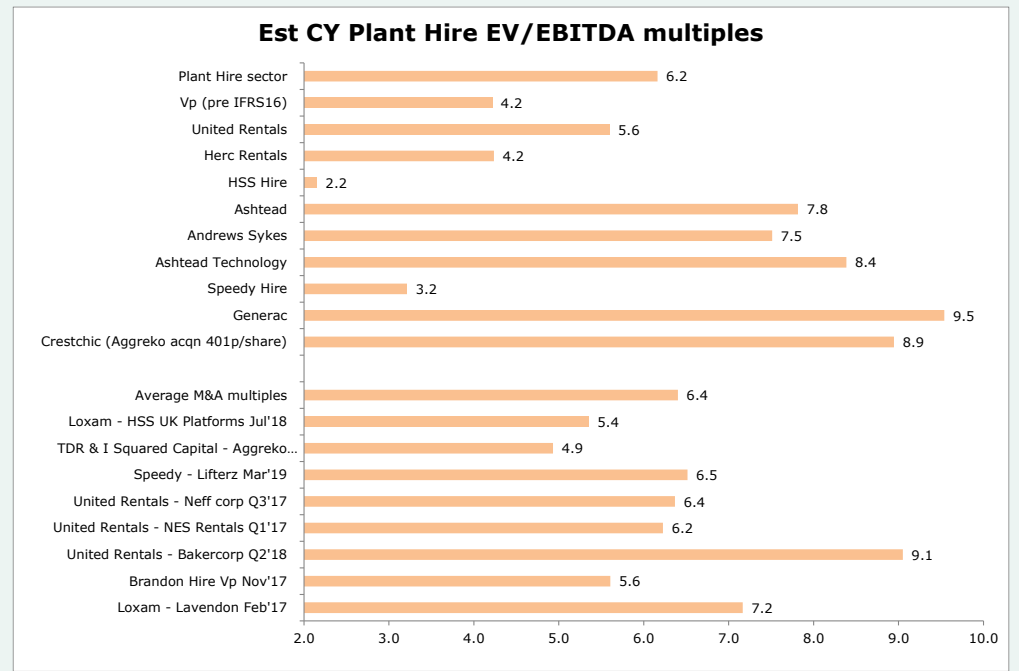
Source: Equity Development – FY21 includes special dividend of 22p/share

Key risks

- In light of Vp's operational gearing, if the economy stalled then this could impact earnings as costs are predominantly fixed. That said, investment in the hire fleet can be flexed as conditions change as occurred during the 2008/9 recession.
- Competitive pricing pressures and higher interest rates that could lift funding costs.
- 50.26% of the equity is owned by a number of trusts connected to Exec-Chairman Jeremy Pilkington (re possible hypothetical impact on minority interests), although this should also help ensure the group is run to maximise shareholder value.

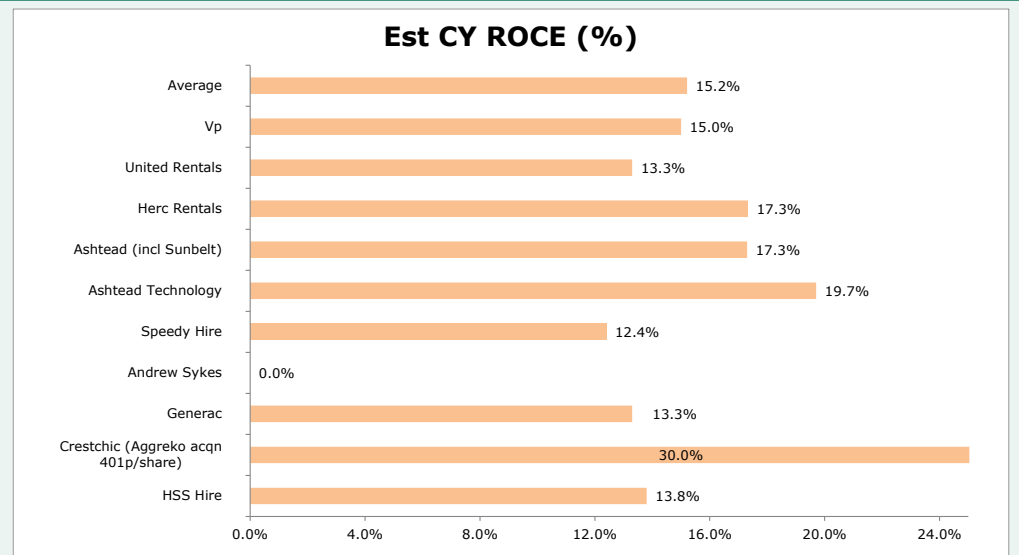
Appendices - sector valuation metrics and KPIs

Current Year (CY) EV / EBITDA multiples vs peers

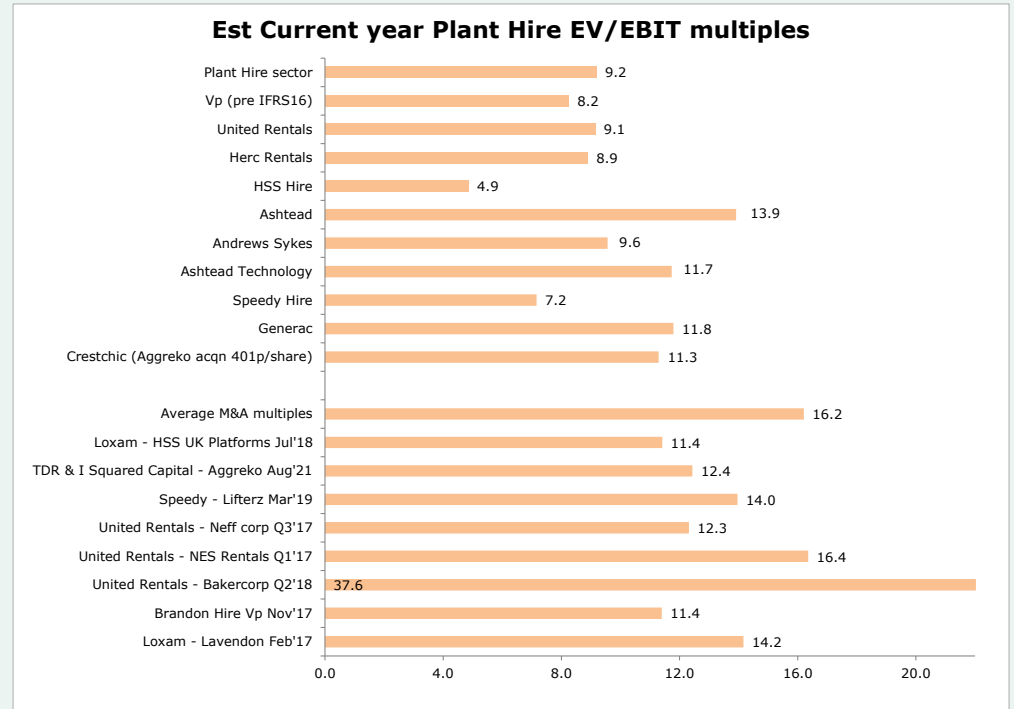


Source: Equity Development

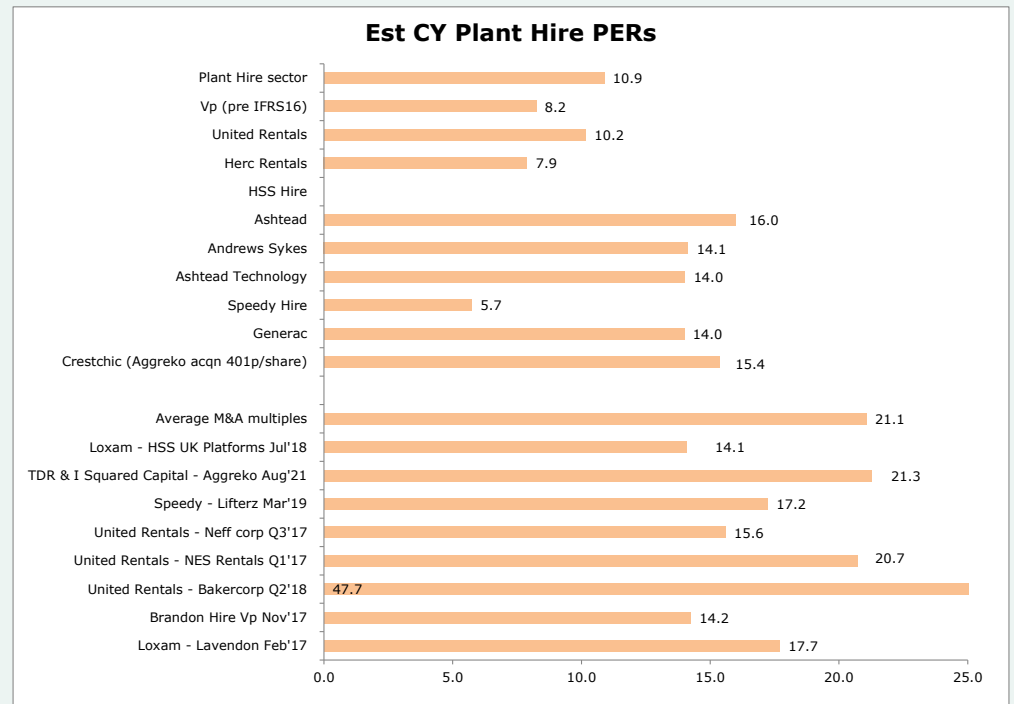
CY % ROCE vs peers



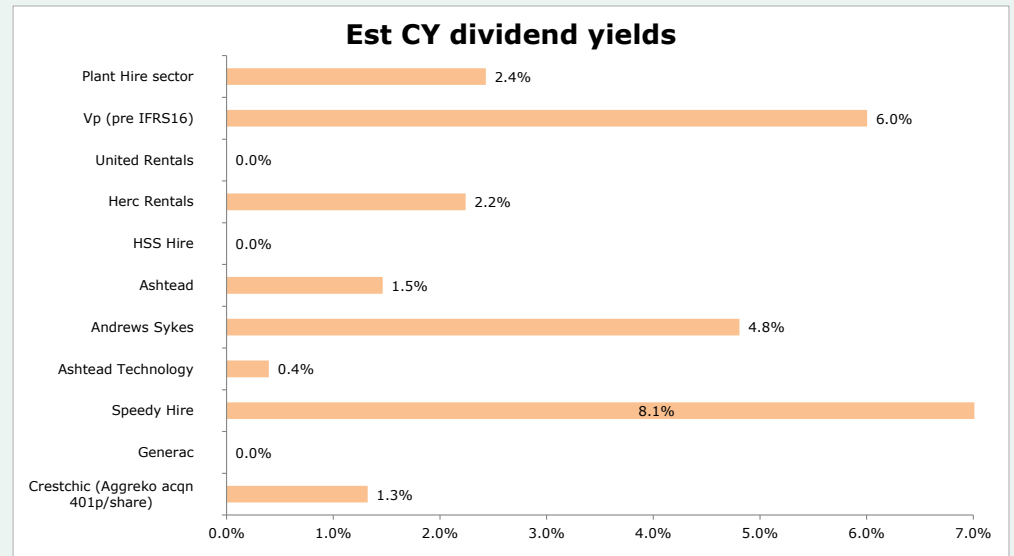
Source: Equity Development

Current Year (CY) EV / EBIT multiples vs peers


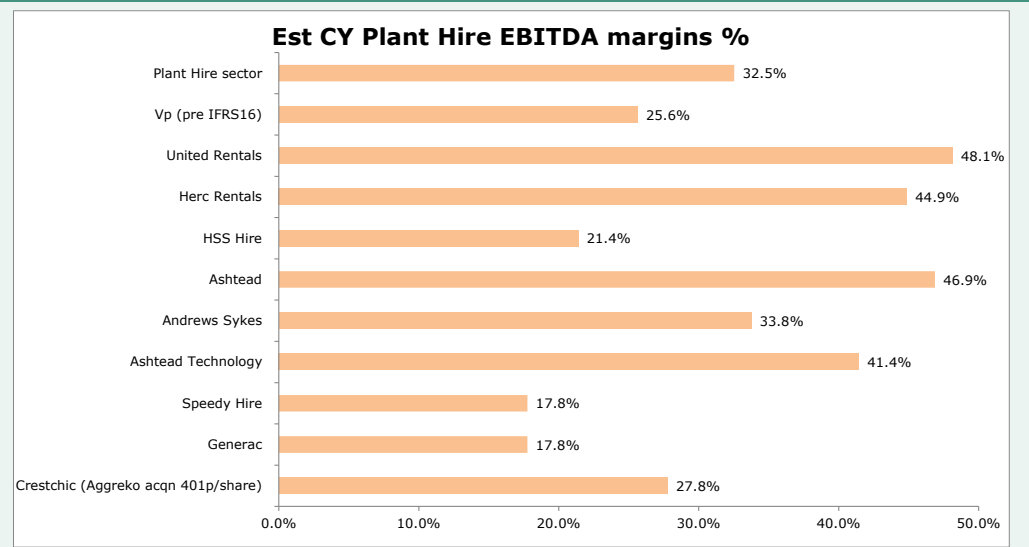
Source: Equity Development

CY PERs vs peers


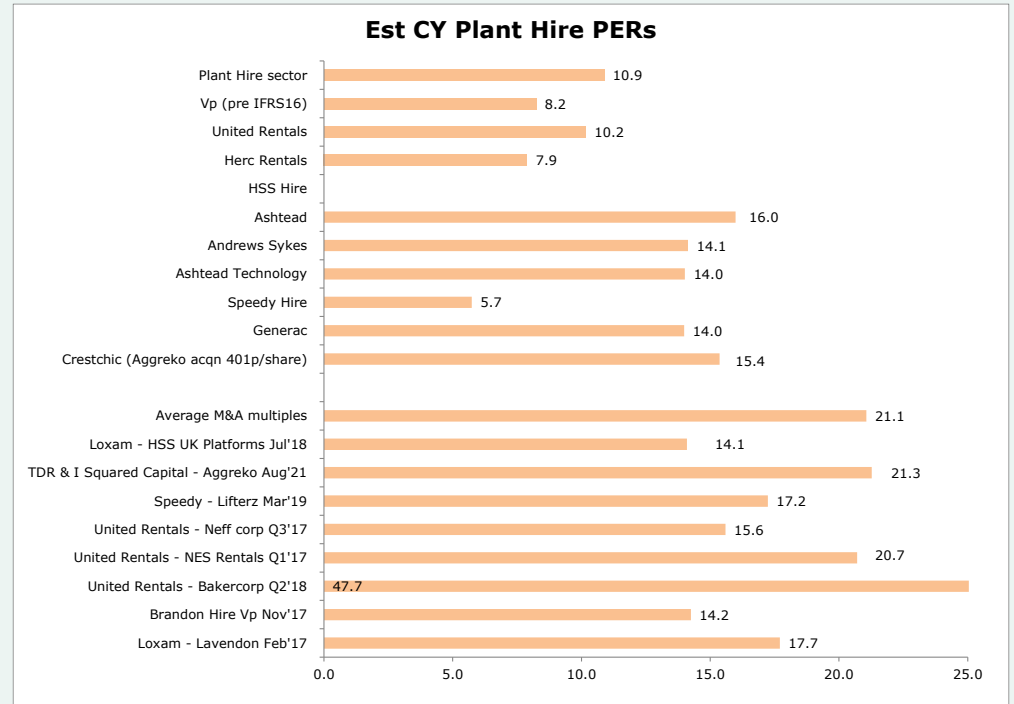
Source: Equity Development

CY dividend yield vs peers


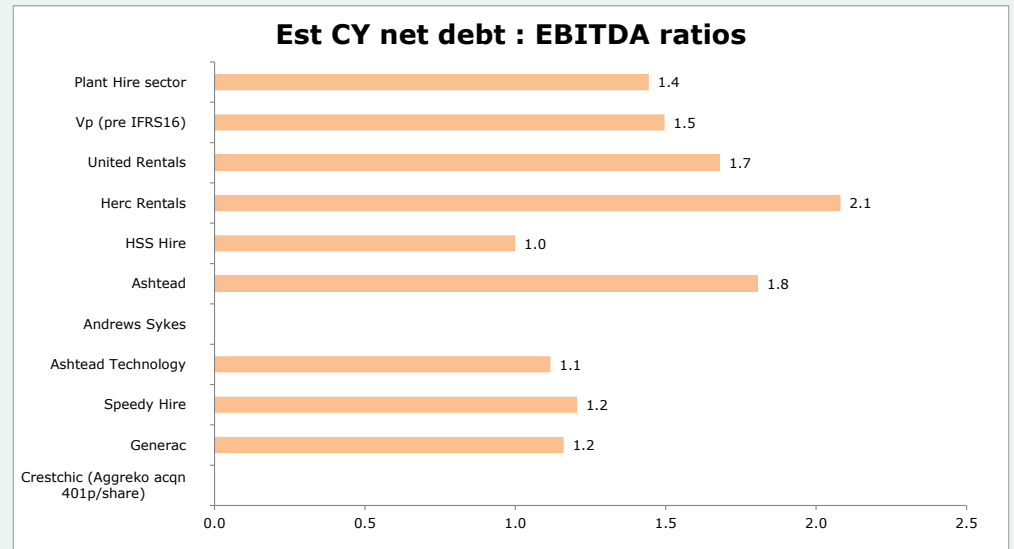
Source: Equity Development

CY % EBITDA margins vs peers


Source: Equity Development

CY Price: Book


Source: Equity Development

CY Net debt : EBITDA


Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Crestchic (Aggreko acqn 401p/share)	401.0p	£118.8	£2.5	£116.3
Generac	\$100.0	\$6,400	-\$887	\$7,287
Speedy Hire	31.0p	£157	-\$94	£251
Ashtead Technology	328.0p	£262	-\$40	£303
Andrews Sykes	520p	£219	£17	£203
Ashtead	\$5,850.0	\$26,208	-\$7,884	\$34,092
HSS Hire	12.0p	£84.6	-\$73.4	£158.0
Herc Rentals	\$108.0	\$3,154	-\$3,045	\$6,199
United Rentals	\$375.0	\$26,250	-\$11,264	\$37,514
Vp	670p	£269	-\$138	£407

Source: Equity Development



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