

22nd August 2022

Solid as a rock

One hallmark of great companies is that they don't allow temporary external events to derail their long term strategic ambitions.

Vp – a specialist equipment rental firm - indicated last Tuesday that **it remained on track to meet FY'23 expectations**, despite also having to manage the 'Formal Sale Process (FSP) over the past 4 months.

The FSP began on 28th April 2022, and while it received a “*good level of interest throughout, none of the proposals submitted met [the Board's] objectives*” – so the process was concluded.

CEO Neil Stothard commented that: “*Throughout the FSP, it has been a case of **business as usual within our trading divisions with distractions successfully kept to an absolute minimum**. At our recent AGM on 21 July 2022, [Exec Chairman] Jeremy commented that **trading has been positive into the new financial year**.*”

Supported by durable, secular tailwinds

Demand was said to be “*good*” across the infrastructure and housebuilding sectors, in addition to “*encouraging activity levels' both in the UK and Internationally in spite of ongoing input cost inflation and supply chain*” pressures (re spare parts, labour & transport).

We think this is a creditable performance, and further evidence that **Vp is a high-quality group enjoying strong defensible positions in its chosen secular growth markets**.

Vp may not be entirely immune to the wider economic backdrop, yet its strategy is underpinned by the long term need to upgrade infrastructure (eg HS2, rail electrification, water conservation, nuclear, renewables & offshore wind) & ageing housing stock, alongside constructing more residential homes & introducing new building technologies (re digitisation, decarbonisation).

Moreover, we believe larger customers (eg BtR/PBSA developer Watkin Jones) will continue to standardise on the most accomplished operators, preferring those offering attractive all-round propositions in terms of product availability, quality, innovation, service, safety, ESG, ease of use and price. This should ultimately benefit national specialists such as Vp, who have slimmed down considerably during the pandemic.

No change to forecasts or £11.30/share valuation

Elsewhere our **FY'23 profit forecasts remain unchanged** - anticipating **adjusted PBTA of £41.4m** on revenues up 4.2% to £365m, with **net debt** (pre IFRS 16) **closing Mar'23 at £130m** (ie flat YoY), equivalent to **a comfortable 1.4x EBITDA**.

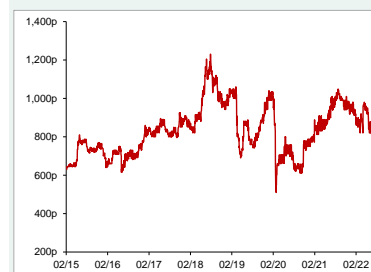
Likewise, we have prudently held the **£11.30/share valuation**, but plan to revisit these at the October trading update.

Lastly controlling shareholder Ackers P Investment has indicated they “*remain committed to Vp and have no intention of selling their shares on the market for the foreseeable future*”.

Company Data

EPIC	LSE: VP.
Price (last close)	£7.90
52 week Hi/Lo	£10.70/£7.80
Market cap	£317m
Est Mar23 net debt (ex IFRS16)	£130m
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 are derived from infrastructure, 41% construction, 7% housing building, 9% Energy and 7% other.

Member of FTSE SmallCap Index.

Next news: H1 trading update Oct'22

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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							
UK	22.1%	26.1%	-5.2%	-15.1%	13.9%	4.2%	3.0%
International	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	98,076
% Margin	27.8%	26.5%	27.0%	23.6%	25.3%	25.2%	26.0%
EBITDA (post IFRS16)			123,817	96,660	112,827	116,200	122,035
Adjusted EBIT							
UK	43,001	49,838	50,190	27,156	41,829	43,835	48,580
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	50,893
EBIT (post IFRS16)			55,480	30,928	45,601	47,607	52,352
% Margin	14.5%	13.5%	14.3%	9.0%	12.3%	12.5%	13.5%
UK	15.8%	14.2%	15.2%	9.7%	13.1%	13.2%	14.2%
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	-4,328	-4,228
Adjusted PBT (pre amortisation)	40,597	46,829	47,099	23,273	38,905	41,427	46,665
PBT (post IFRS16)			46,640	23,176	38,808	41,330	46,568
Adjusted earnings	33,520	37,677	35,740	18,435	28,210	31,070	34,999
Adjusted Basic EPS (p) - pre IFRS 16	84.9	95.1	90.2	46.6	71.2	78.1	87.5
EPS growth rate	22.1%	12.0%	-5.2%	-48.4%	53.0%	9.6%	12.1%
Adjusted EPS diluted	83.9	92.9	88.8	45.8	70.5	77.3	86.6
Basic EPS (post IFRS16)			88.9	46.2	72.5	77.9	87.3
Dividend (pence)	26.0	30.2	8.5	47.0	36.0	38.6	43.3
Dividend growth	18.2%	16.2%	-72.0%	456.2%	-23.4%	7.3%	12.1%
Valuation benchmarks							
P/E ratio (pre IFRS 16)	9.3	8.3	8.8	17.0	11.1	10.1	9.0
P/E ratio (post IFRS 16)			8.9	17.1	10.9	10.1	9.0
EV/Sales	1.5	1.2	1.2	1.5	1.3	1.2	1.2
EV/EBITDA (pre IFRS 16)	5.3	4.4	4.6	6.2	5.0	4.8	4.6
EV/EBITDA (post IFRS 16)			4.1	5.2	4.5	4.3	4.1
EV/EBITDA (pre IFRS 16)	10.2	8.7	8.6	16.1	10.3	9.8	8.8
EV/EBITDA (post IFRS 16)			9.1	16.3	11.1	10.6	9.6
PEG ratio	0.4	0.7	-1.7	-0.4	0.2	1.1	0.7
Dividend yield	3.3%	3.8%	1.1%	5.9%	4.6%	4.9%	5.5%
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%	46.8%
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	1.4	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	-130,000	-124,793
Fleet capital expenditure (gross)	64,900	63,800	49,100	40,200	59,800	55,000	60,000
Investment as % sales	21.4%	16.7%	13.5%	13.1%	17.0%	15.0%	15.9%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,595	39,597	39,795	39,994
Shareprice (p)	790						

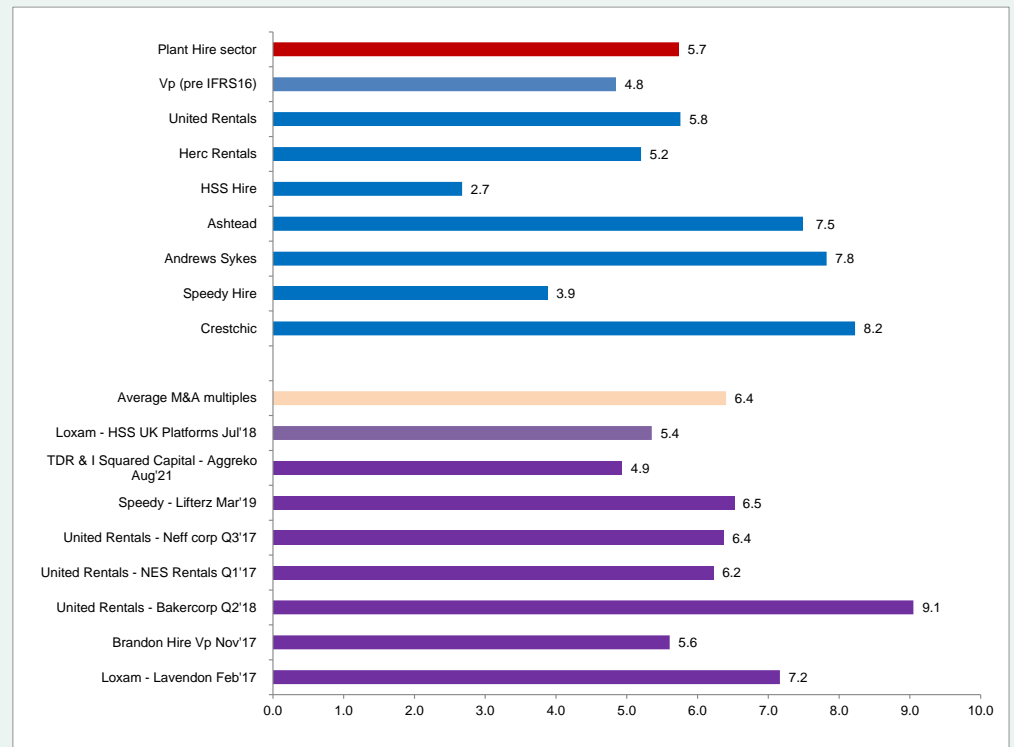
Source: Equity Development – FY21 includes special dividend of 22p/share

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.
- 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.

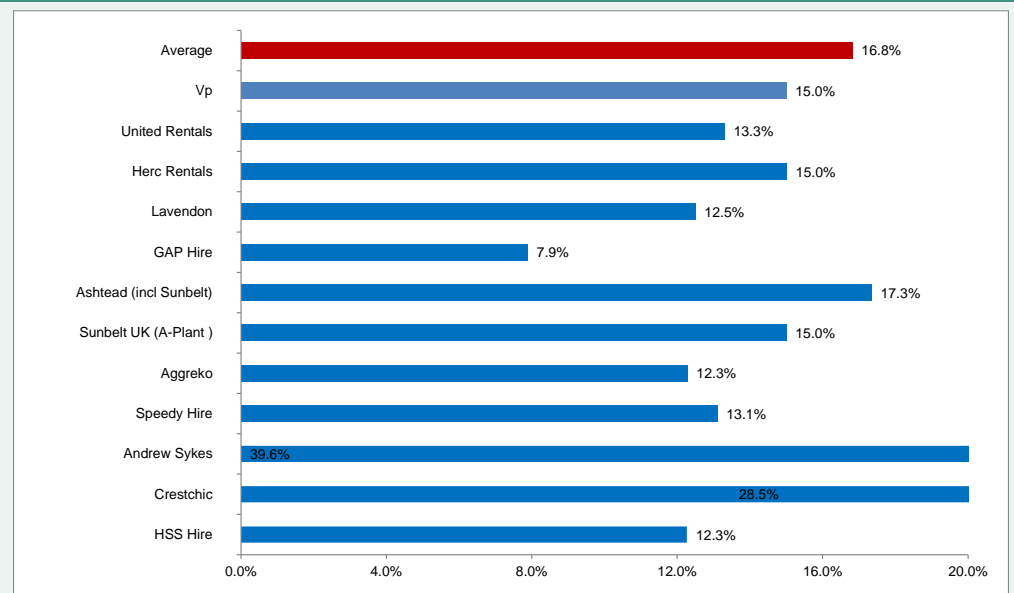
Appendices - sector valuation metrics and KPIs

Current Year (CY) EV / EBITDA multiples vs peers

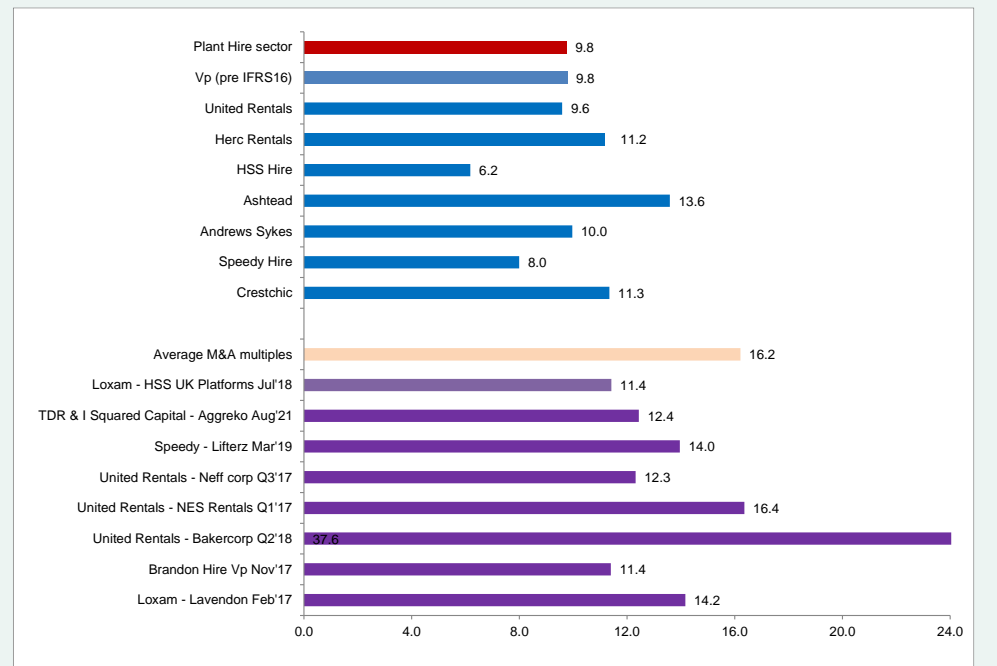


Source: Equity Development

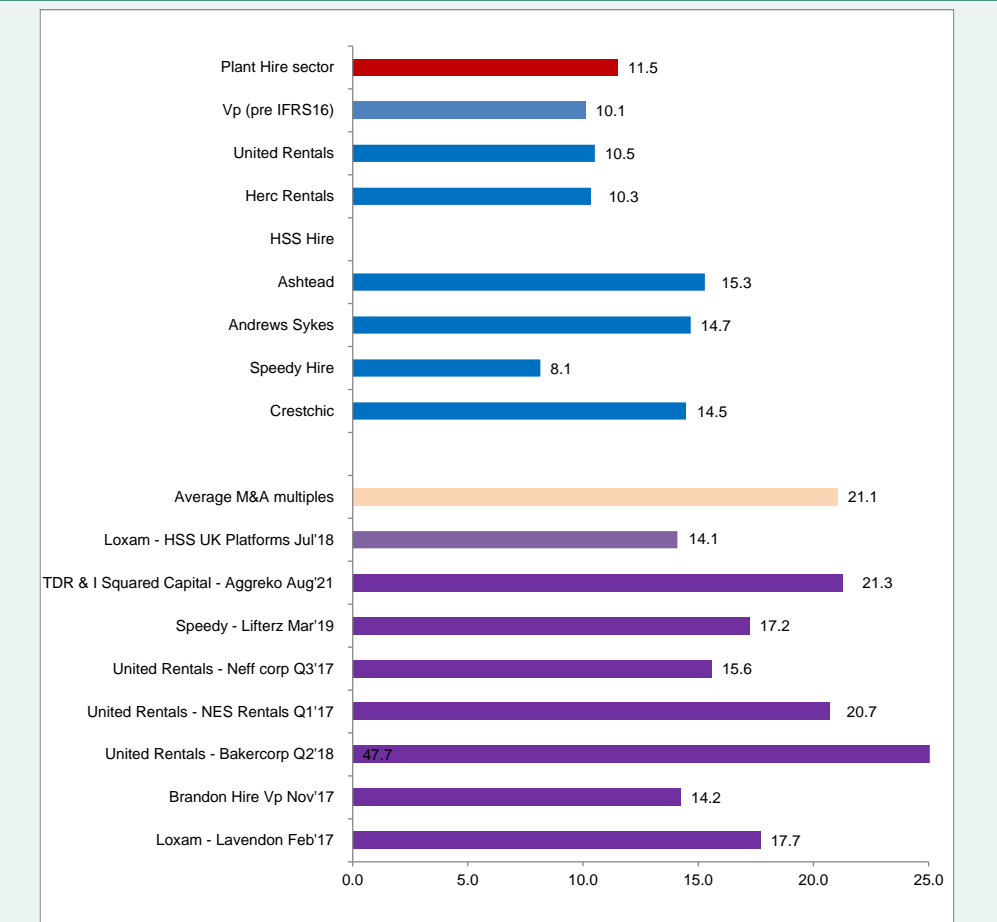
CY % ROCE vs peers



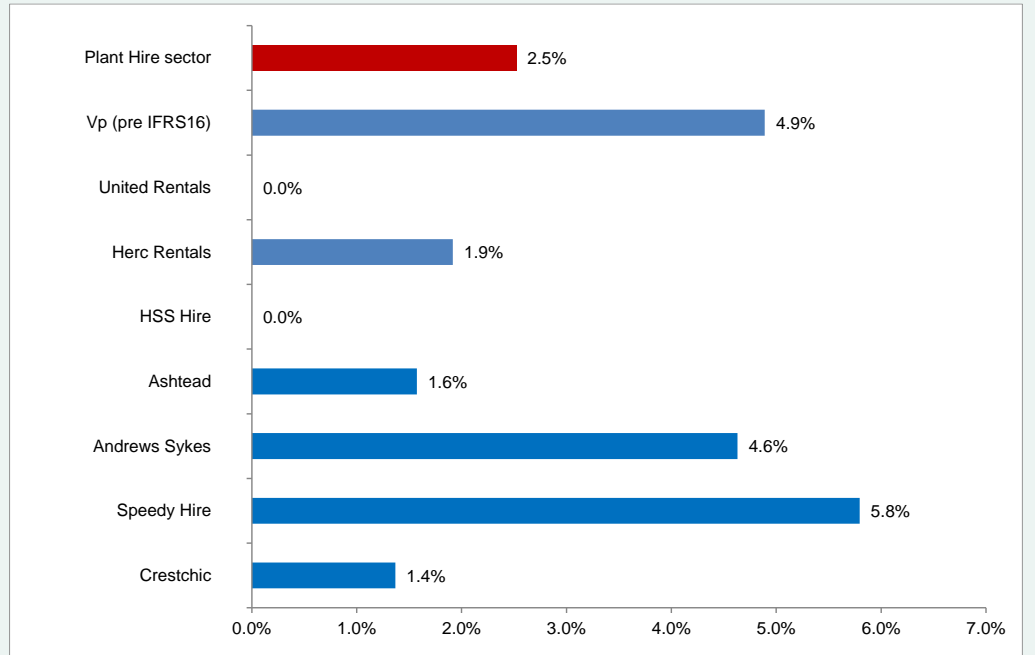
Source: Equity Development

Current Year (CY) EV / EBIT multiples vs peers


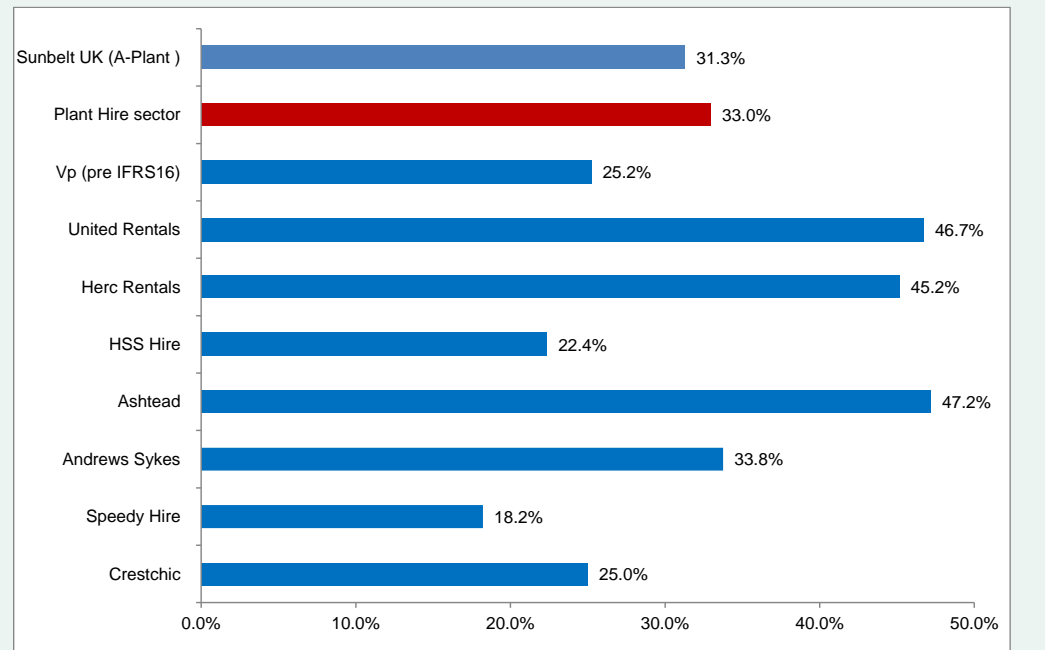
Source: Equity Development

CY PERs vs peers


Source: Equity Development

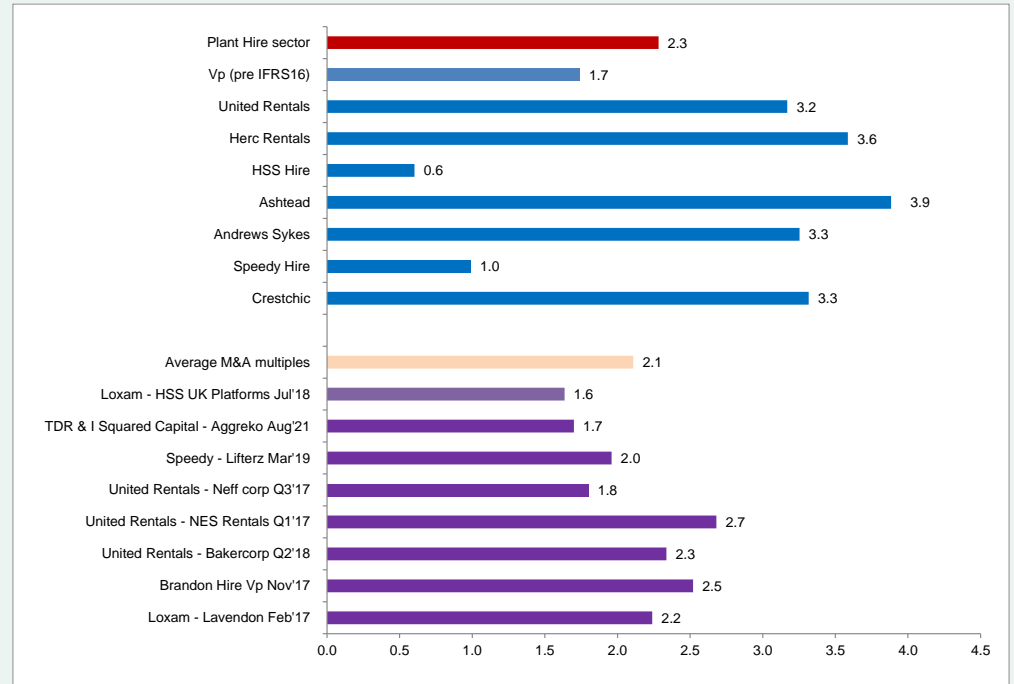
CY dividend yield vs peers


Source: Equity Development

CY % EBITDA margins vs peers


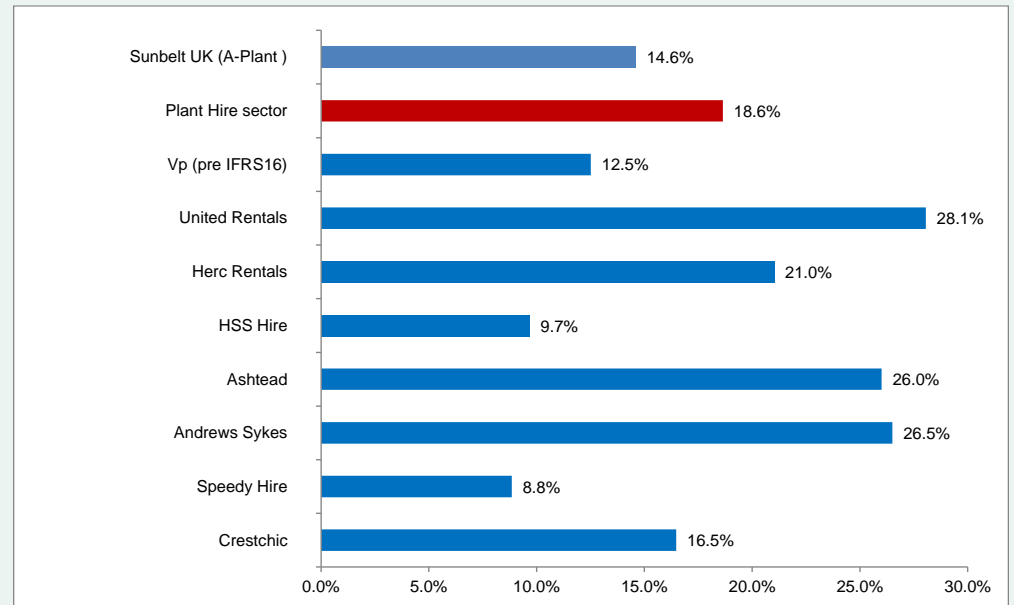
Source: Equity Development

CY Price: Book



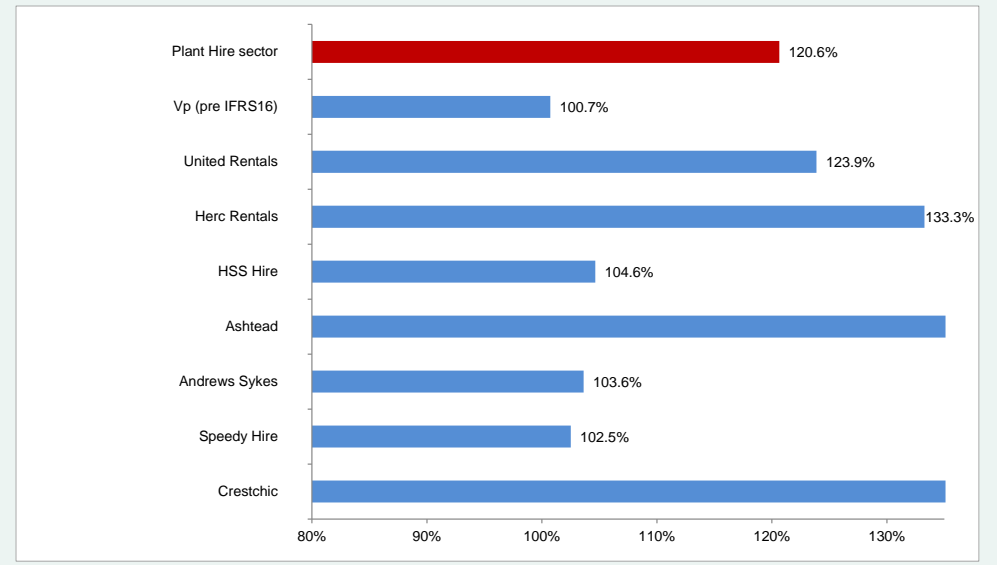
Source: Equity Development

CY % EBIT margins vs peers



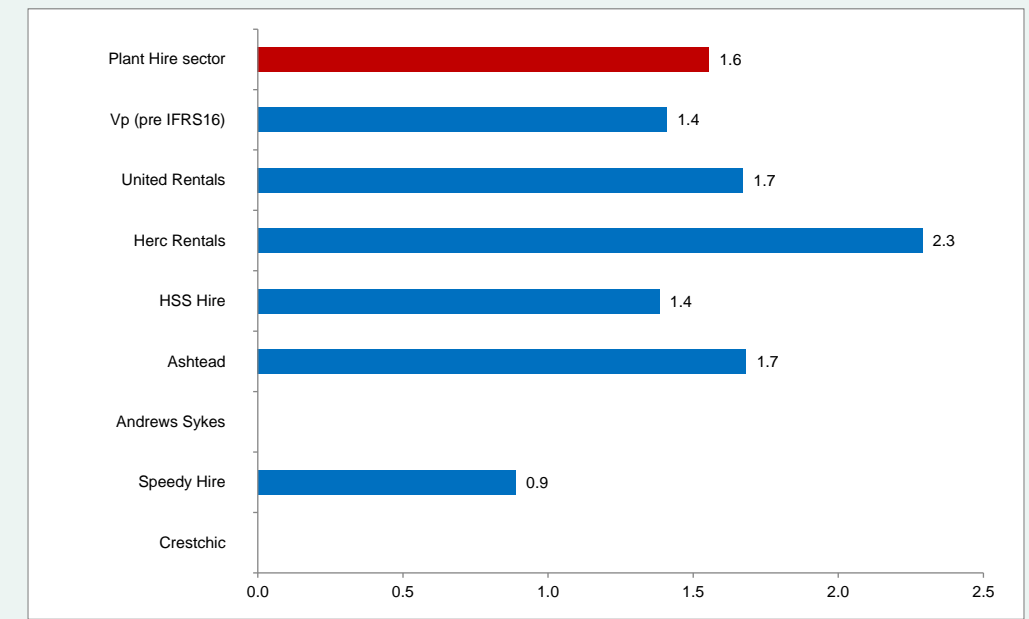
Source: Equity Development

Current year sales as a % of pre Covid levels



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	285.0p	£84.2	£2.0	£82.2
Speedy Hire	44.0p	£227	-£68	£295
Andrews Sykes	540p	£228	£17	£211
Ashtead	\$5,442.0	\$24,380	-\$7,065	\$31,445
HSS Hire	14.0p	£97.5	-£104.6	£202.1
Herc Rentals	\$120.0	\$3,504	-\$2,754	\$6,258
United Rentals	\$316.0	\$22,120	-\$9,048	\$31,168
Vp	790p	£317	-£130	£447

Source: Equity Development



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