

“In excellent shape” as the recovery continues

4th October 2021

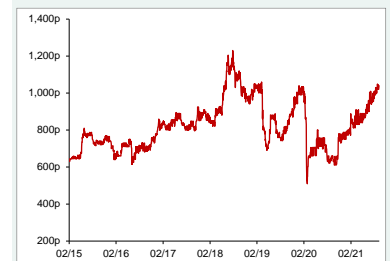
Combating Covid has been a double-edged sword. One moment enduring worldwide lock-downs, the next suffering from the sharpest supply-chain shock since WW2, thanks to synchronised global growth, unprecedented fiscal/monetary stimulus and pent-up demand.

The UK’s construction industry is no different, with the latest PMIs (see below) flagging widespread material, labour & transport shortages, on top of surging cost inflation. Not ideal if you’re a site manager trying to complete a building project on-time, within budget and to specification.

Company Data

EPIC	LSE: VP.
Price (last close)	£10.40
52 week Hi/Lo	£10.70/605p
Market cap	£418m
Est Mar22 net debt (ex IFRS16)	£123m
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 40% sales is derived from infrastructure, 39% construction, 9% housing building, 7% oil & gas and 5% other.

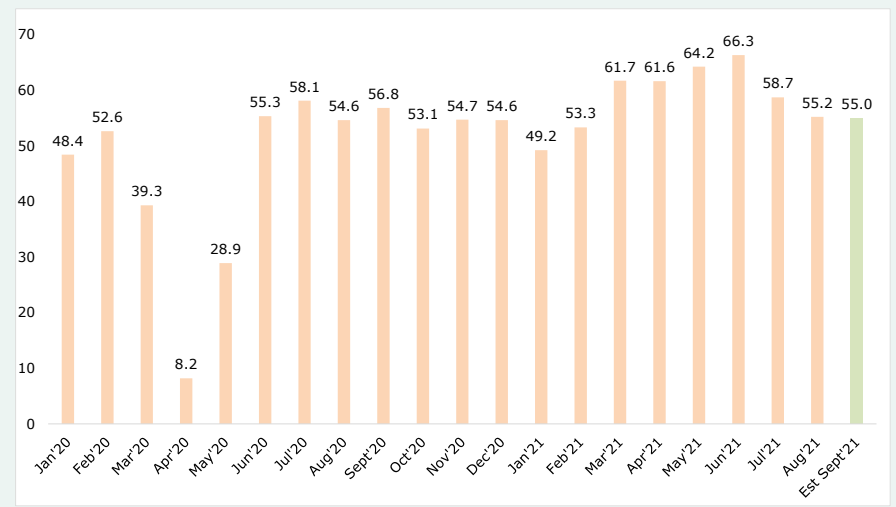
Member of FTSE SmallCap Index.

Next news: Interims 30th Nov'21

Paul Hill (Analyst)

0207 065 2690
paul.hill@equitydevelopment.co.uk

UK Construction Purchasing Managers Index (PMI)



Source: Equity Development (>50 indicates expansion)

Cream is rising to the top

Nonetheless the best firms usually find a way. Enter Vp, an equipment rental specialist who said today that it was “**trading in line expectations and making excellent progress**.... despite some areas (eg commercial property, outdoor events, oil & gas) still not back to historical norms. With **H1 revenues coming in at 96% of pre-Covid levels** (Est £179.1m vs £186.6m H1'20) vs 94% in H2'21 & 76% H1'21.

Indicating to us that **Vp is not only tightly managing costs**, but also **materially enhanced its operating leverage** (eg depot rationalisation) **during the pandemic**, and is “*in excellent shape to capitalise*” as the economy rebounds.

Here **HS2 is ‘going like a train’** (eg Groundforce), **housebuilding buoyant** (eg Brandon Hire Station & UK Forks), **overseas markets improving** (eg TR) and **RMI robust** - with both rail (CP6 eg Torrent Trackside) and Water (AMP7) set to add further momentum in H2. Longer term too there’s an enormous amount of work coming down the track. Not least fibre-to-the-home, offshore wind, Hinkley Point & the Lower Thames crossing.

Consequently, **we retain our forecasts** and **£11.30/share valuation**. Alongside reiterating that Vp’s **through-cycle durability justifies a sector premium**, reflecting its consistent returns, adoption of all-things digital and exposure to systemically important verticals such as water, power, renewables, telecoms & rail.

Vp valuation benchmarks vs peers



Source: Equity Development.

Key risks

- COVID-19 related impacts to demand, customers and building investment.
- 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. Mitigated by c.70% of gross debt being fixed, although falling over the next 3 years (Re £65m fixed rate private placement).
- 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.

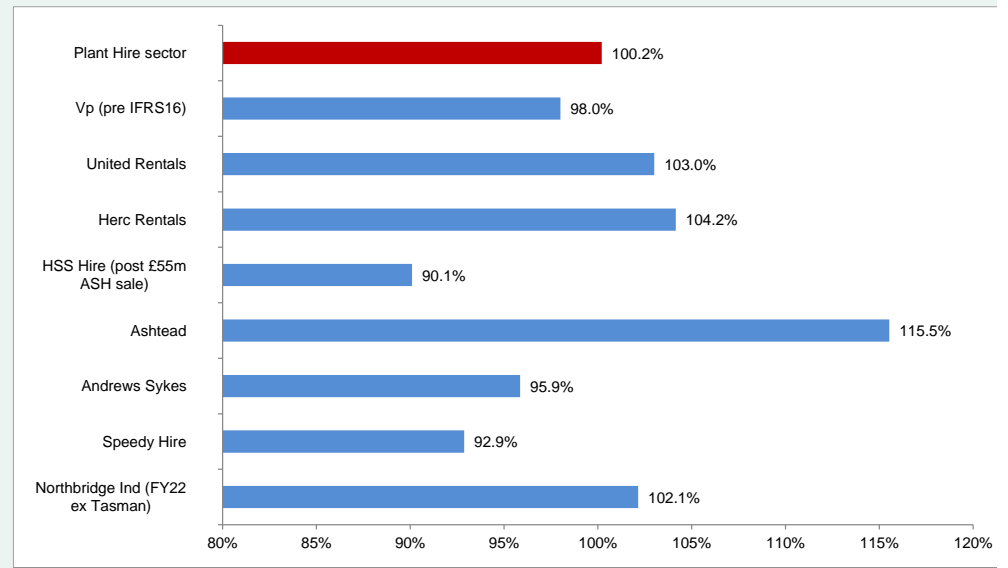
Summary projections (£'000s)

Vp (March year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
Turnover							
UK	271,989	350,330	331,005	281,309	324,385	343,848	354,163
International	31,650	32,500	31,922	26,688	31,284	33,161	34,155
Total	303,639	382,830	362,927	307,997	355,668	377,009	388,319
% growth	22.1%	26.1%	-5.2%	-15.1%	15.5%	6.0%	3.0%
UK	23.6%	28.8%	-5.5%	-15.0%	15.3%	6.0%	3.0%
International	10.2%	2.7%	-1.8%	-16.4%	17.2%	6.0%	3.0%
EBITDA	84,337	101,339	98,050	72,701	89,890	95,880	101,891
% Margin	27.8%	26.5%	27.0%	23.6%	25.3%	25.5%	26.2%
EBITDA (post IFRS16)			123,817	96,660	113,849	119,839	125,850
Adjusted EBIT							
UK	43,001	49,838	50,190	27,156	38,926	42,981	47,812
International	1,017	1,733	1,700	565	2,503	2,984	3,416
Total	44,018	51,571	51,890	27,721	41,429	45,965	51,228
EBIT (post IFRS16)			55,480	30,928	42,698	46,753	51,584
% Margin	14.5%	13.5%	14.3%	9.0%	11.6%	12.2%	13.2%
UK	15.8%	14.2%	15.2%	9.7%	12.0%	12.5%	13.5%
International	3.2%	5.3%	5.3%	2.1%	8.0%	9.0%	10.0%
Interest charge (pre IFRS 16)	-3,421	-4,742	-4,791	-4,448	-4,500	-4,400	-4,300
Adjusted PBT (pre amortisation)	40,597	46,829	47,099	23,273	36,929	41,565	46,928
PBT (post IFRS16)			46,640	23,176	36,832	41,468	46,831
Adjusted earnings	33,520	37,677	35,740	18,472	29,137	32,795	35,196
Adjusted Basic EPS (p) - pre IFRS 16	84.9	95.1	90.2	46.7	73.2	82.0	87.6
EPS growth rate	22.1%	12.0%	-5.2%	-48.3%	57.0%	12.0%	6.8%
Adjusted EPS diluted	83.9	92.9	88.8	45.9	72.1	80.7	86.2
Basic EPS (post IFRS16)			88.9	46.2	73.0	81.8	87.4
Dividend (pence)	26.0	30.2	8.5	47.0	30.0	32.0	34.0
Dividend growth	18.2%	16.2%	-72.0%	456.2%	-36.2%	6.7%	6.3%
Valuation benchmarks							
P/E ratio (pre IFRS 16)	12.2	10.9	11.5	22.3	14.2	12.7	11.9
P/E ratio (post IFRS 16)			11.7	22.5	14.2	12.7	11.9
EV/Sales	1.8	1.4	1.5	1.8	1.5	1.4	1.4
EV/EBITDA (pre IFRS 16)	6.4	5.3	5.5	7.4	6.0	5.6	5.3
EV/EBITDA (post IFRS 16)			4.8	6.2	5.2	5.0	4.7
EV/EBITA (pre IFRS 16)	12.3	10.5	10.4	19.5	13.0	11.8	10.6
EV/EBITA (post IFRS 16)			10.8	19.3	14.0	12.8	11.6
PEG ratio	0.6	0.9	-2.2	-0.5	0.2	1.1	1.8
Dividend yield	2.5%	2.9%	0.8%	4.5%	2.9%	3.1%	3.3%
Dividend cover	3.3	3.2	10.7	1.0	2.4	2.6	2.6
EBIT drop through rate (%)		9.5%	-1.6%	44.0%	28.8%	21.3%	46.5%
Corporate tax rate	-17.4%	-19.5%	-20.0%	-21.1%	-21.1%	-21.1%	-25.0%
Net debt / EBITDA (pre IFRS 16)	2.0	1.7	1.6	1.7	1.4	1.1	0.9
Return on average capital employed	14.8%	14.5%	14.5%	9.2%	12.7%	14.0%	14.0%
Net cash/(debt) - pre IFRS16	-179,172	-168,100	-159,806	-121,906	-123,000	-108,650	-96,162
Fleet capital expenditure (gross)	64,900	63,800	49,100	40,200	50,000	55,000	60,000
Investment as % sales	21.4%	16.7%	13.5%	13.1%	14.1%	14.6%	15.5%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,595	39,793	39,992	40,192
Shareprice (p)	1,040						

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

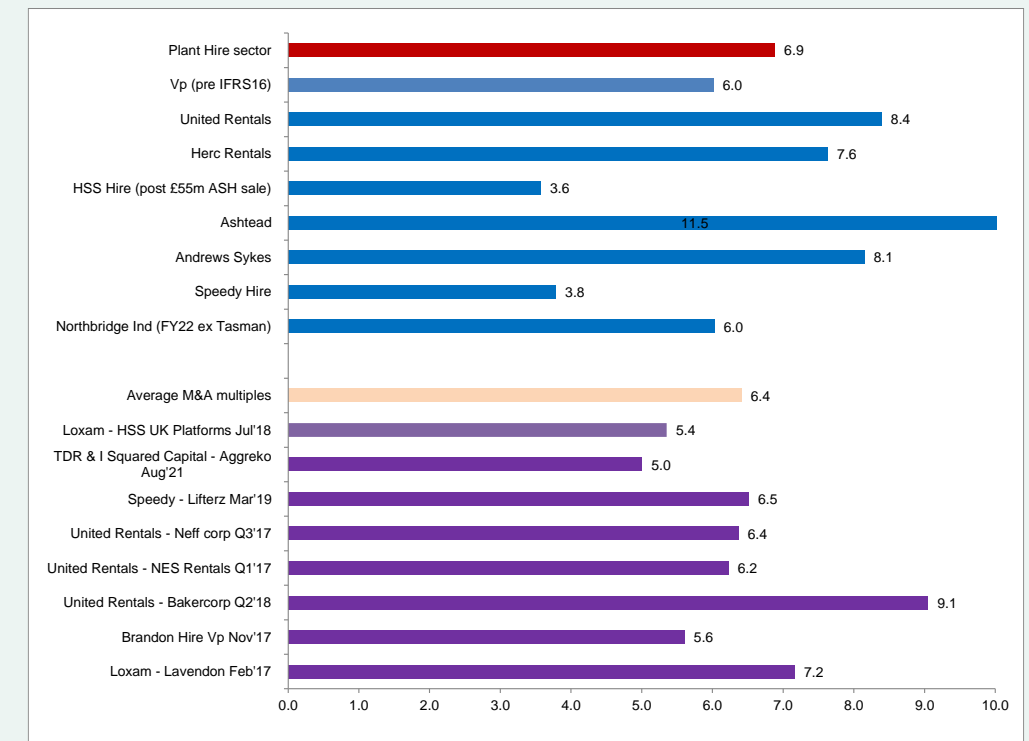
Appendices - sector valuation metrics and KPIs

Current year sales as a % of pre Covid levels



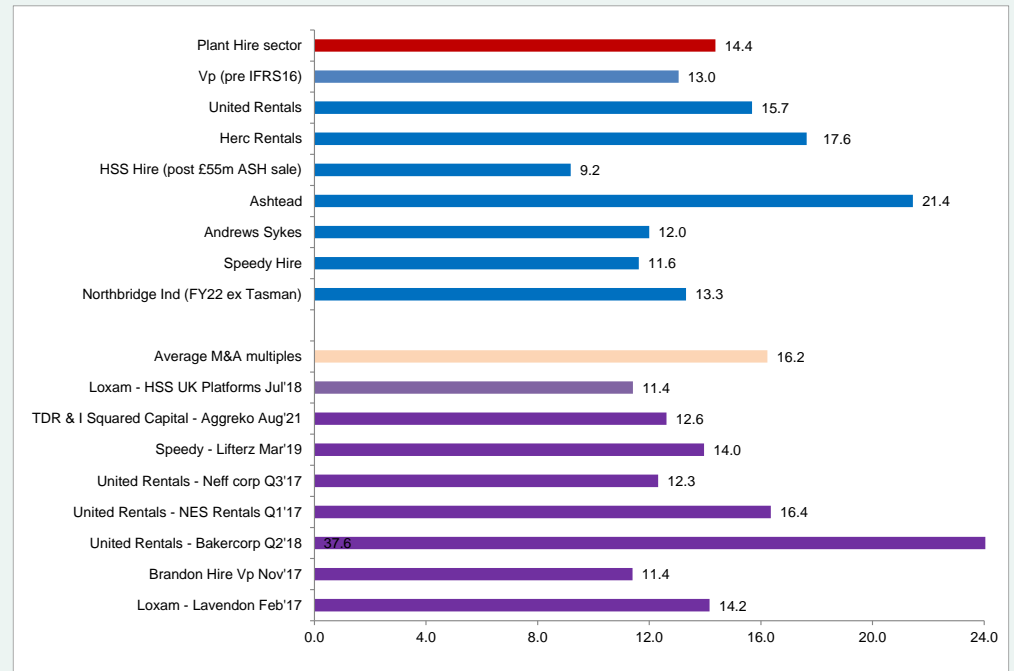
Source: Equity Development.

Current Year (CY) EV / EBITDA vs peers



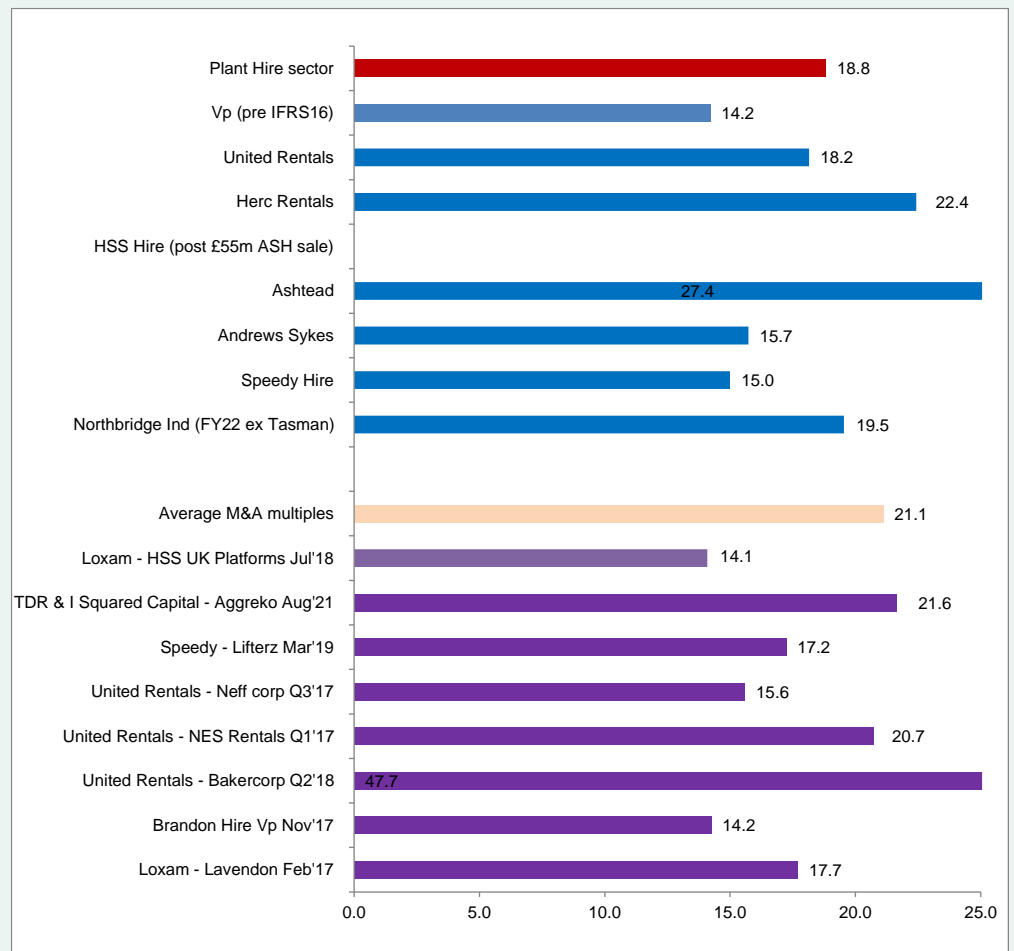
Source: Equity Development

Current Year (CY) EV / EBIT vs peers

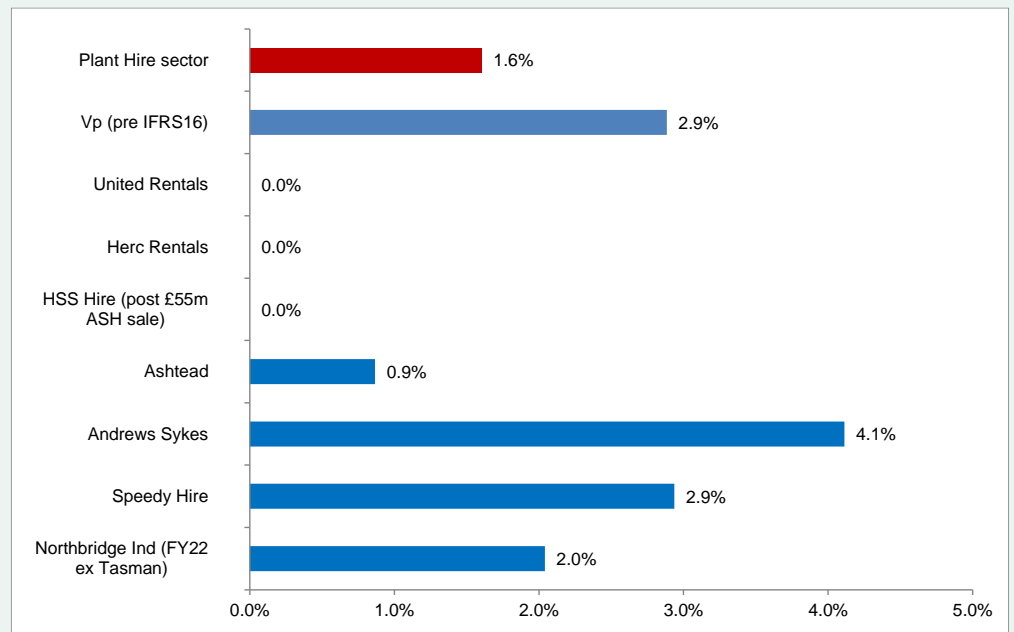


Source: Equity Development

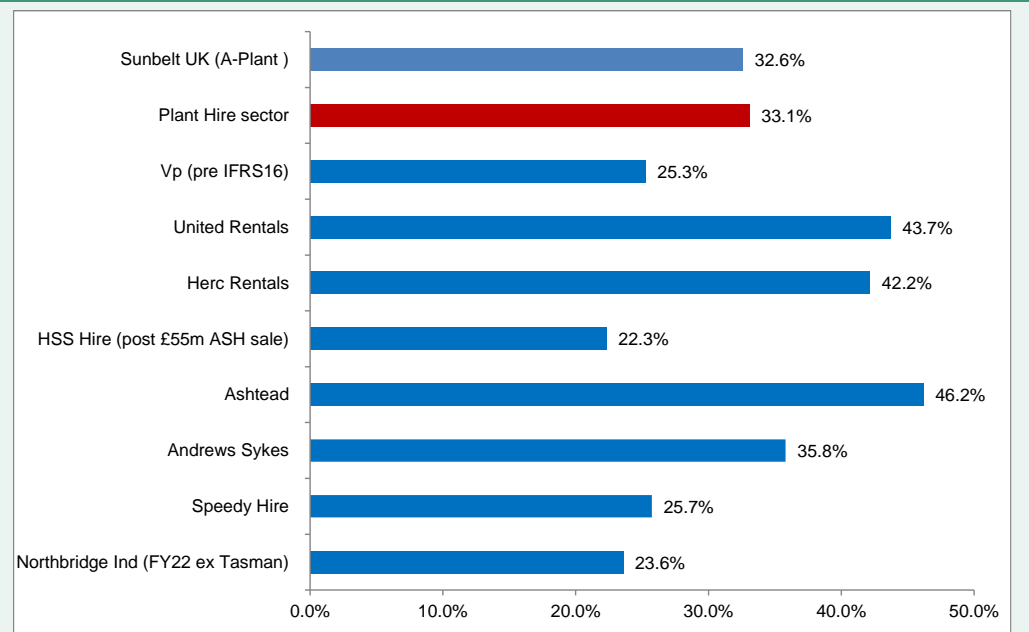
CY PERs vs peers



Source: Equity Development

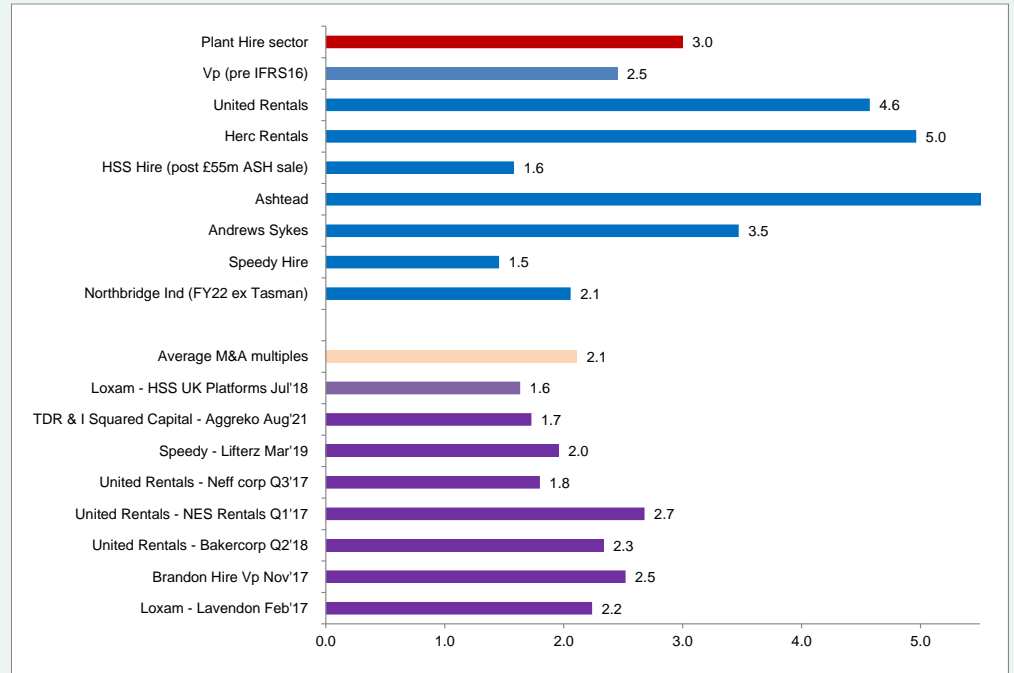
CY dividend yield vs peers


Source: Equity Development

CY % EBITDA margins vs peers


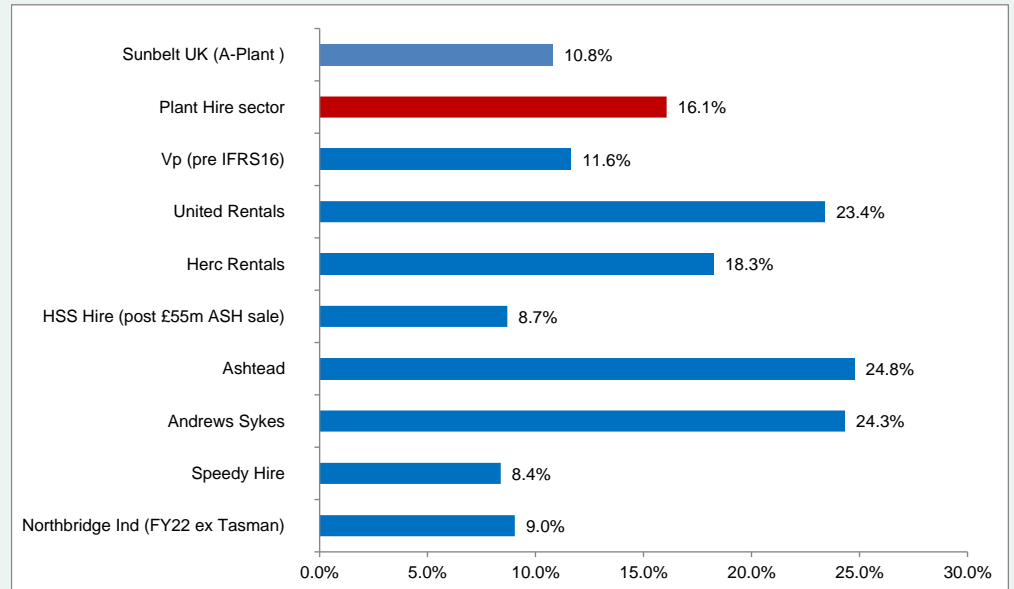
Source: Equity Development

CY Price: Book



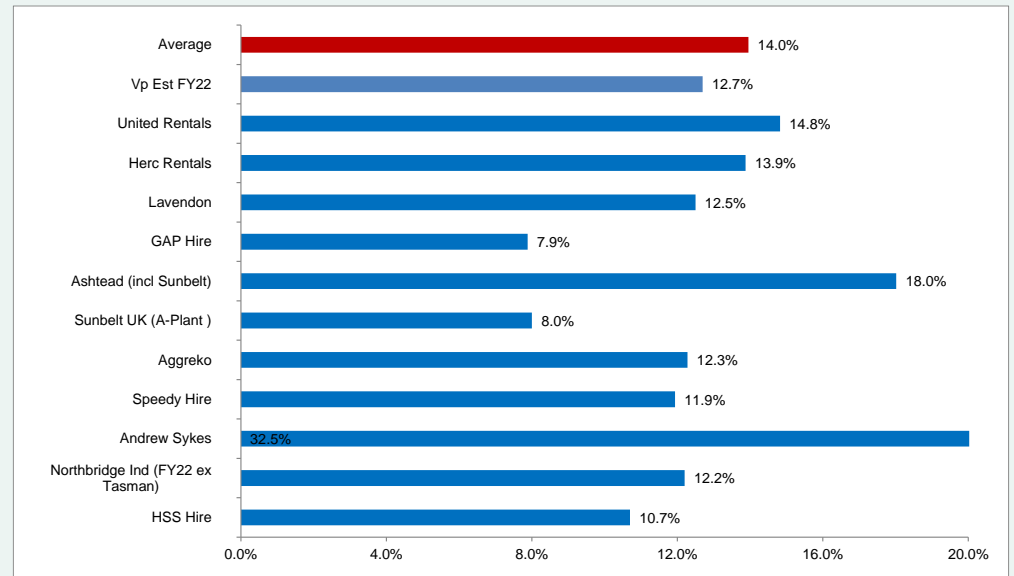
Source: Equity Development

CY % EBIT margins vs peers



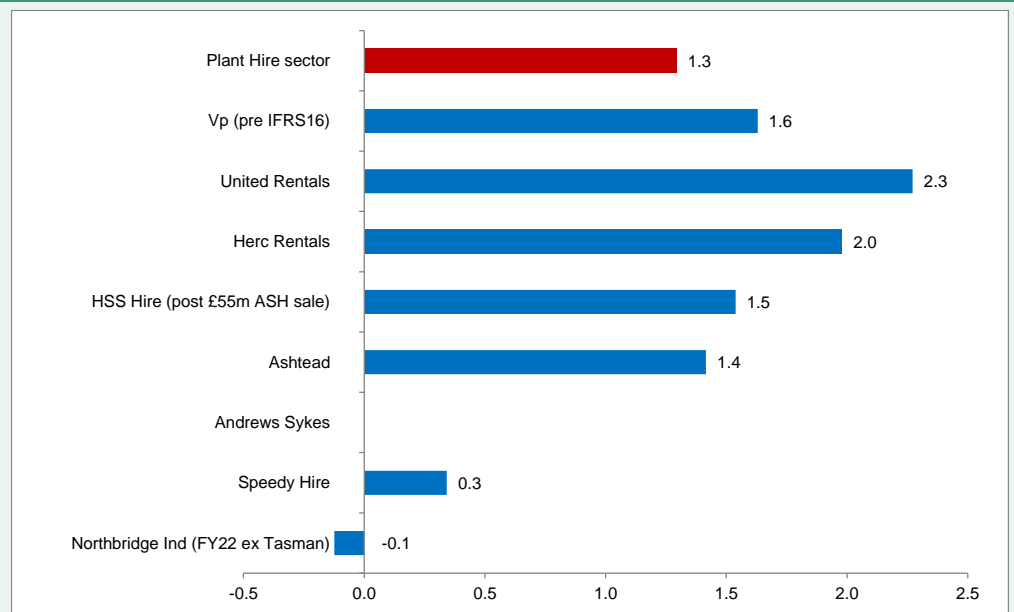
Source: Equity Development

CY % ROCE vs peers



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)
Northbridge Ind (FY22 ex Tasman)	170.0p	£49.8	£1.0	£48.8
Speedy Hire	63.0p	£335	-£33	£368
Andrews Sykes	535p	£226	£10	£216
TDR & I Squared Capital - Aggreko Aug'21	870p	£2,219	-£419	£2,638
Ashtead	\$7,685.7	\$34,432	-\$4,835	\$39,267
HSS Hire (post £55m ASH sale)	19.0p	£132.3	-£100.0	£232.3
Herc Rentals	\$170.0	\$4,964	-\$1,738	\$6,702
United Rentals	\$358.0	\$25,776	-\$9,567	\$35,343
Vp	1,040p	£418	-£123	£541

Source: Equity Development



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: info@equitydevelopment.co.uk | 020 7065 2690