

## The stars are aligning

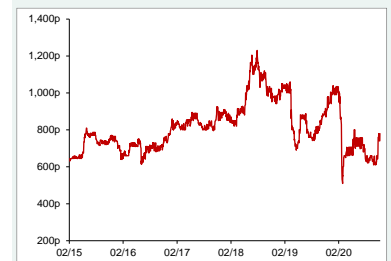
7th December 2020

'The darkest hour is often just before the dawn'. Like many investors during the pandemic, I was guilty of being too pessimistic. However once Gilead had announced the efficacy of its Remdesivir drug on 29th April (1st medical breakthrough), the clouds began to part. Since then many others have also 'climbed the wall of worry', culminating with the recent terrific vaccine news. In fact on Friday, Goldman Sachs upped their UK GDP estimates to 7.0% for next year (vs 6.1% B4) & 6.2% in 2022. 1.9% higher than the 5.1% predicted by the Treasury's own "poll of experts" last month (see below).

### Company Data

EPIC	LSE: VP.
Price (last close)	775p
52 week Hi/Lo	1,040p/510p
Market cap	£311m
Sept'20 net debt (ex IFRS16)	£118.7m
Share count	40.154m
ED valuation	900p/share

### Share Price, p



Source: Share Cast

### 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 FY'20 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.

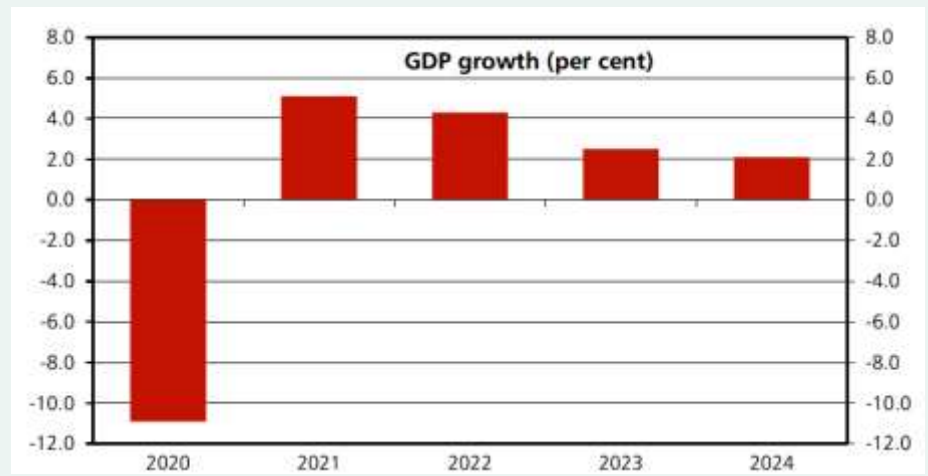
Member of FTSE SmallCap Index.

Next news: Trading update Apr'21

### Paul Hill (Analyst)

0207 065 2690  
[paul.hill@equitydevelopment.co.uk](mailto:paul.hill@equitydevelopment.co.uk)

### 'V'accine shaped recovery – UK GDP projections



Source: Treasury November 2020

## Economists gradually catching up with the capital markets

Moreover if you'd been betting on a property collapse, then it's been painful trade. Instead of dropping by 5%-10% (Savills Apr'20), house prices have actually surged (see below) on the back of the Chancellor's stamp duty holiday, pent-up demand and a desire to move out of cities into larger suburban homes.

### Average UK house prices

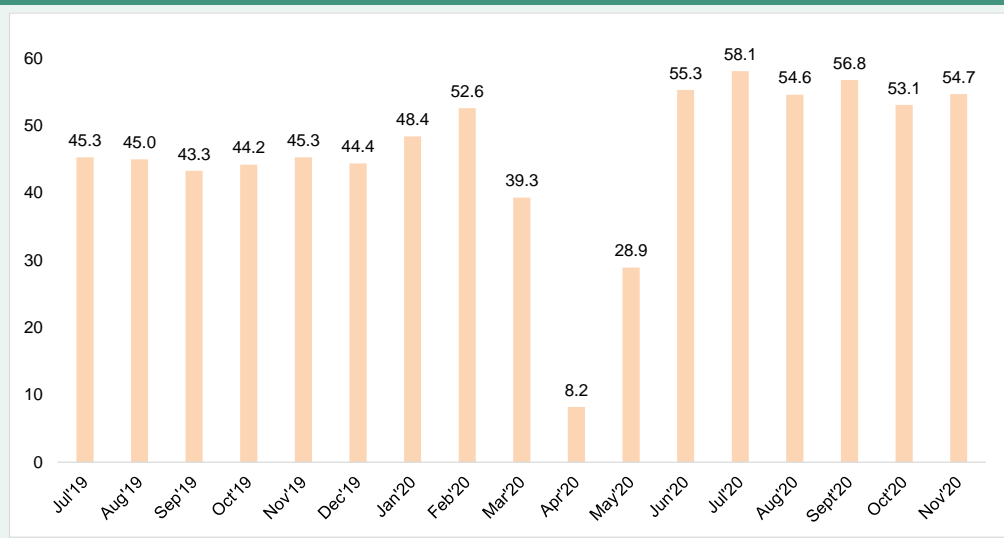


Source: Office for National statistics, Land Registry

## Better fundamentals set to continue

Will this momentum reverse? Not anytime soon according to the latest construction PMI survey, which beat expectations at 54.7 (>50 signifies expansion). Here developers are starting to break ground on new sites – ie rather than simply finishing off existing locations – augmented by a rebound in civil engineering (eg HS2).

### UK Construction Purchasing Managers Index (PMI)



Source: IHS Markit/CIPS (PMI = Purchasing Managers Index)

## Vp delivers 'industry leading' 1<sup>st</sup> half results

So putting all this together, we think **equipment rental specialist Vp is ideally placed to benefit from this sustainable upswing**. Today posting **robust H1'21 results** (see below) – as evidenced by its **7.6% EBIT margin** (vs 15.2% LY), **£41m positive cashflow** and **10.3% ROCE** (14.5% LY), despite suffering a -23.8% sales decline to £142.1m, amidst some of the toughest conditions in a generation.

### Resilient H1'20 results

£'000s	Act H1'20	Act H1'21	%	Act H2'20	Est H2'21	%	Act FY20	Est FY21	%
March yearend									
UK sales	170,016	128,880	-24.2%	160,989	144,134	-10.5%	331,005	273,014	-17.5%
International	16,569	13,209	-20.3%	15,353	13,357	-13.0%	31,922	26,566	-16.8%
<b>Group revenues</b>	<b>186,585</b>	<b>142,089</b>	<b>-23.8%</b>	<b>176,342</b>	<b>157,491</b>	<b>-10.7%</b>	<b>362,927</b>	<b>299,580</b>	<b>-17.5%</b>
<b>Group EBITDA</b>	<b>51,840</b>	<b>34,079</b>	<b>-34.3%</b>	<b>49,710</b>	<b>48,340</b>	<b>-2.8%</b>	<b>98,050</b>	<b>73,895</b>	<b>-24.6%</b>
EBITDA % margin	27.8%	24.0%		28.2%	30.7%		27.0%	24.7%	
EBITDA (post IFRS 16)	47,444			52,218			99,662		
UK	27,245	9,921	-63.6%	22,945	15,556	-32.2%	50,190	25,477	-49.2%
International	1,070	879	-17.9%	630	981	55.7%	1,700	1,860	9.4%
<b>Group EBITA</b>	<b>28,315</b>	<b>10,800</b>	<b>-61.9%</b>	<b>23,575</b>	<b>16,537</b>	<b>-29.9%</b>	<b>51,890</b>	<b>27,337</b>	<b>-47.3%</b>
EBITA (post IFRS 16)	12,417			18,350			30,767		
UK	16.0%	7.7%		14.3%	10.8%		15.2%	9.3%	
International	6.5%	6.7%		4.1%	7.3%		5.3%	7.0%	
<b>EBIT % margin</b>	<b>15.2%</b>	<b>7.6%</b>		<b>13.4%</b>	<b>10.5%</b>		<b>14.3%</b>	<b>9.1%</b>	
Interest	-2,383	-2,193	-8.0%	-2,359	-2,100	-11.0%	-4,742	-4,293	-9.5%
<b>PBTA</b>	<b>25,932</b>	<b>8,607</b>	<b>-66.8%</b>	<b>21,167</b>	<b>14,437</b>	<b>-31.8%</b>	<b>47,099</b>	<b>23,044</b>	<b>-51.1%</b>
PBTA (post IFRS16)	8,477			14,108			22,585		
<b>Adj EPS - pre IFRS16</b>	<b>52.5p</b>	<b>17.4p</b>	<b>-66.8%</b>	<b>37.8p</b>	<b>28.4p</b>	<b>-24.8%</b>	<b>90.2p</b>	<b>45.8p</b>	<b>-49.2%</b>
Adj EPS - post IFRS16	16.8p			28.0p			44.9p		
<b>Dividend</b>	<b>8.5p</b>	<b>22.0p</b>	<b>160.4%</b>	<b>0.0p</b>	<b>22.0p</b>		<b>8.5p</b>	<b>44.0p</b>	
Net debt (pre IFRS 16)	-183,746	-118,702	-35.4%	-159,806	-118,000	-26.2%	-159,806	-118,000	-26.2%
Net debt: EBITDA	1.6	1.6		1.6	1.6		1.6	1.6	
<b>Group ROCE</b>	<b>14.5%</b>	<b>10.3%</b>		<b>14.5%</b>	<b>10.8%</b>		<b>14.5%</b>	<b>10.8%</b>	

Source: Equity Development

## Payment of special 22p dividend demonstrates confidence

Underlining the organisation's **durability, responsiveness & quality of earnings**. **UK turnover has climbed from nearly 50% down in April vs LY to 89% in October**, with the group ceasing all but essential capex & hiring.

On top, difficult decisions have unfortunately had to be made, with Vp closing or consolidating 23 of its locations, regrettably leading to 150 redundancies. To us, this is **prudent house-keeping**, rather than anything too onerous. **Rebalancing capacity with demand**, as the economy continues to heal.

Elsewhere, **customer service levels were maintained throughout**, which we understand has generated considerable goodwill among its client base, who were let down by some other operators. Boding well for the future.

## Forecasts reinstated alongside a 900p/share valuation

Nonetheless short term, the pace of recovery is set to flat-line a little over the next few months, mirroring the 2<sup>nd</sup> wave of lockdowns. After which, a **(V)accine-shaped recovery** should kick in, with the likelihood of UK GDP returning to pre-coronavirus levels by late 2021, or early 2022 – **increasingly driven by greater infrastructure spend**.

Moreover, **net debt** (pre IFRS16) **fell by £41.1m from £159.8m in March to £118.7m** (Est FY21 1.6x EBITDA) **on 30th Sept'20**, reflecting **tight working capital control** (re debtors) & **lower fleet capex** (£16.1m vs £30.5m LY). Sure £8m of deferred VAT is still to be repaid to HMRC from Mar'21 onwards. Yet equally there appears to be ample liquidity for further investment, alongside the payment of a **22p special dividend** (£8.7m), related to FY20 but temporarily postponed due to Covid.

Accordingly **our forecasts have been reinstated**, delivering a **fair value of 900p/share**. Meaning that at 775p, **we believe the stock is attractively priced**. Both in absolute terms and vs peers (see below), trading on FY22 multiples (pre IFRS16) of 13.1x PER, 12.6x EV/EBIT and 5.2x EV/EBITDA.

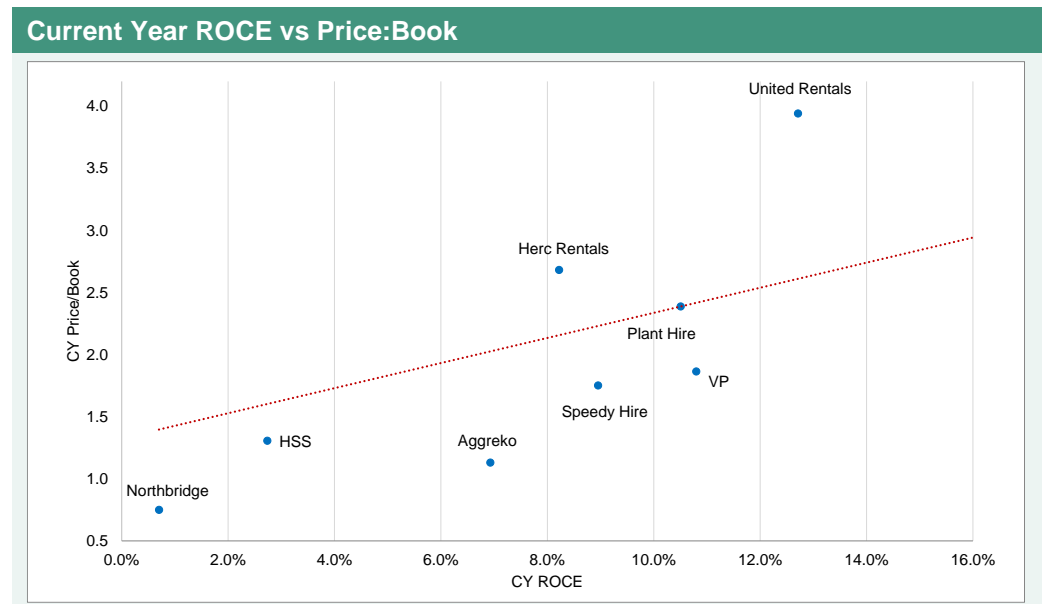
### Current year summary valuation multiples vs peers (pre IFRS16)



Source: Equity Development

Plus ultimately, we suspect Vp may be able to surpass its own stretching 15% ROCE target (re operating leverage), thanks to a leaner cost base (depot restructuring: £1.7m exceptional), dovetailed with **industry leading digital solutions** to take advantage of the post-pandemic world.

Arguably too, there was even a silver lining with regards to the increased CMA provision (re Groundforce - £4.5m to £15.4m). Since it removes some uncertainty for investors, and hopefully draws a dotted line under the enquiry.



Source: Equity Development

## Improving mood music

Exec Chairman Jeremy Pilkington commenting: *“The resilience and diversity of the Vp offering has once again proved to be an invaluable asset as the Group and its customers recover from the economic impact of Covid-19.*

**We enter H2’21 with cautious optimism.** Our businesses are gradually recovering towards prior year trading levels, **buoyed by the positive medium term outlook** for infrastructure investment in water (AMP7), Rail (CP6 and HS2), transmission and utilities.

The Group remains in **excellent financial condition** and is well positioned to take advantage of the uplift in demand and return the business to its historic levels of profitability. The **Board is optimistic** but also **realistic** about prospects for the second half and beyond.”

## 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).
- Acquisition integration, albeit the management's track record to date has been good.
- 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.
- Ongoing Competition and Markets Authority (CMA) investigation into suspected anti-competitive behaviour at 3 businesses, one being Vp's Groundforce subsidiary. An exceptional provision of £15.4m has been taken in the accounts.

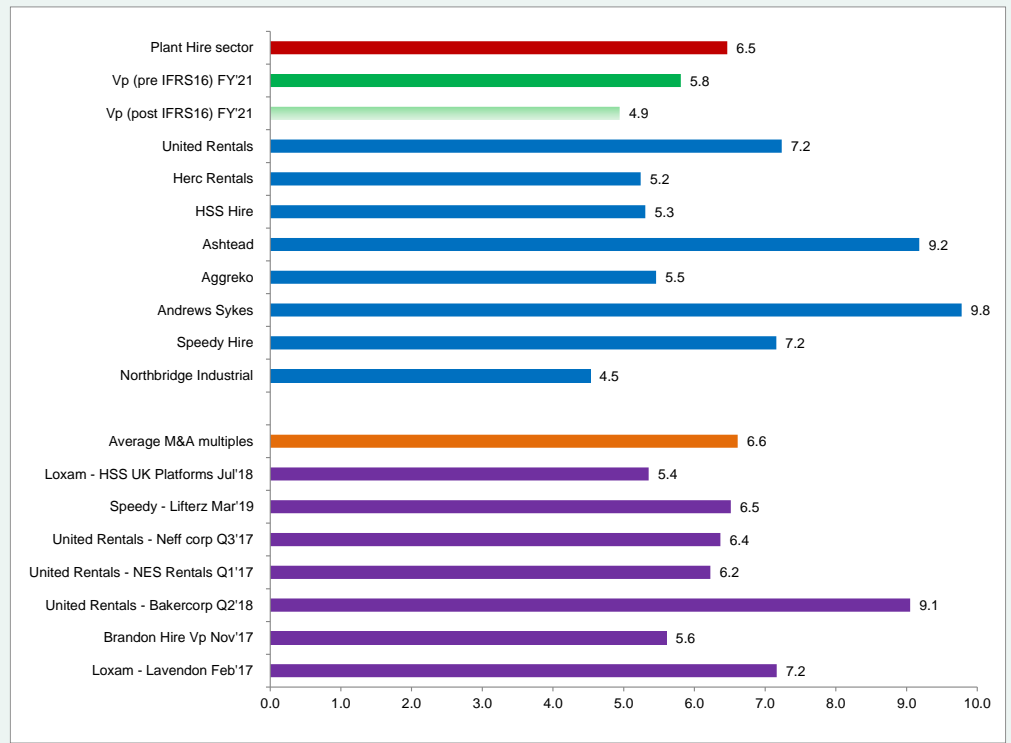
**Summary projections (£'000s)**

Vp (March year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
<b>Turnover</b>							
UK	271,989	350,330	331,005	273,014	293,490	337,514	354,389
International	31,650	32,500	31,922	26,566	29,223	32,145	33,752
<b>Total</b>	<b>303,639</b>	<b>382,830</b>	<b>362,927</b>	<b>299,580</b>	<b>322,713</b>	<b>369,658</b>	<b>388,141</b>
<b>% growth</b>	<b>22.1%</b>	<b>26.1%</b>	<b>-5.2%</b>	<b>-17.5%</b>	<b>7.7%</b>	<b>14.5%</b>	<b>5.0%</b>
UK	23.6%	28.8%	-5.5%	-17.5%	7.5%	15.0%	5.0%
International	10.2%	2.7%	-1.8%	-16.8%	10.0%	10.0%	5.0%
<b>EBITDA</b>	<b>84,337</b>	<b>101,339</b>	<b>98,050</b>	<b>73,895</b>	<b>82,538</b>	<b>98,144</b>	<b>109,180</b>
% Margin	27.8%	26.5%	27.0%	24.7%	25.6%	26.5%	28.1%
EBITDA (post IFRS16)			123,817	99,662	108,305	123,911	134,947
<b>Adjusted EBIT</b>							
UK	43,001	49,838	50,190	25,477	31,990	43,539	52,804
International	1,017	1,733	1,700	1,860	2,192	2,732	3,206
<b>Total</b>	<b>44,018</b>	<b>51,571</b>	<b>51,890</b>	<b>27,337</b>	<b>34,182</b>	<b>46,272</b>	<b>56,010</b>
EBIT (post IFRS16)			55,480	30,767	37,280	48,829	58,094
<b>% Margin</b>	<b>14.5%</b>	<b>13.5%</b>	<b>14.3%</b>	<b>9.1%</b>	<b>10.6%</b>	<b>12.5%</b>	<b>14.4%</b>
UK	15.8%	14.2%	15.2%	9.3%	10.9%	12.9%	14.9%
International	3.2%	5.3%	5.3%	7.0%	7.5%	8.5%	9.5%
Interest charge (pre IFRS 16)	-3,421	-4,742	-4,791	-4,293	-4,193	-4,093	-3,993
<b>Adjusted PBT (pre amortisation)</b>	<b>40,597</b>	<b>46,829</b>	<b>47,099</b>	<b>23,044</b>	<b>29,989</b>	<b>42,179</b>	<b>52,017</b>
PBT (post IFRS16)			46,640	22,585	29,530	41,720	51,558
<b>Adjusted earnings</b>	<b>33,520</b>	<b>37,677</b>	<b>35,740</b>	<b>18,181</b>	<b>23,661</b>	<b>33,279</b>	<b>41,042</b>
<b>Adjusted Basic EPS (p) - pre IFRS 16</b>	<b>84.9</b>	<b>95.1</b>	<b>90.2</b>	<b>45.8</b>	<b>59.3</b>	<b>83.0</b>	<b>101.8</b>
EPS growth rate	22.1%	12.0%	-5.2%	-49.2%	29.5%	39.9%	22.7%
<b>Adjusted EPS diluted</b>	<b>83.9</b>	<b>92.9</b>	<b>88.8</b>	<b>45.0</b>	<b>58.3</b>	<b>81.5</b>	<b>100.1</b>
Basic EPS (post IFRS16)			88.9	44.9	58.4	82.1	100.9
<b>Dividend (pence)</b>	<b>26.0</b>	<b>30.2</b>	<b>8.5</b>	<b>44.0</b>	<b>30.0</b>	<b>32.0</b>	<b>34.0</b>
Dividend growth	18.2%	16.2%	-72.0%	420.7%	-31.8%	6.7%	6.3%
<b>Valuation benchmarks</b>							
P/E ratio (pre IFRS 16)	9.1	8.1	8.6	16.9	13.1	9.3	7.6
P/E ratio (post IFRS 16)			8.7	17.3	13.3	9.4	7.7
EV/Sales	1.4	1.1	1.2	1.4	1.3	1.2	1.1
EV/EBITDA (pre IFRS 16)	5.1	4.2	4.4	5.8	5.2	4.4	3.9
EV/EBITDA (post IFRS 16)			4.1	5.1	4.7	4.1	3.8
EV/EBITA (pre IFRS 16)	9.8	8.3	8.3	15.7	12.6	9.3	7.7
EV/EBITA (post IFRS 16)			9.1	16.5	13.6	10.4	8.7
PEG ratio	0.4	0.7	-1.7	-0.3	0.4	0.2	0.3
Dividend yield	3.4%	3.9%	1.1%	5.7%	3.9%	4.1%	4.4%
Dividend cover	3.3	3.2	10.7	1.0	2.0	2.6	3.0
Corporate tax rate	-17.4%	-19.5%	-20.0%	-21.1%	-21.1%	-21.1%	-21.1%
Net debt / EBITDA (pre IFRS 16)	2.0	1.7	1.6	1.6	1.4	0.9	0.5
Return on average capital employed	14.8%	14.5%	14.5%	10.8%	11.3%	13.8%	14.8%
<b>Net cash/(debt) - pre IFRS16</b>	<b>-179,172</b>	<b>-168,100</b>	<b>-159,806</b>	<b>-118,000</b>	<b>-117,684</b>	<b>-91,586</b>	<b>-59,431</b>
Fleet capital expenditure (gross)	64,900	63,800	49,100	45,955	48,955	53,955	58,955
Investment as % sales	21.4%	16.7%	13.5%	15.3%	15.2%	14.6%	15.2%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,712	39,910	40,110	40,310
<b>Shareprice (p)</b>	<b>775</b>						

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

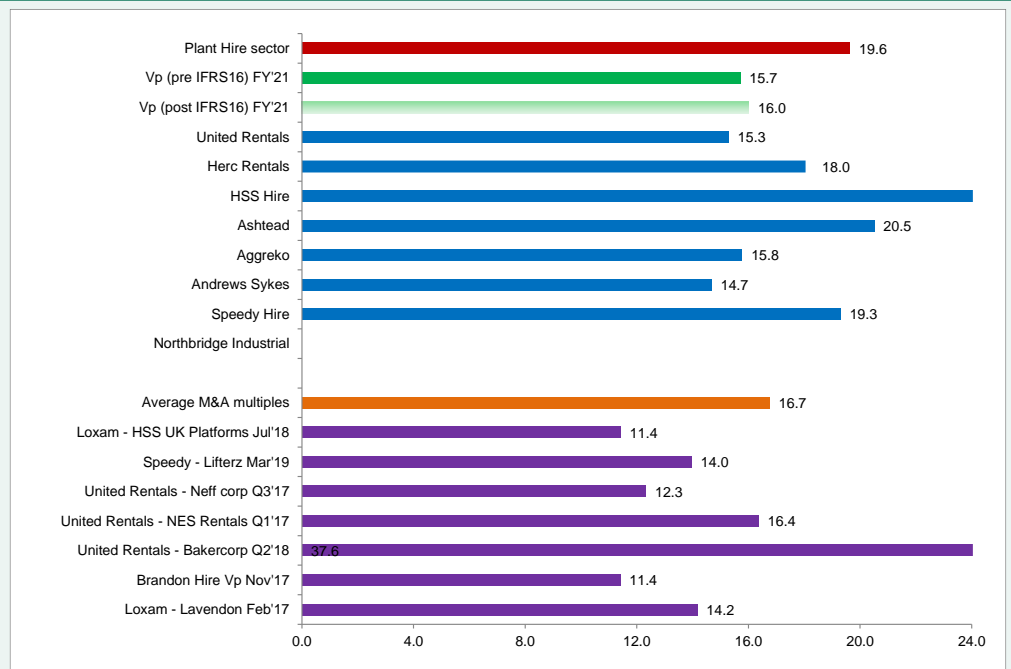
## Appendices - sector valuation metrics and KPIs

### Current Year (CY) EV / EBITDA vs peers

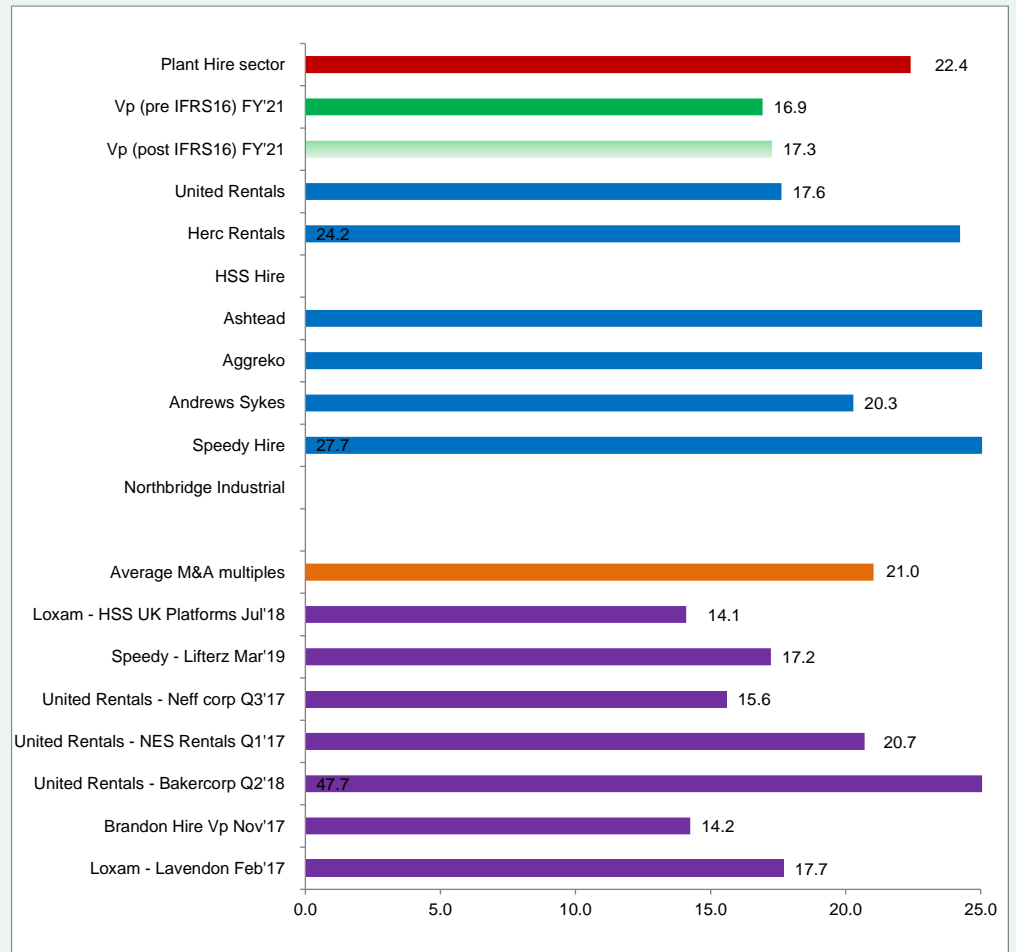


Source: Equity Development

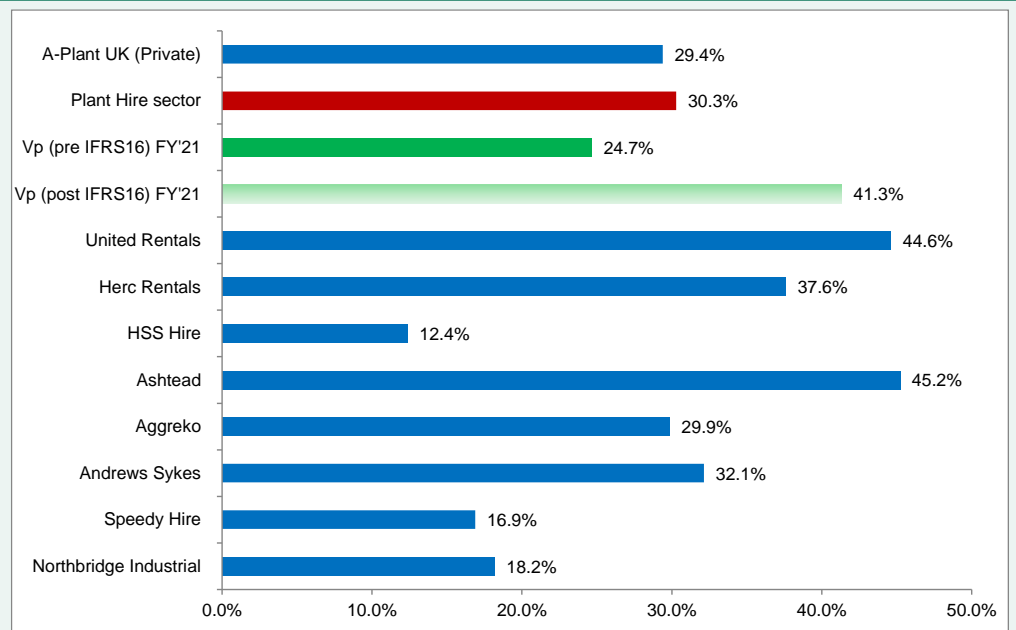
### Current Year (CY) EV / EBIT vs peers



Source: Equity Development

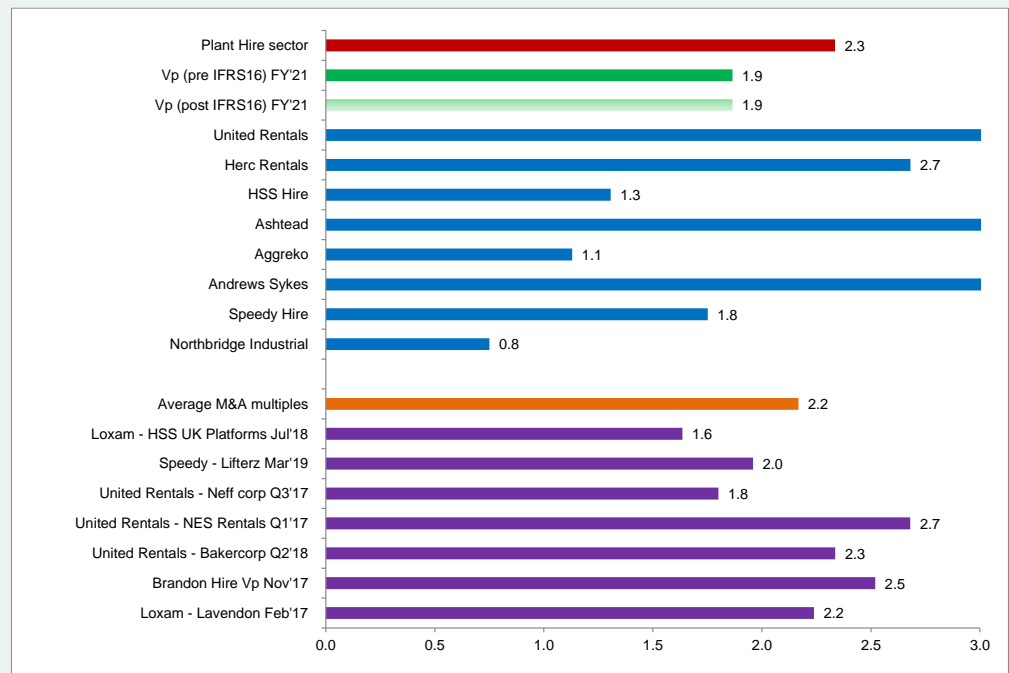
**CY PERs vs peers**


Source: Equity Development

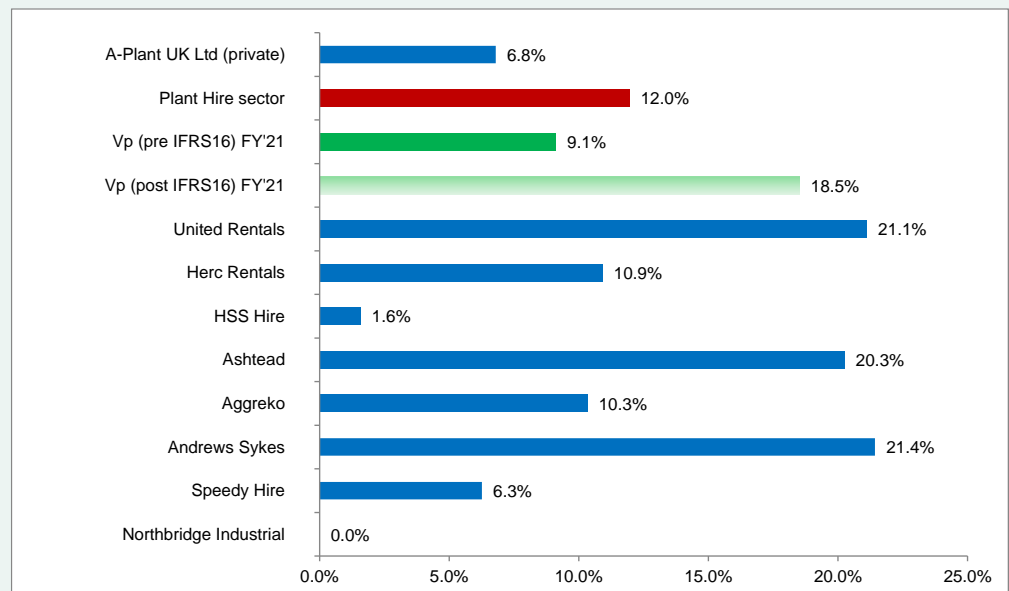
**CY % EBITDA margins vs peers**


Source: Equity Development

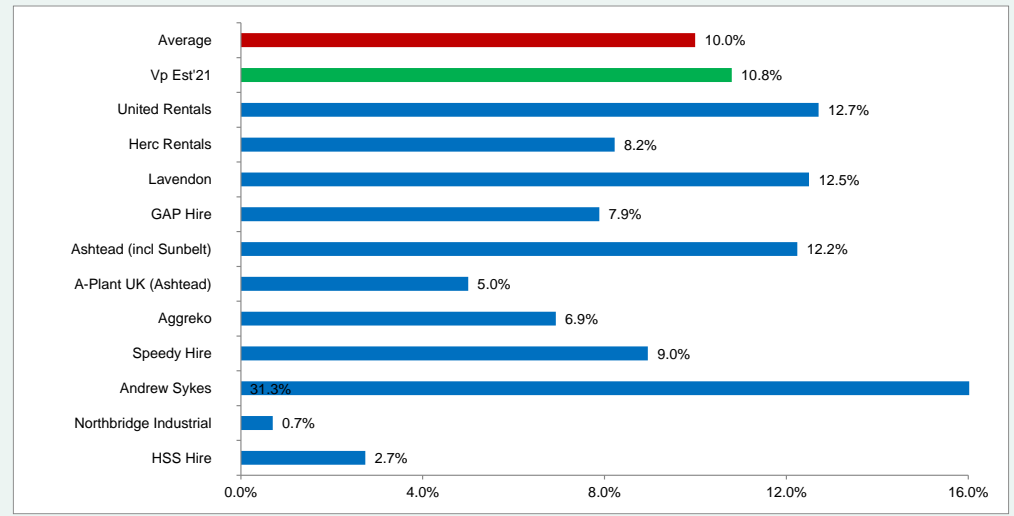


**CY Price: Book**


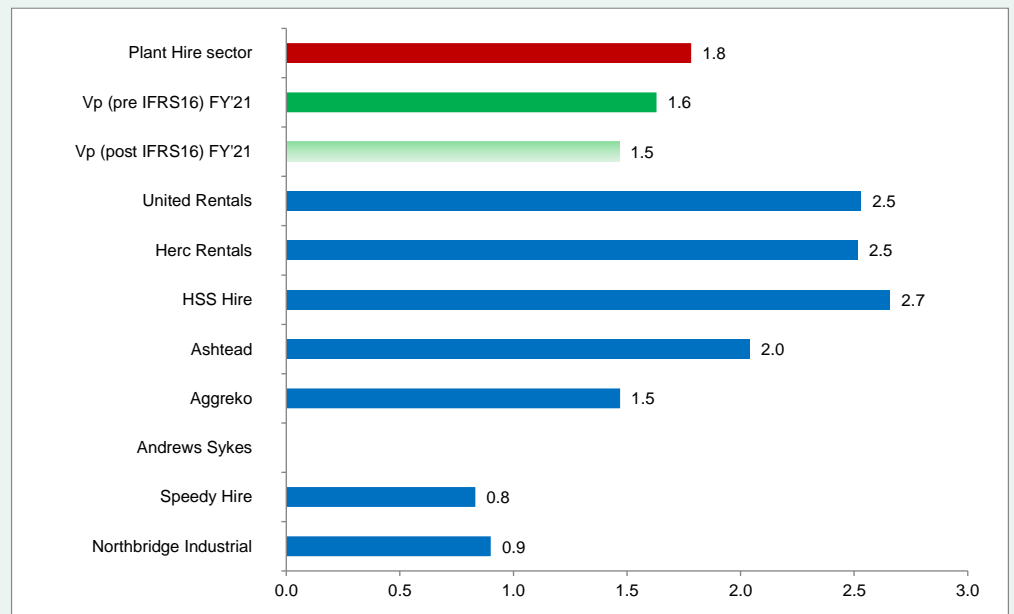
Source: Equity Development

**CY % EBIT margins vs peers**


Source: Equity Development

**CY % ROCE vs peers**


Source: Equity Development

**CY Net debt : EBITDA**


Source: Equity Development (Nb: assumes a successful £54m placing for HSS)

**Market capitalisation of peers**

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Northbridge Industrial	78.0p	£21.8	-£5.4	£27.2
Speedy Hire	72.0p	£380	-£50	£430
Andrews Sykes	562p	£237	£17	£220
Aggreko	610p	£1,556	-£573	£2,129
Ashtead	3,220p	£14,715	-£4,207	£18,922
HSS Hire	14.0p	£103.3	-£103.7	£207.0
Herc Rentals	\$63.0	\$1,840	-\$1,698	\$3,538
United Rentals	\$245.0	\$17,640	-\$9,490	\$27,130
Vp	775p	£311	-£118	£429

Source: Equity Development



## Contacts

### **Andy Edmond**

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### **Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690