

When running winners makes sense

27th September 2018

One important aspect of successful investing is knowing when to 'run winners'. In our view, it's a matter of regularly appraising a company's performance against four basic questions. What is the outlook for the firm's core markets? Does the business possess durable USPs, and it can to generate sustainable returns above its 'through-cycle' cost of capital? Are the shares reasonably valued? And finally, how good is the management team?

If all of these get a tick in the box – and we think they do for Vp – then as legendary investor Warren Buffet would put it: 'hold the stock forever'. To us, it makes absolutely no sense chopping or changing just for the sake of it. Indeed the only logical reason to trim, would be for 'diversification' purposes, where a position becomes disproportionately large, say >10%-15% of one's portfolio.

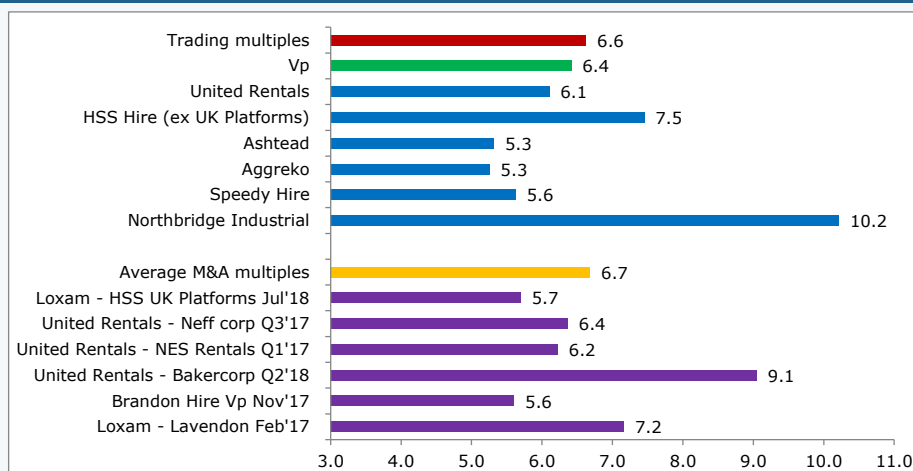
Trading in line with FY19 expectations

Ok, so how is Vp performing? Well we were once again delighted to hear this morning that **it continues to "make good progress"** thanks to solid demand in the UK infrastructure, housebuilding & construction sectors. Particularly benefitting the likes of Hire Station, UK Forks and Groundforce.

Elsewhere, **the integration of Brandon Hire is progressing to plan** and **"performing to expectations"**. Whilst internationally (c. 9% revenues), the oil & gas division, **Airpac Bukom, is experiencing a "modest upturn"** on the back of a gradual recovery in crude prices (today Brent >\$80/barrel). Augmented by a **"positive H1'19"** for Australasian test & measurement specialist, TR Group.

Consequently, overall **the group is on track to hit our FY19 expectations** – with the stock rated at 6.4x EV/EBITDA (see below), broadly in line with peers. **We make no change to our numbers, or £11.00/share valuation.**

Current year EV/EBITDA multiples



Source: Equity Development. Closing prices as per 27th September 2018

Company Data

EPIC	LSE: VP.
Price (last close)	1,100p
52 week Hi/Lo	1,230p/795p
Market cap	£442m
ED valuation/share	1,100p
Daily volume	10,000

Share Price, p



Source: Web Financial

Description

Vp is a specialist 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, but also from overseas.

In terms of sector split, 37% FY18 sales came from infrastructure, 33% construction, 11% housing building, 8% oil & gas and 10% other.

Member of FTSE SmallCap Index.

Next news: Interims 27th November 2018.

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Forecasts (£'000s)

Vp (March year end)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s
Turnover							
UK	184,142	193,555	220,015	271,989	333,184	343,723	354,621
International	21,460	15,191	28,725	31,650	33,018	34,445	35,934
Total	205,602	208,746	248,740	303,639	366,201	378,168	390,556
% growth	12.3%	1.5%	19.2%	22.1%	20.6%	3.3%	3.3%
UK		5.1%	13.7%	23.6%	22.5%	3.2%	3.2%
International		-29.2%	89.1%	10.2%	4.3%	4.3%	4.3%
EBITDA	53,803	59,266	71,238	84,337	96,729	101,100	104,541
% Margin	26.2%	28.4%	28.6%	27.8%	26.4%	26.7%	26.8%
Adjusted EBIT							
UK	26,027	30,659	35,871	43,001	50,131	52,299	53,765
International	2,753	1,232	1,886	1,017	1,570	2,301	2,752
Total	28,780	31,891	37,757	44,018	51,700	54,600	56,517
% Margin	14.0%	15.3%	15.2%	14.5%	14.1%	14.4%	14.5%
UK	14.1%	15.8%	16.3%	15.8%	15.0%	15.2%	15.2%
International	12.8%	8.1%	6.6%	3.2%	4.8%	6.7%	7.7%
Underlying Interest charge	-2,023	-2,093	-2,906	-3,421	-4,700	-4,600	-4,400
Adjusted PBT (pre amortisation)	26,757	29,798	34,851	40,597	47,000	50,000	52,117
Adjusted earnings	21,201	24,226	27,262	32,290	38,070	40,500	43,258
Adjusted Basic EPS (p)	54.4	62.2	69.5	81.8	96.0	101.6	108.0
EPS growth rate	29.7%	14.3%	11.7%	17.7%	17.3%	5.9%	6.3%
Dividend (pence)	16.5	18.9	22.0	26.0	30.5	32.3	34.3
Valuation benchmarks							
P/E ratio	20.2	17.7	15.8	13.4	11.5	10.8	10.2
EV/Sales	3.0	3.0	2.5	2.0	1.7	1.6	1.6
EV/EBITDA	11.5	10.5	8.7	7.4	6.4	6.1	5.9
EV/EBITA	21.6	19.5	16.4	14.1	12.0	11.4	11.0
PEG ratio	0.7	1.2	1.3	0.8	0.7	1.9	1.6
Dividend yield	1.5%	1.7%	2.0%	2.4%	2.8%	2.9%	3.1%
Dividend cover	3.3	3.3	3.2	3.1	3.1	3.1	3.1
Corporate tax rate	-20.8%	-18.7%	-21.8%	-20.5%	-19.0%	-19.0%	-17.0%
Net debt / EBITDA (proforma)	1.2	1.5	1.4	2.0	1.8	1.6	1.4
Return on average capital employed	16.2%	16.3%	16.0%	14.8%	14.3%	14.5%	14.8%
Net cash/(debt)	-66,764	-86,134	-98,933	-179,172	-169,567	-158,815	-147,532
Fleet capital expenditure	49,300	45,900	57,600	64,900	61,847	63,847	66,847
Investment as % sales	24.0%	22.0%	23.2%	21.4%	16.9%	16.9%	17.1%
Reported sharecount Ks (net Treasur	38,940	38,942	39,215	39,476	39,673	39,872	40,071
Shareprice (p)	1,100						

Source: Company historic data, ED estimates

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.
- 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.



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