

## Further progress & strong cash generation

6th October 2020

Recessions and even pandemics come & go. However what doesn't change is that quality firms 'rarely let a crisis go to waste'. Instead they use it as a catalyst to streamline operations, improve services and cut their cloth accordingly.

Not only building in downside resilience, but also winning market share as smaller rivals struggle, alongside creating favourable operating leverage when the better times ultimately return.

We think plant hire specialist Vp falls into this camp. Today saying that **revenues had climbed from 55% of pre-Covid levels back in April, to 80% in July - and were now running at circa 85%**. Not surprisingly though, the pace of recovery has softened due to recent Covid related local lockdowns, existing building sites being completed and new ones taking longer to open.

## Sensible housekeeping

Consequently, difficult decisions have had to be made, with Vp announcing that 17 (or <7%) of its 250+ depots (120 mothballed) would close, resulting in 150 redundancies. Leading to we 'guesstimate' an approx one-off cash cost of between £2m-£4m, yet equally generating a similar level of annualised savings from FY22 onwards.

To us, this should be interpreted as a matter of **prudent house-keeping**, rather than anything too onerous. Simply **rebalancing capacity with demand**, as the economic rebound loses a little steam, and the government's Coronavirus Job Retention Scheme winds down [31<sup>st</sup> October].

Here, most of Vp's markets (see below) are described as "stable" (eg house building) with infrastructure being "supportive", especially as the AMP7, HS2 and Hinkley Point programmes gain traction.

### Company Data

EPIC	LSE: VP.
Price (last close)	650p
52 week Hi/Lo	1,040p/510p
Market cap	£261m
Sept'20 net debt	£118.7m
Share count	40.154m
ED valuation	Temporarily withdrawn
Daily volume	25,000

### Share Price, p



Source: ShareCast

### 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 (91% of FY'20 turnover), but also from overseas.

In terms of sector split: 38.4% FY'20 sales came from infrastructure, 39.7% construction, 9.4% housing building, 6.9% oil & gas and 5.6% other.

Member of FTSE SmallCap Index.

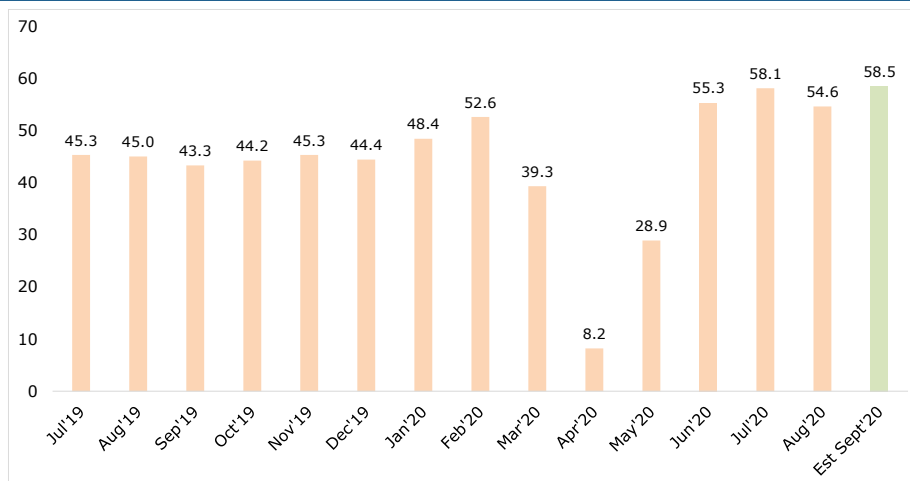
**Next news:** Interims Dec'20

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### UK Construction Purchasing Managers Index (PMI)

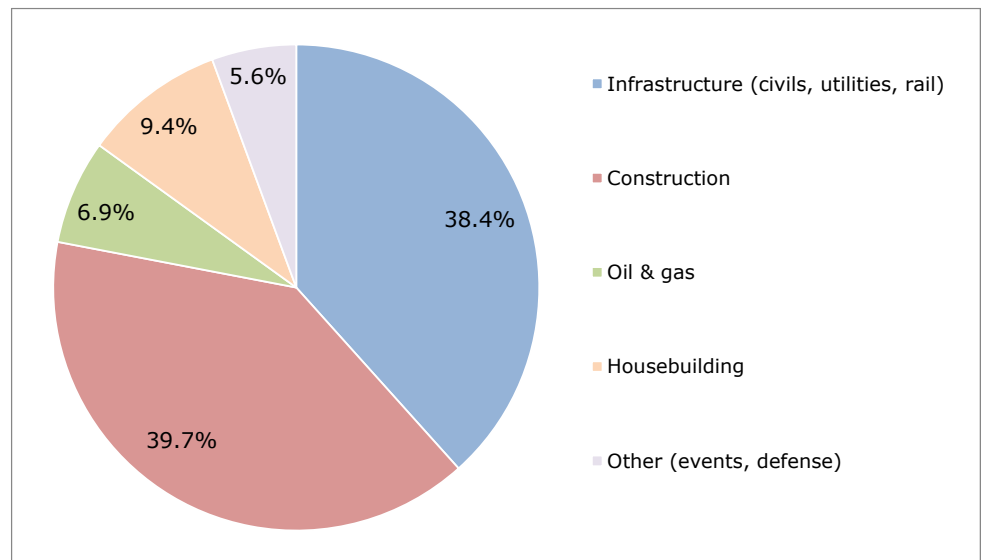


Source: Equity Development. IHS Markit/Cips. Note: Sept PMI data out later today.

## “Stable” end market demand

Elsewhere, we suspect there is a **mixed picture in commercial real-estate**, with online warehouses & data centres doing well. Offset by new build office & retail space likely to be challenged for an extended period, given the pandemic has had a transformational impact on these sectors (Re work from home & internet shopping).

### FY'20 revenue (£362.9m) split by market



Source: Equity Development

Nonetheless, **encouraging progress is being made on the medical front**, with authorisation of AstraZeneca's & Oxford University's joint vaccine by European regulators hopefully coming before Christmas. Alongside a new antibody-based therapeutic being developed by Regeneron slated for US FDA approval, perhaps as early as this month (re for emergency use). In fact, the REGN-COV2 drug has already been taken by President Donald Trump to help him fight the infection.

**Favourable outcomes on either of these CV19 breakthrough treatments, could materially boost business & consumer confidence worldwide**, as people see an end in sight.

## Net debt falls by £22m in Q1 & another £19m in Q2

Meanwhile, UK manufacturing is ticking along nicely anyway, and house prices rose 5% YoY in September according to the Nationwide. Plus, essential maintenance within systemically important industries (water, electricity, gas, telecommunications & rail) should continue regardless.

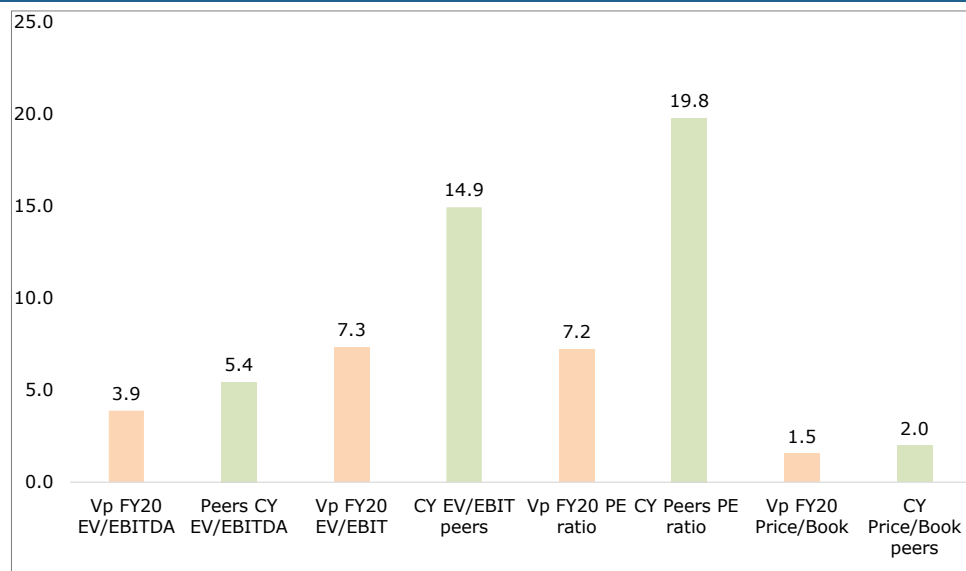
Longer term, **we reckon Vp's trading should fully recover sometime in late 2021**. And over a 2-3 year timeframe, there is a decent chance that profit margins and ROCE might expand further, on the back of a leaner cost structure.

But that's not all. In H1 alone, **the group generated £41m of cashflow** (split +£22m Q1 & +£19m Q2) thanks to tight working capital management, deferral of VAT/rent/rates, staff

furloughing and a material reduction in costs, salaries & fleet capex. With **net debt closing Sept at £118.7m vs £159.8m in Mar'20**.

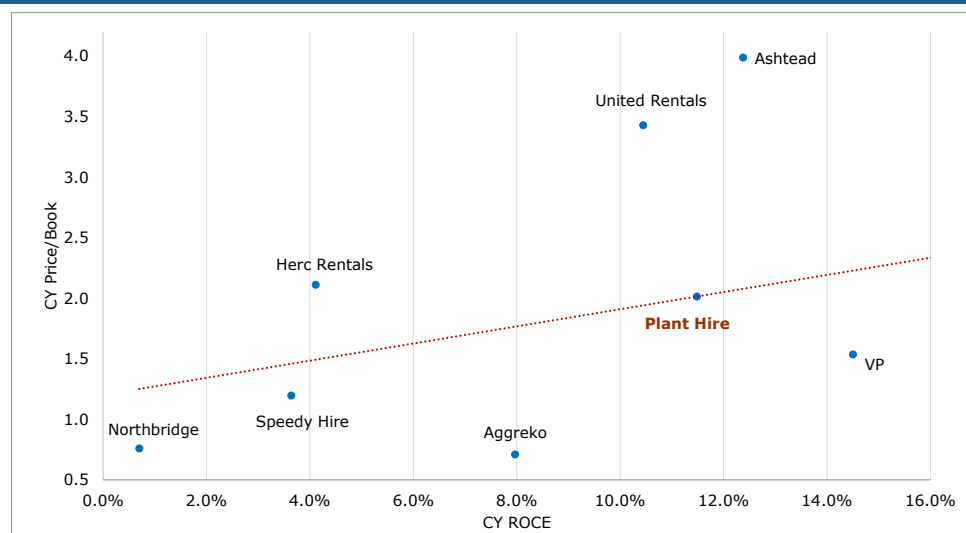
All told, meaning that at 650p, **there appears to be significant potential upside for patient investors**. With the shares trading on modest FY'20 multiples of 7.2x PER, 1.5x Price:Book and 3.9x EV/EBITDA.

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



Source: Equity Development. FY20 results & Sept'20 net debt used for Vp. CY = current year

### Current Year ROCE vs Price:Book



Source: Equity Development. FY20 figures used for Vp.

### Short term cautious, but long term bullish

The company concluding: Although "We remain ***slightly cautious*** with regard to the short to medium term prospects. **The longer term outlook for the Group remains positive and we are proactively identifying organic growth opportunities**, focused particularly within those of our businesses already achieving pre-Covid levels of trading."

## 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 £4.5m was taken within the FY19 accounts. Calculated using the arithmetic midpoint of a range of possible outcomes (£0m to £9.0m), previous cases and CMA published guidance – without any admission of blame.

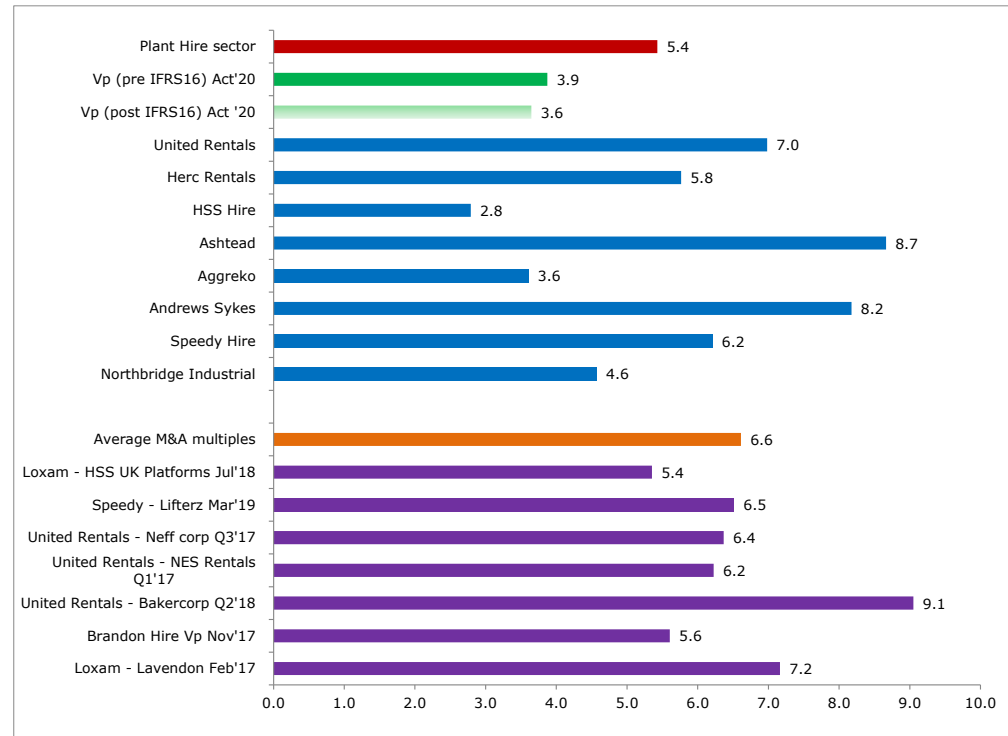
**Summary financials (£'000s)**

<b>Vp</b> (March year end)	<b>2015 Act</b> <b>£'000s</b>	<b>2016 Act</b> <b>£'000s</b>	<b>2017 Act</b> <b>£'000s</b>	<b>2018 Act</b> <b>£'000s</b>	<b>2019 Act</b> <b>£'000s</b>	<b>2020 Act</b> <b>£'000s</b>
<b>Turnover</b>						
UK	184,142	193,555	220,015	271,989	350,330	331,005
International	21,460	15,191	28,725	31,650	32,500	31,922
<b>Total</b>	<b>205,602</b>	<b>208,746</b>	<b>248,740</b>	<b>303,639</b>	<b>382,830</b>	<b>362,927</b>
<b>% growth</b>	<b>12.3%</b>	<b>1.5%</b>	<b>19.2%</b>	<b>22.1%</b>	<b>26.1%</b>	<b>-5.2%</b>
UK		5.1%	13.7%	23.6%	28.8%	-5.5%
International		-29.2%	89.1%	10.2%	2.7%	-1.8%
<b>EBITDA</b>	<b>53,803</b>	<b>59,266</b>	<b>71,238</b>	<b>84,337</b>	<b>101,339</b>	<b>98,050</b>
% Margin	26.2%	28.4%	28.6%	27.8%	26.5%	27.0%
EBITDA (post IFRS16)						123,817
<b>Adjusted EBIT</b>						
UK	26,027	30,659	35,871	43,001	49,838	50,190
International	2,753	1,232	1,886	1,017	1,733	1,700
<b>Total</b>	<b>28,780</b>	<b>31,891</b>	<b>37,757</b>	<b>44,018</b>	<b>51,571</b>	<b>51,890</b>
EBIT (post IFRS16)						55,480
<b>% Margin</b>	<b>14.0%</b>	<b>15.3%</b>	<b>15.2%</b>	<b>14.5%</b>	<b>13.5%</b>	<b>14.3%</b>
UK	14.1%	15.8%	16.3%	15.8%	14.2%	15.2%
International	12.8%	8.1%	6.6%	3.2%	5.3%	5.3%
Interest charge (pre IFRS 16)	-2,023	-2,093	-2,906	-3,421	-4,742	-4,791
<b>Adjusted PBT (pre amortisation)</b>	<b>26,757</b>	<b>29,798</b>	<b>34,851</b>	<b>40,597</b>	<b>46,829</b>	<b>47,099</b>
PBT (post IFRS16)						46,640
<b>Adjusted earnings</b>	<b>21,201</b>	<b>24,226</b>	<b>27,262</b>	<b>33,520</b>	<b>37,677</b>	<b>35,740</b>
<b>Adjusted Basic EPS (p) - pre IFRS 16</b>	<b>54.4</b>	<b>62.2</b>	<b>69.5</b>	<b>84.9</b>	<b>95.1</b>	<b>90.2</b>
EPS growth rate	29.7%	14.3%	11.7%	22.1%	12.0%	-5.2%
<b>Adjusted EPS diluted</b>	<b>50.2</b>	<b>59.0</b>	<b>67.6</b>	<b>83.9</b>	<b>92.9</b>	<b>88.8</b>
Basic EPS (post IFRS16)						88.9
<b>Dividend (pence)</b>	<b>16.5</b>	<b>18.9</b>	<b>22.0</b>	<b>26.0</b>	<b>30.2</b>	<b>8.5</b>
Dividend growth	17.9%	14.2%	16.7%	18.2%	16.2%	-72.0%
<b>Valuation benchmarks</b>						
P/E ratio (pre IFRS 16)	11.9	10.4	9.3	7.7	6.8	7.2
P/E ratio (post IFRS 16)						7.3
EV/Sales	1.9	1.9	1.6	1.3	1.0	1.1
EV/EBITDA (pre IFRS 16)	7.4	6.7	5.6	4.7	3.9	4.1
EV/EBITDA (post IFRS 16)						3.9
EV/EBITA (pre IFRS 16)	13.9	12.5	10.6	9.1	7.7	7.7
EV/EBITA (post IFRS 16)						8.6
PEG ratio	0.4	0.7	0.8	0.3	0.6	-1.4
Dividend yield	2.5%	2.9%	3.4%	4.0%	4.6%	1.3%
Dividend cover	3.3	3.3	3.2	3.3	3.2	10.7
Corporate tax rate	-20.8%	-18.7%	-21.8%	-17.4%	-19.5%	-20.0%
Net debt / EBITDA (pre IFRS 16)	1.2	1.5	1.4	2.0	1.7	1.6
Return on average capital employed	16.2%	16.3%	16.0%	14.8%	14.5%	14.5%
<b>Net cash/(debt) - pre IFRS16</b>	<b>-66,764</b>	<b>-86,134</b>	<b>-98,933</b>	<b>-179,172</b>	<b>-168,100</b>	<b>-159,806</b>
Fleet capital expenditure (gross)	49,300	45,900	57,600	64,900	63,800	49,100
Investment as % sales	24.0%	22.0%	23.2%	21.4%	16.7%	13.5%
Reported sharecount Ks (net Treasury)	38,940	38,942	39,215	39,476	39,603	39,618
<b>Shareprice (p)</b>	<b>650p</b>					

Source: Equity Development

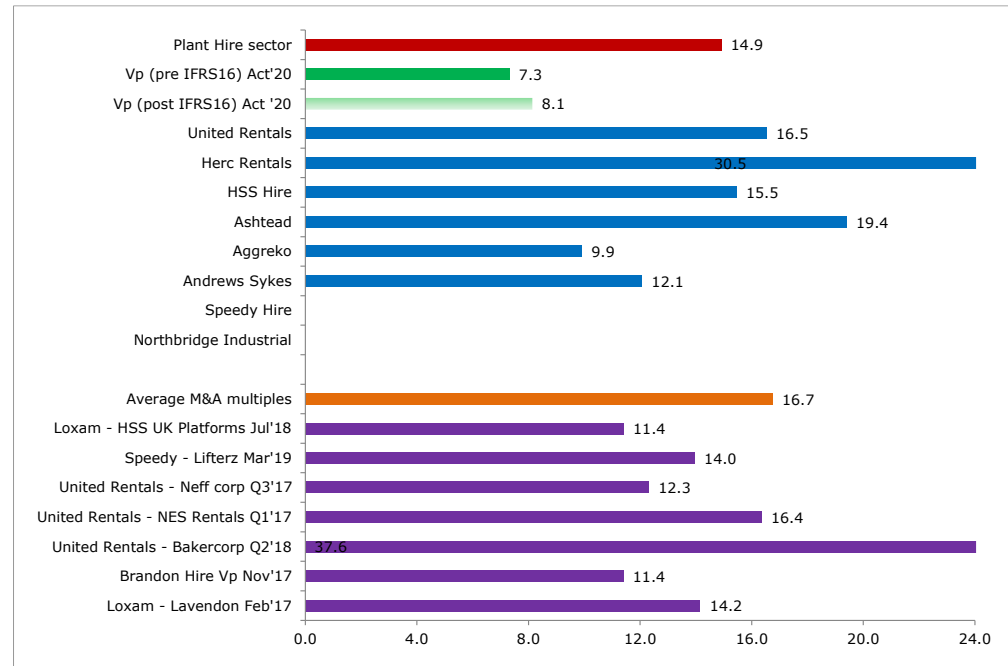
## Appendix - Sector valuation metrics and KPIs

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



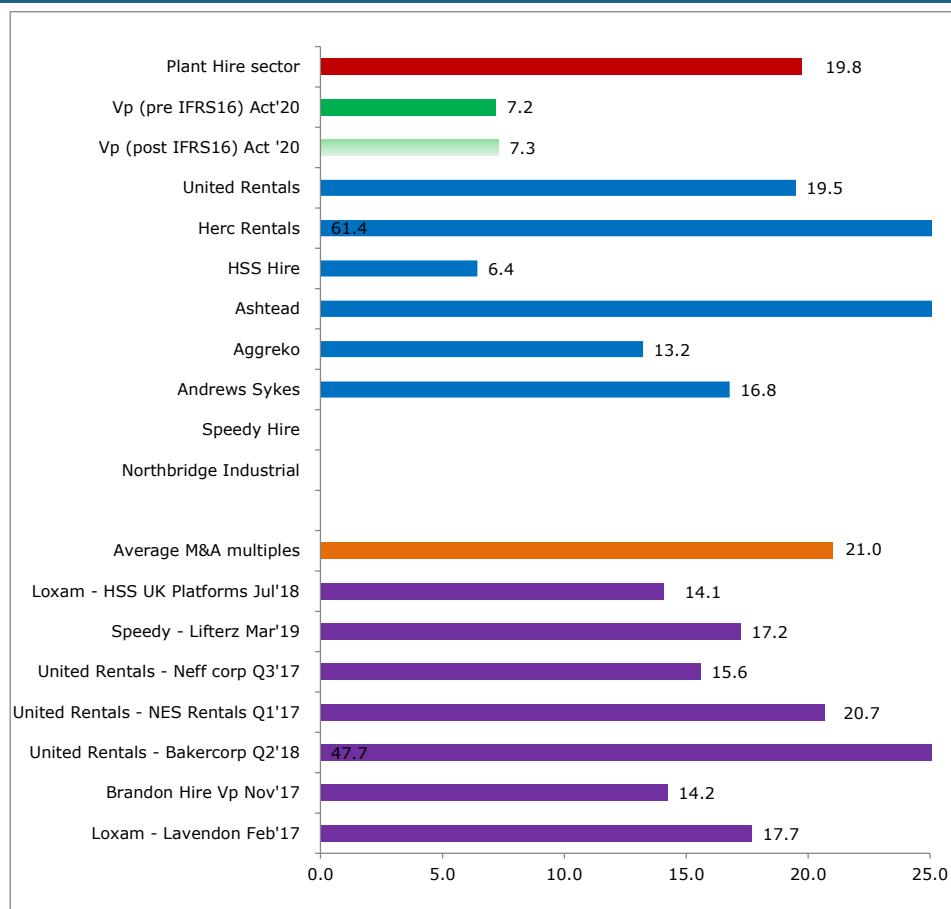
Source: Equity Development. FY20 results & Sept'20 net debt used for Vp

### CY EV / EBIT vs peers



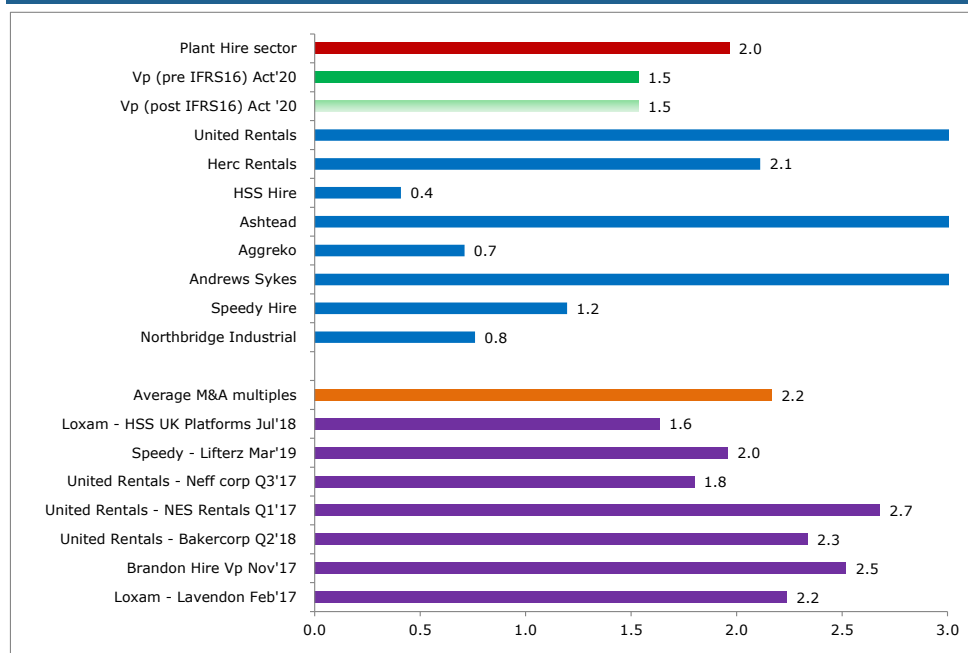
Source: Equity Development. FY20 results & Sept'20 net debt used for Vp

### CY PER vs peers



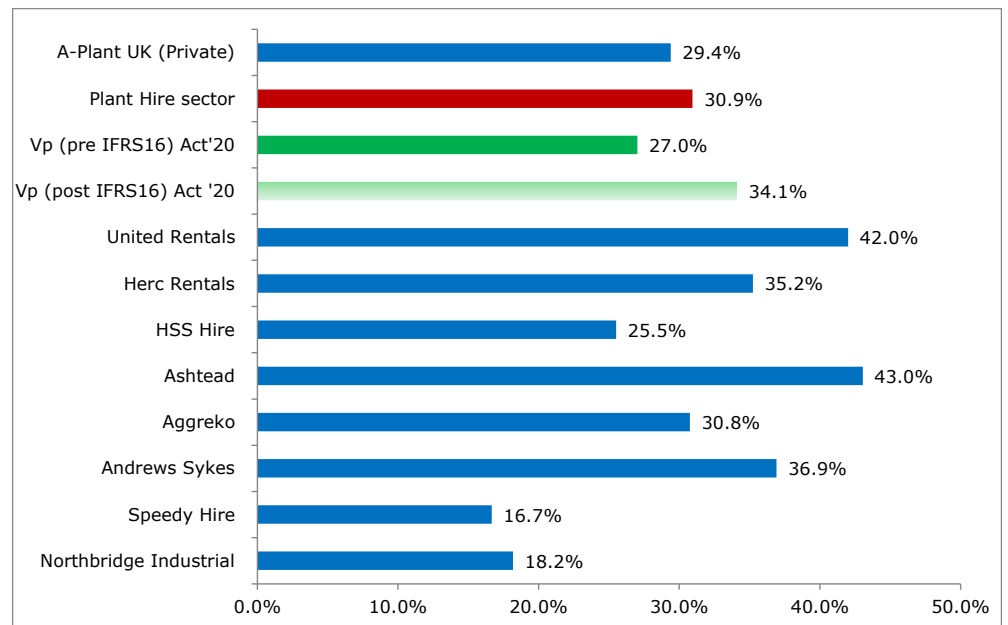
Source: Equity Development. FY20 results & Sept'20 net debt used for Vp

### CY Price: Book



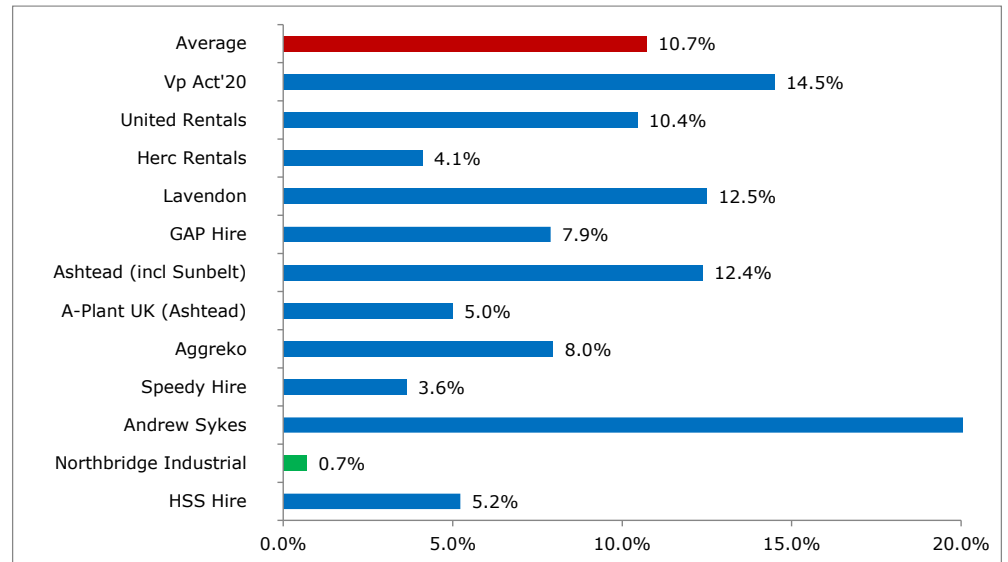
Source: Equity Development. FY20 results & Sept'20 net debt used for Vp

### CY % EBITDA margins vs peers



Source: Equity Development. FY20 results & Sept'20 net debt used for Vp

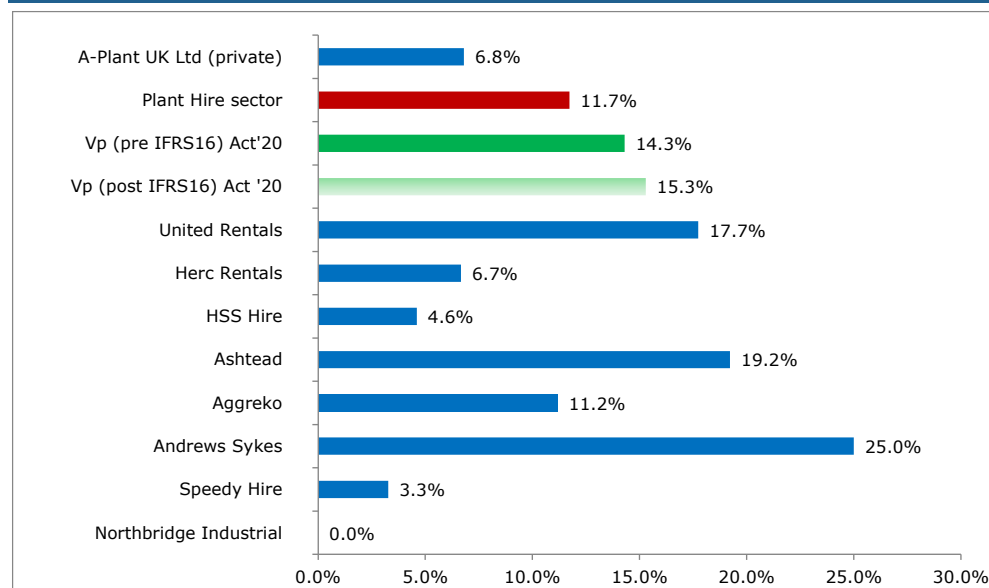
### CY ROCE



Source: Equity Development. FY20 figures used for Vp

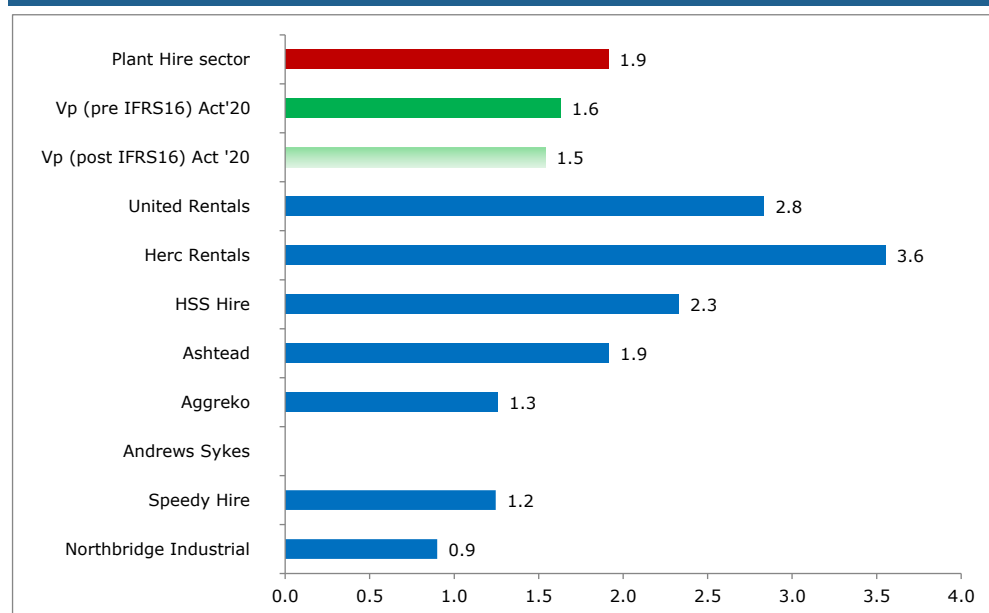


### CY EBIT margins vs peers



Source: Equity Development. FY20 figures used for Vp

### CY Net debt : EBITDA



Source: Equity Development. FY20 results & Sept'20 net debt used for Vp

### Market capitalisation of sector

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Northbridge Industrial	79.0p	£22.0	-£5.4	£27.4
Speedy Hire	51.0p	£268	-£67	£335
Andrews Sykes	600p	£253	£20	£233
Aggreko	385p	£982	-£526	£1,508
Ashtead	2,870p	£13,116	-£3,726	£16,842
HSS Hire	19.0p	£32.3	-£164.0	£196.3
Herc Rentals	\$45.0	\$1,310	-\$2,103	\$3,413
United Rentals	\$195.0	\$14,235	-\$9,723	\$23,958
Vp	650p	£261	-£119	£380

Source: Equity Development



## Investor Access

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