

Demand picks up in final quarter

8th April 2022

By simply reading the headlines, it's easy to get a false sense of pessimism. Rising inflation, central bank tightening, falling consumer confidence, supply chain pressures and more recently the Ukraine/Russia conflict.

Nonetheless beneath all the investor angst, real UK GDP is still forecast to expand 4.1% this year and 1.6% next (Source: BoE), with unemployment remaining at c.4%. Sure, City economists have a history of poor crystal-ball gazing. Yet equally, a full-blown recession already appears baked into the frugal valuations of many homebuilders, building product groups and even specialist equipment rental firms, like Vp.

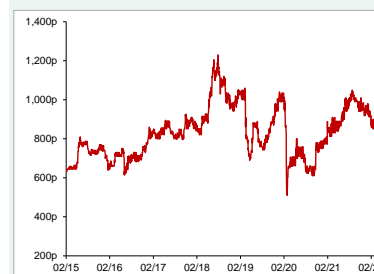
Plus, on Wednesday, the monthly UK PMIs (see below) again indicated that **construction orderbooks & optimism remains high**. With house prices also climbing >10% YoY according to the Halifax & Nationwide, augmented by **a ton of new work coming down the track**.

Not least the ongoing need to upgrade ageing properties (re decarbonisation), the shift towards home premiumisation, the government's desire to construct 300,000 new houses pa (vs 200k today), 'Build to Rent', high-rise recladding (post Grenfell) & greater infrastructure spend (eg HS2, nuclear & offshore wind).

Company Data

EPIC	LSE: VP.
Price (last close)	£8.50
52 week Hi/Lo	£10.70/£8.10
Market cap	£341m
Est Mar22 net debt (ex IFRS16)	£128m
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% Energy and 5% other.

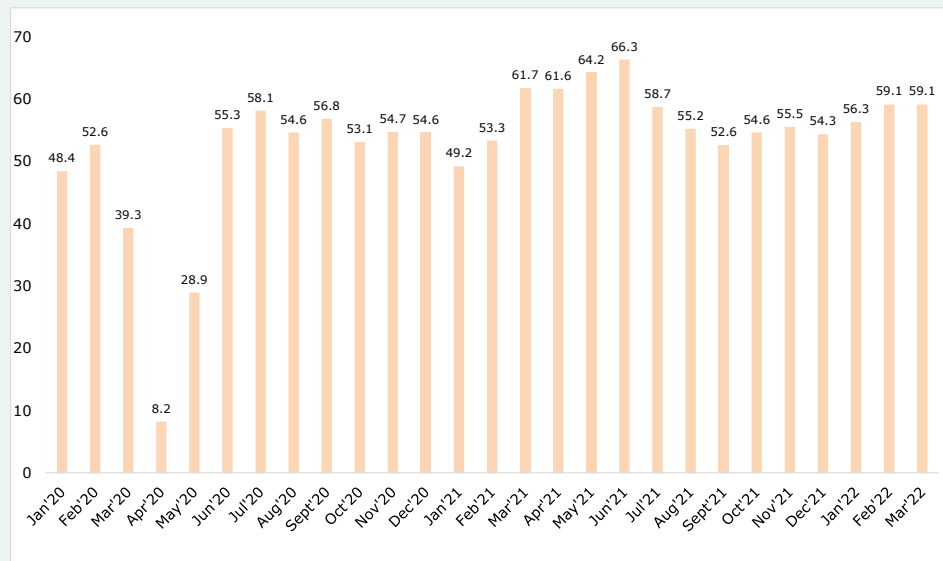
Member of FTSE SmallCap Index.

Next news: Prelims in June

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UK Construction Purchasing Managers Index (PMI)



Source: Equity Development

Trading ahead of expectations

All told providing a favourable backdrop for Vp, who this morning said that **trading for the y/e March 2022 was "ahead of expectations"** (consensus adjusted PBTA of £36.5m) due to stronger than anticipated demand within UK infrastructure, construction, and housebuilding in Q4.

Further aided by **encouraging uplifts in rail (CP6) & water (AMP7)** over the past month (re Groundforce) - alongside continued investment in digital technology & more environmentally friendly solutions.

Elsewhere, International is higher too. While a new 5-year supply agreement was signed at y/e with PBSA/BtR developer Watkin Jones, including the acquisition of their in-house plant for approx. £1m.

Market seems to be bifurcating into winners and losers

Ok, but how is Vp handling the widespread material, labour & transport shortages, on top of surging input cost inflation?

Sure, this is causing disruption for most operators, albeit Vp has successfully managed to “*balance*” these challenges via a combination of early fleet ordering, internal efficiencies, improved utilisation, fewer disposals, and higher pricing as 12 months contracts roll-over.

Indeed, we suspect the market is beginning to bifurcate into winners & losers. You see during Covid, many builders and local tradesman had less choice reflecting the tight supply conditions.

Today though as lockdowns subside, customers (eg Watkin Jones) are starting to standardise on the most accomplished providers. Those offering attractive all-round propositions in terms of product availability, quality, service, safety, ESG, ease of use and price. Ultimately benefitting national specialists such as Vp, who have slimmed down considerably during the pandemic.

Upgrading FY22 forecasts

So what does this all mean?

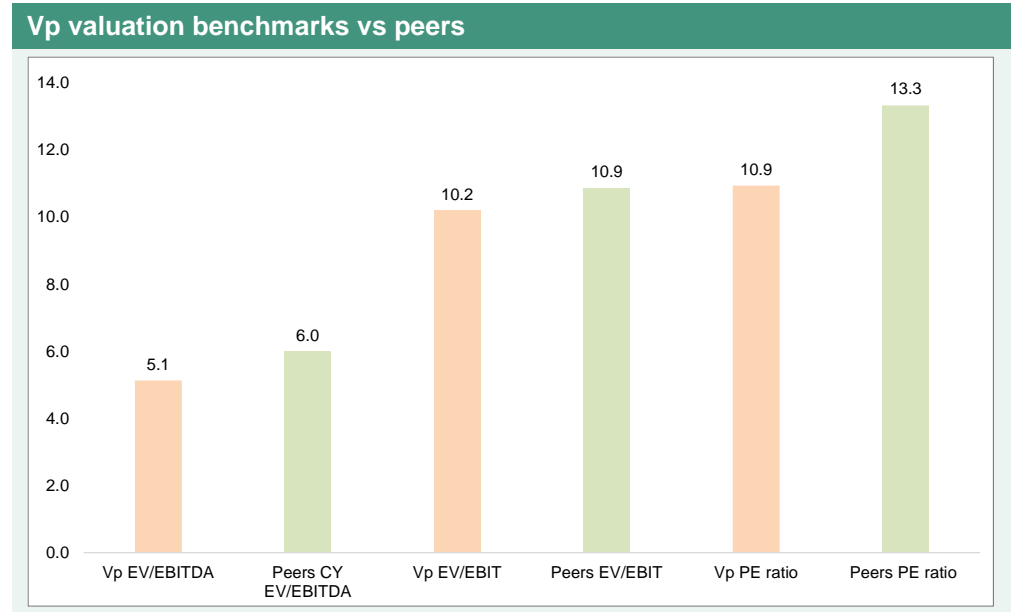
Well, not surprisingly we are optimistic about the medium to long term trajectory and have accordingly upgraded our FY22 revenue & adjusted PBTA (see overleaf) projections to £362.3m (+2%) vs £38.1m (+4%) respectively.

However, we don't want to prematurely declare victory just yet, & hence have prudently held the FY23 estimates & £11.30/share valuation - which will be revisited at the prelims in June.

24% revenue growth delivering leading margins								
£'000s	Act H1'22	Act H1'21	%	Est H2'22	Act H2'21	%	Est FY22	Act FY21
March yearend								
UK sales	160,761	128,880	24.7%	170,244	152,429	11.7%	331,005	281,309
International	15,342	13,209	16.1%	15,942	13,479	18.3%	31,284	26,688
Group revenues	176,103	142,089	23.9%	186,186	165,908	12.2%	362,289	307,997
Group EBITDA	44,546	34,079	30.7%	49,710	37,675	31.9%	87,385	72,701
EBITDA % margin	25.3%	24.0%		26.7%	22.7%		24.1%	23.6%
EBITDA (post IFRS 16)	54,521	47,444		56,823	49,216		111,344	96,660
UK	21,810	9,921	119.8%	18,573	17,235	7.8%	40,383	27,156
International	700	879	-20.4%	1,803	-314	-674.1%	2,503	565
Group EBITA	22,510	10,800	108.4%	20,375	16,921	20.4%	42,885	27,721
EBITA (post IFRS 16)	23,988	12,417			18,511			30,928
UK	13.6%	7.7%		10.9%	11.3%		12.2%	9.7%
International	4.6%	6.7%		11.3%	-2.3%		8.0%	2.1%
EBIT % margin	12.8%	7.6%		10.9%	10.2%		11.8%	9.0%
Interest	-2,298	-2,193	4.8%	-2,444	-2,255	8.4%	-4,742	-4,448
PBTA	20,212	8,607	134.8%	17,973	14,666	22.6%	38,185	23,273
PBTA (post IFRS16)	20,202	8,477		17,886	14,699		38,088	23,176
Adj EPS - pre IFRS16	37.6p	17.4p	116.3%	33.4p	29.2p	14.1%	71.0p	46.7p
Adj EPS - post IFRS16	16.8p			29.3p			46.2p	
Dividend	10.5p	22.0p		21.0p	25.0p		31.5p	47.0p
Net debt (pre IFRS 16)	-131,721	-118,702	11.0%	-128,000	-121,906	5.0%	-128,000	-121,906
Net debt : EBITDA							1.5	1.7
Group ROCE	13.5%	10.3%		14.5%	9.2%		14.0%	9.2%

Source: Equity Development

Plus, even based on these modest numbers, the stock (at 850p) is **attractively priced** both in absolute terms and vs peers (see below) - trading on FY23 multiples (pre IFRS16) of 10.9x PER, 10.2x EV/EBIT and 5.1x EV/EBITDA.



Source: Equity Development.

Improving momentum & performance

CEO Neil Stothard adding: “Since our interims in November, the Group has seen **increased demand from our core markets as Covid restrictions have eased** and we are pleased to say that **overall performance is expected to be ahead of the Board’s expectations**. Additionally, we have made excellent progress with both our technology offering and with the introduction of more environmentally friendly equipment solutions for our customers.”

“**We look ahead with optimism**, confident that we will continue to deliver excellent value growth for our shareholders.”

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.

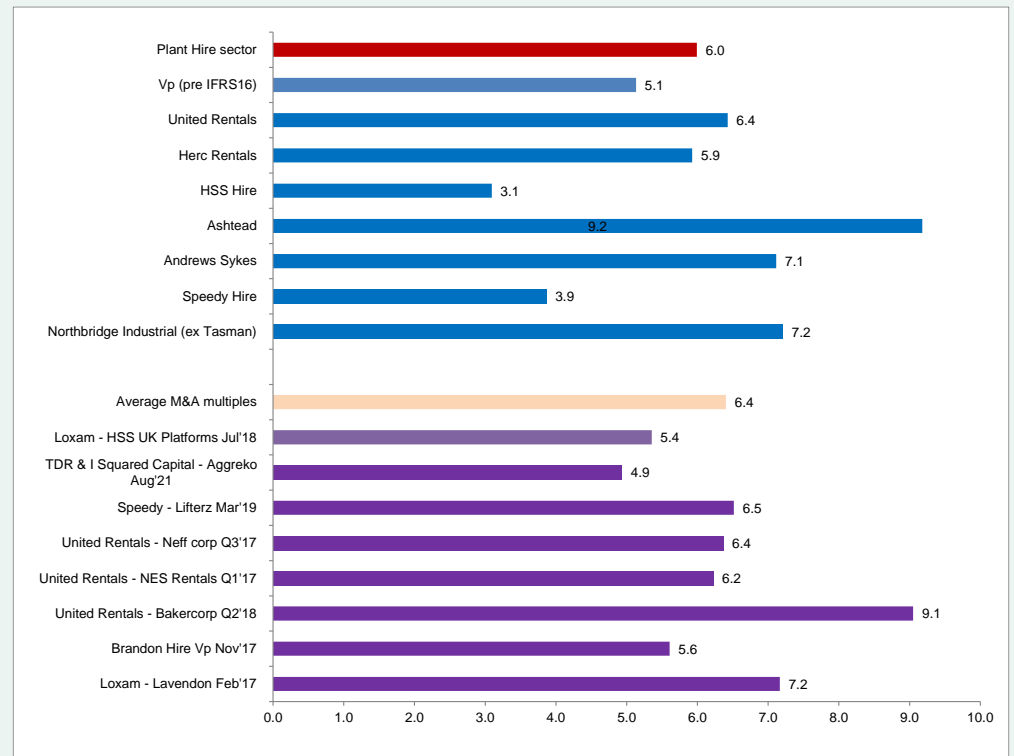
Summary projections (£'000s)

Vp (March year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s	2023 Est £'000s
Turnover						
UK	271,989	350,330	331,005	281,309	331,005	344,245
International	31,650	32,500	31,922	26,688	31,284	33,161
Total	303,639	382,830	362,927	307,997	362,289	377,406
% growth	22.1%	26.1%	-5.2%	-15.1%	17.6%	4.2%
UK	23.6%	28.8%	-5.5%	-15.0%	17.7%	4.0%
International	10.2%	2.7%	-1.8%	-16.4%	17.2%	6.0%
EBITDA	84,337	101,339	98,050	72,701	87,385	91,444
% Margin	27.8%	26.5%	27.0%	23.6%	24.1%	24.2%
EBITDA (post IFRS16)			123,817	96,660	111,344	115,403
Adjusted EBIT						
UK	43,001	49,838	50,190	27,156	40,383	43,031
International	1,017	1,733	1,700	565	2,503	2,984
Total	44,018	51,571	51,890	27,721	42,885	46,015
EBIT (post IFRS16)			55,480	30,928	44,155	46,803
% Margin	14.5%	13.5%	14.3%	9.0%	11.8%	12.2%
UK	15.8%	14.2%	15.2%	9.7%	12.2%	12.5%
International	3.2%	5.3%	5.3%	2.1%	8.0%	9.0%
Interest charge (pre IFRS 16)	-3,421	-4,742	-4,791	-4,448	-4,700	-4,600
Adjusted PBT (pre amortisation)	40,597	46,829	47,099	23,273	38,185	41,415
PBT (post IFRS16)			46,640	23,176	38,088	41,318
Adjusted earnings	33,520	37,677	35,740	18,472	28,257	31,061
Adjusted Basic EPS (p) - pre IFRS 16	84.9	95.1	90.2	46.7	71.0	77.7
EPS growth rate	22.1%	12.0%	-5.2%	-48.3%	52.2%	9.4%
Adjusted EPS diluted	83.9	92.9	88.8	45.9	69.9	76.5
Basic EPS (post IFRS16)			88.9	46.2	70.8	77.5
Dividend (pence)	26.0	30.2	8.5	47.0	31.5	38.2
Dividend growth	18.2%	16.2%	-72.0%	456.2%	-33.0%	21.4%
Valuation benchmarks						
P/E ratio (pre IFRS 16)	10.0	8.9	9.4	18.2	12.0	10.9
P/E ratio (post IFRS 16)			9.6	18.4	12.0	11.0
EV/Sales	1.5	1.2	1.3	1.5	1.3	1.2
EV/EBITDA (pre IFRS 16)	5.6	4.6	4.8	6.5	5.4	5.1
EV/EBITDA (post IFRS 16)			4.2	5.4	4.7	4.6
EV/EBITA (pre IFRS 16)	10.7	9.1	9.0	16.9	10.9	10.2
EV/EBITA (post IFRS 16)			9.5	17.0	11.9	11.2
PEG ratio	0.5	0.7	-1.8	-0.4	0.2	1.2
Dividend yield	3.1%	3.6%	1.0%	5.5%	3.7%	4.5%
Dividend cover	3.3	3.2	10.7	1.0	2.3	2.0
EBIT drop through rate (%)		9.5%	-1.6%	44.0%	27.9%	20.7%
Corporate tax rate	-17.4%	-19.5%	-20.0%	-21.1%	-26.0%	-25.0%
Net debt / EBITDA (pre IFRS 16)	2.0	1.7	1.6	1.7	1.5	1.3
Return on average capital employed	14.8%	14.5%	14.5%	9.2%	14.0%	14.5%
Net cash/(debt) - pre IFRS16	-179,172	-168,100	-159,806	-121,906	-128,000	-121,964
Fleet capital expenditure (gross)	64,900	63,800	49,100	40,200	45,000	55,000
Investment as % sales	21.4%	16.7%	13.5%	13.1%	12.4%	14.6%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,595	39,793	39,992
Shareprice (p)	850					

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

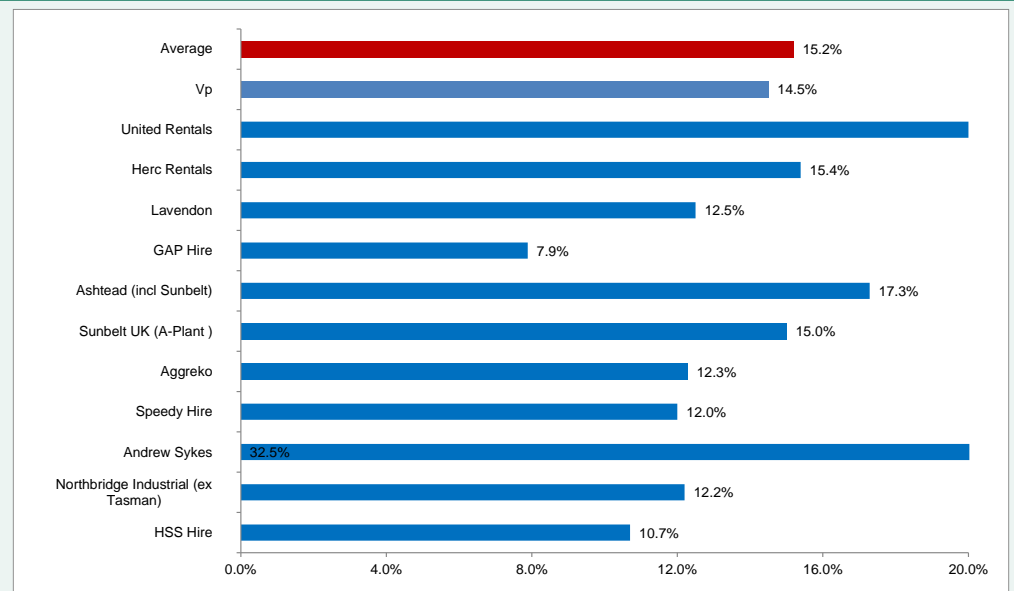
Appendices - sector valuation metrics and KPIs

Current Year (CY) EV / EBITDA multiples vs peers



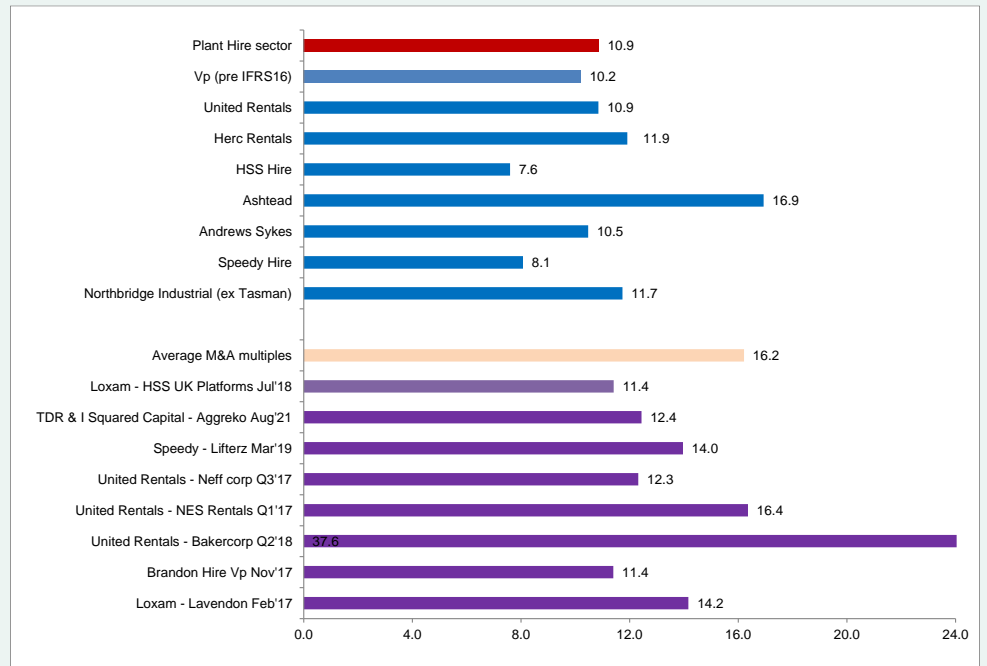
Source: Equity Development

CY % ROCE vs peers



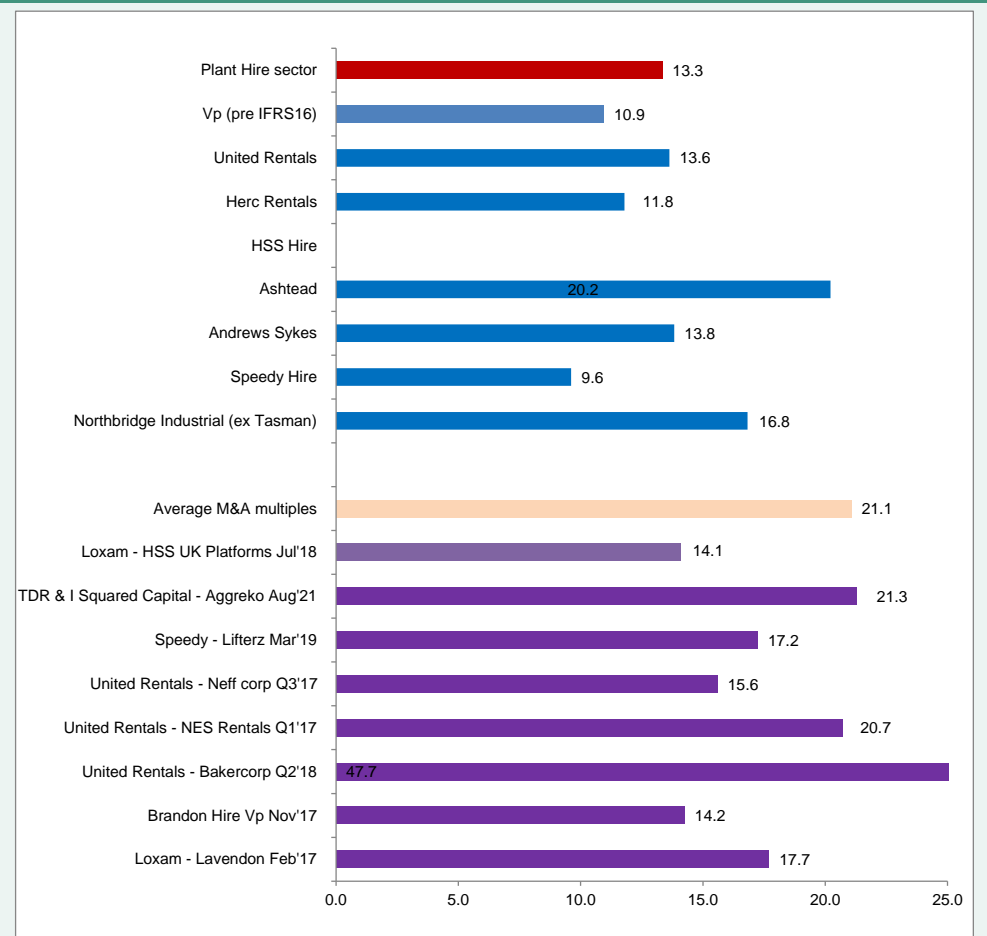
Source: Equity Development

Current Year (CY) EV / EBIT multiples vs peers

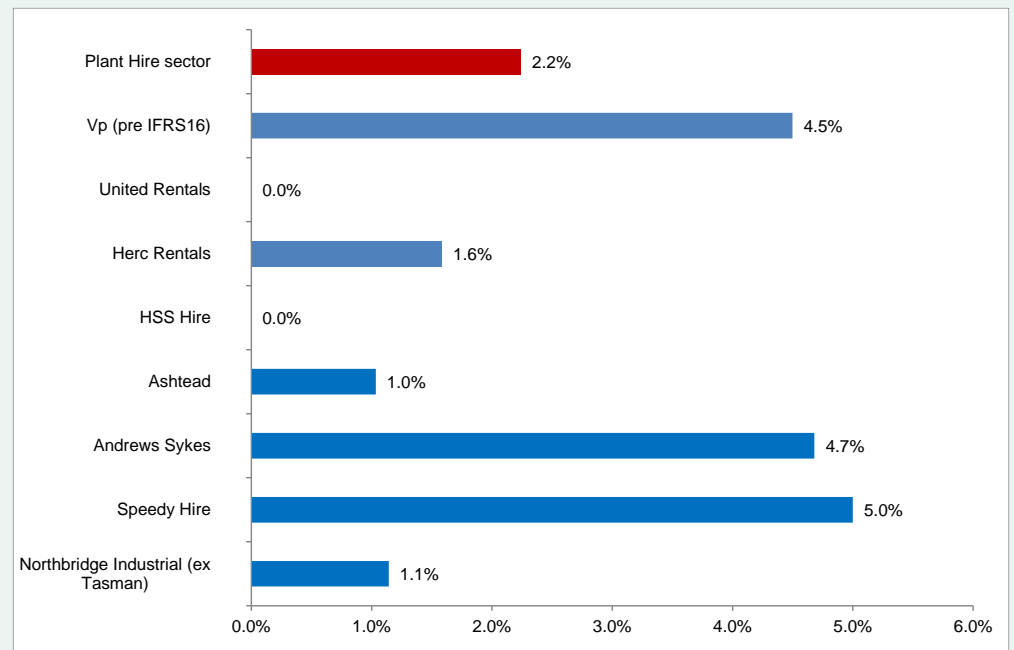


Source: Equity Development

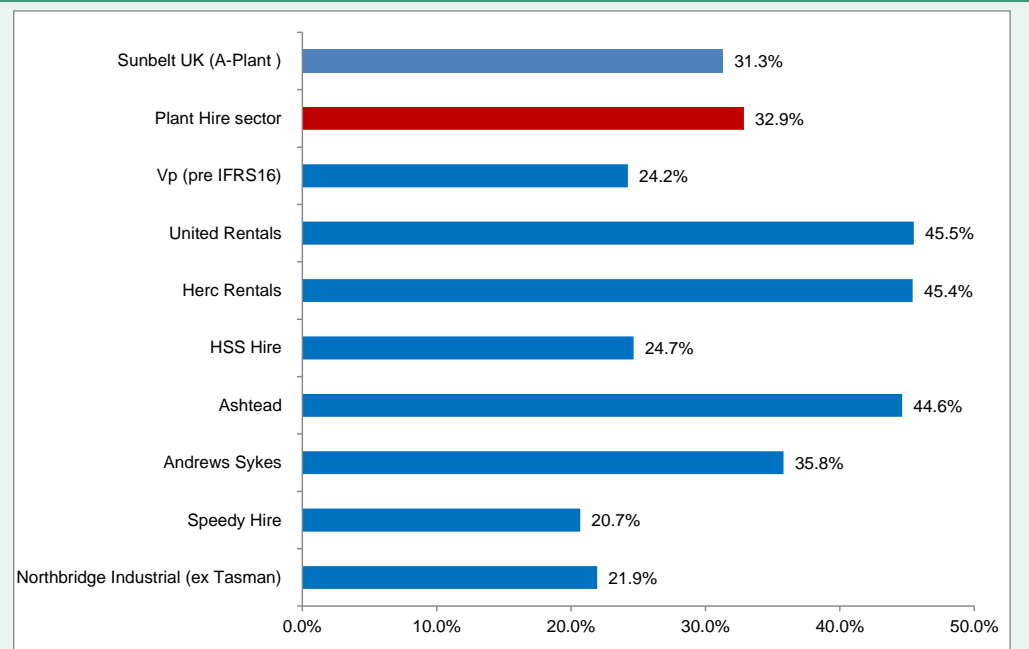
CY PERs vs peers



Source: Equity Development

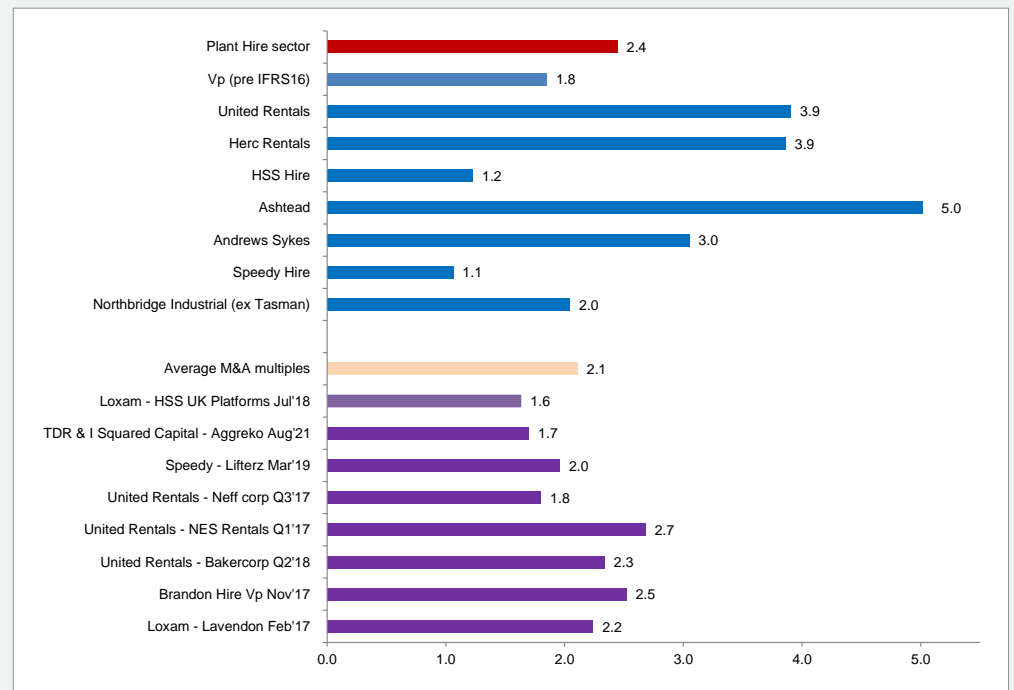
CY dividend yield vs peers


Source: Equity Development

CY % EBITDA margins vs peers


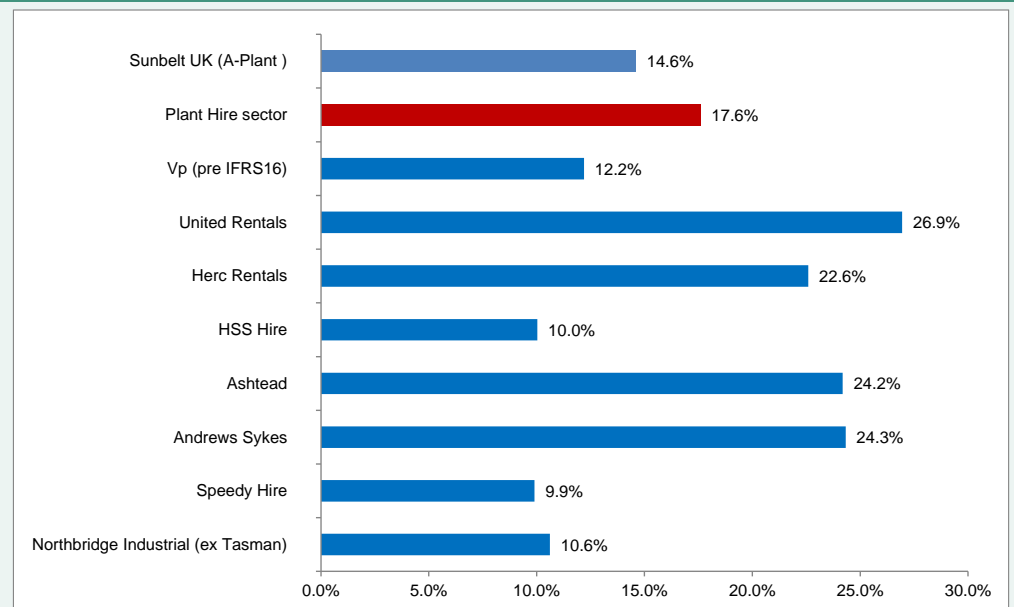
Source: Equity Development

CY Price: Book

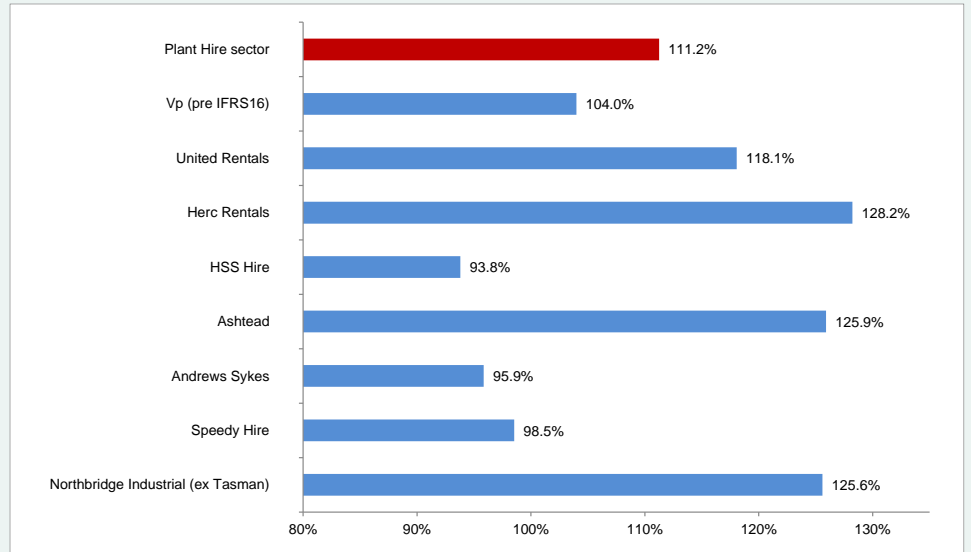


Source: Equity Development

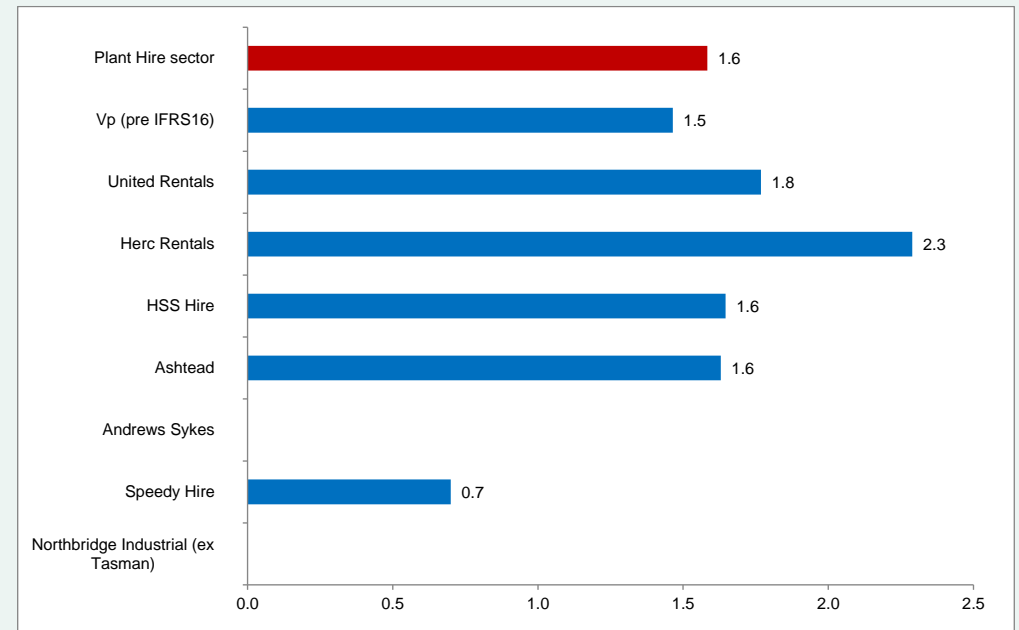
CY % EBIT margins vs peers



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)
Northbridge Industrial (ex Tasman)	175.0p	£51.4	£0.9	£50.5
Speedy Hire	50.0p	£263	-£58	£321
Andrews Sykes	470p	£198	£10	£189
Ashtead	\$6,072.0	\$27,142	-\$5,860	\$33,002
HSS Hire	15.5p	£108.0	-£123.0	£231.0
Herc Rentals	\$145.0	\$4,234	-\$2,665	\$6,899
United Rentals	\$325.0	\$23,400	-\$8,883	\$32,283
Vp	850p	£341	-£128	£469

Source: Equity Development



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