

Undervalued 'all weather' stock

25th July 2019

Markets hate uncertainty. So much so that it can shake even experienced investors out of their positions, alongside shunting new money on to the sidelines. Sure this bunker-type mentality is understandable, yet equally excessive 'fear' creates opportunity for those prepared to look through the short-term fog.

Take Vp, an equipment rental specialist, operating in the UK (92% sales) and overseas. Here sentiment is being buffeted by worries about a 'no-deal Brexit', general slowdown in UK construction and the possibility of a fine (estimated at £0m-£9m) relating to its Groundforce unit. The latter is being investigated by the Competition and Markets Authority for potential anti-competitive behaviour - albeit, we suspect ultimately any monetary penalty will be immaterial in the context of the business' £333m marketcap.

On track, with no change to our FY20 estimates...

What's more, **Vp continues to "make progress"**. Saying this morning that **"YTD trading had been broadly in line with expectations"**. Supported by its core UK infrastructure, construction and housebuilding activities, particularly outside of the 'more subdued' South East and London areas. Similarly, the International division (re oil & gas and test & measurement) has also experienced a "satisfactory" first 4 months.

...albeit valuation trimmed to £10.75/share

Consequently, **we make no changes to our forecasts**, but conservatively nudge down the **valuation from £11.50 to £10.75/share** - reflecting a near 10% de-rating across the plant hire sector (see below) over the past 2 months. That said, at 830p **the shares offer canny investors attractive long-term value**, trading at an unjustified discount to peers (see below).

Company Data

EPIC	LSE: VP.
Price (last close)	830p
52 week Hi/Lo	1,230p/690p
Market cap	£333m
Est. March '20 net debt	£163.5m
Share count	40.154m
ED valuation/share	£10.75
Daily volume	15,000

Share Price, p



Source: Share Cast

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: 34.6% H1'19 sales came from infrastructure, 40.6% construction, 8.9% housing building, 8.2% oil & gas and 7.7% other.

Member of FTSE SmallCap Index.

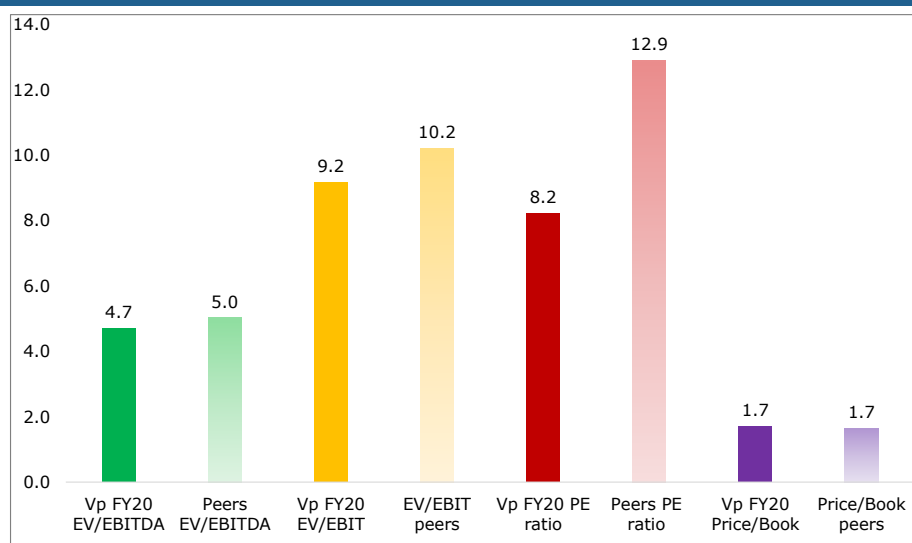
Next news: H1 trading update Sept'19

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Current year multiples vs peer group averages



Source: Equity Development

Forecasts (£'000s)

Vp (March year end)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s
Turnover									
UK	184,142	193,555	220,015	271,989	350,330	360,840	371,665	382,815	394,300
International	21,460	15,191	28,725	31,650	32,500	33,800	35,152	36,558	38,020
Total	205,602	208,746	248,740	303,639	382,830	394,640	406,817	419,373	432,320
% growth	12.3%	1.5%	19.2%	22.1%	26.1%	3.1%	3.1%	3.1%	3.1%
UK		5.1%	13.7%	23.6%	28.8%	3.0%	3.0%	3.0%	3.0%
International		-29.2%	89.1%	10.2%	2.7%	4.0%	4.0%	4.0%	4.0%
EBITDA	53,803	59,266	71,238	84,337	101,339	105,469	108,911	112,841	116,885
% Margin	26.2%	28.4%	28.6%	27.8%	26.5%	26.7%	26.8%	26.9%	27.0%
Adjusted EBIT									
UK	26,027	30,659	35,871	43,001	49,871	51,613	53,022	54,769	56,569
International	2,753	1,232	1,886	1,017	1,700	2,553	3,003	3,553	4,114
Total	28,780	31,891	37,757	44,018	51,571	54,166	56,025	58,322	60,683
% Margin	14.0%	15.3%	15.2%	14.5%	13.5%	13.7%	13.8%	13.9%	14.0%
UK	14.1%	15.8%	16.3%	15.8%	14.2%	14.3%	14.3%	14.3%	14.3%
International	12.8%	8.1%	6.6%	3.2%	5.2%	7.6%	8.5%	9.7%	10.8%
Underlying Interest charge	-2,023	-2,093	-2,906	-3,421	-4,742	-4,600	-4,400	-4,100	-3,800
Adjusted PBT (pre amortisation)	26,757	29,798	34,851	40,597	46,829	49,566	51,625	54,222	56,883
Adjusted earnings	21,201	24,226	27,262	33,520	37,677	40,148	41,816	43,920	46,075
Adjusted Basic EPS (p)	54.4	62.2	69.5	84.9	95.1	100.9	104.5	109.3	114.0
EPS growth rate	29.7%	14.3%	11.7%	22.1%	12.0%	6.0%	3.6%	4.5%	4.4%
Dividend (pence)	16.5	18.9	22.0	26.0	30.2	32.0	33.2	34.7	36.2
Valuation benchmarks									
P/E ratio	15.2	13.3	11.9	9.8	8.7	8.2	7.9	7.6	7.3
EV/Sales	2.4	2.4	2.0	1.6	1.3	1.3	1.2	1.2	1.1
EV/EBITDA	9.2	8.4	7.0	5.9	4.9	4.7	4.6	4.4	4.3
EV/EBITA	17.3	15.6	13.2	11.3	9.6	9.2	8.9	8.5	8.2
PEG ratio	0.5	0.9	1.0	0.4	0.7	1.4	2.2	1.7	1.7
Dividend yield	2.0%	2.3%	2.7%	3.1%	3.6%	3.9%	4.0%	4.2%	4.4%
Dividend cover	3.3	3.3	3.2	3.3	3.2	3.2	3.2	3.2	3.2
Corporate tax rate	-20.8%	-18.7%	-21.8%	-17.4%	-19.5%	-19.0%	-19.0%	-19.0%	-19.0%
Net debt / EBITDA (proforma)	1.2	1.5	1.4	2.0	1.7	1.6	1.4	1.2	1.0
Return on average capital employed	16.2%	16.3%	16.0%	14.8%	14.5%	14.8%	15.0%	15.3%	15.5%
Net cash/(debt)	-66,764	-86,134	-98,933	-179,172	-168,100	-163,500	-148,407	-132,190	-115,761
Fleet capital expenditure (gross)	49,300	45,900	57,600	64,900	63,800	65,000	68,000	70,000	73,000
Investment as % sales	24.0%	22.0%	23.2%	21.4%	16.7%	16.5%	16.7%	16.7%	16.9%
Reported sharecount Ks (net Treasury)	38,940	38,942	39,215	39,476	39,603	39,801	40,000	40,200	40,401
Shareprice (p)	830								

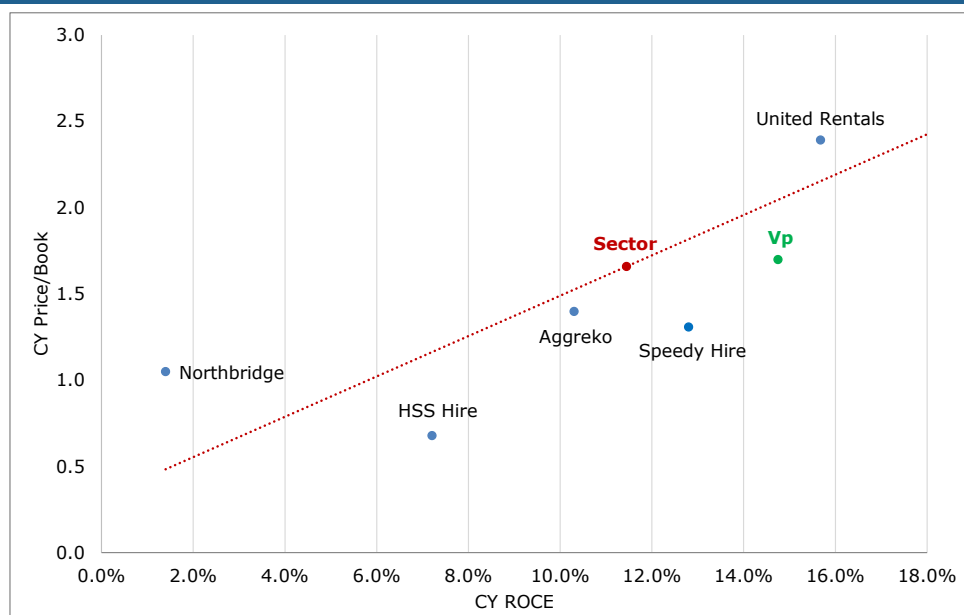
Source: Company historic data, ED estimates

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, albeit 40% of gross debt is fixed.
- 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.

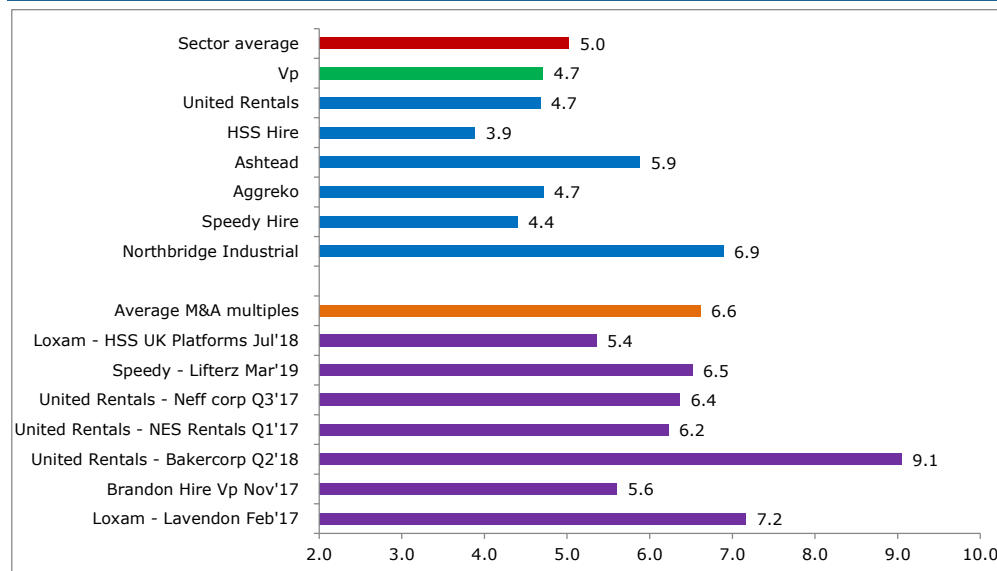
Appendix - Sector valuation metrics and KPIs

Current Year (CY) ROCE vs Price: Book



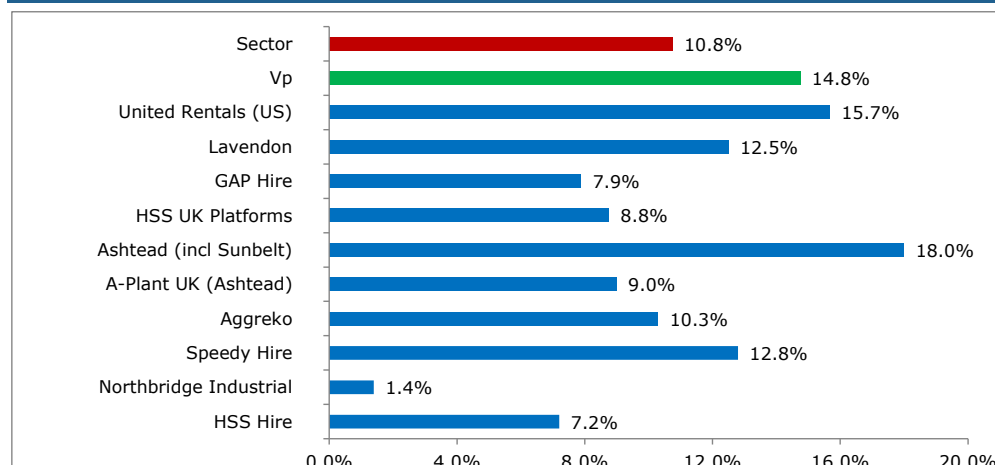
Source: Equity Development

Current Year EV / EBITDA vs peers



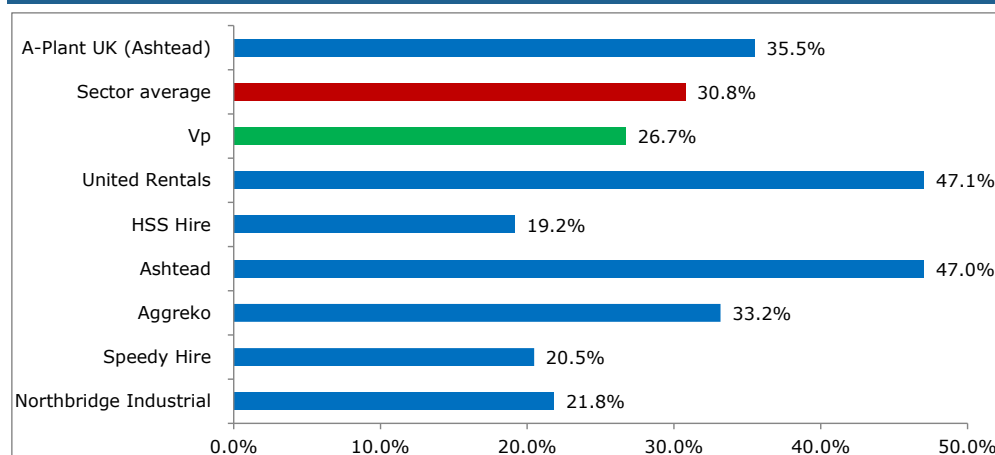
Source: Equity Development, arithmetic average for sector

Current Year (FY20) ROCE vs peers



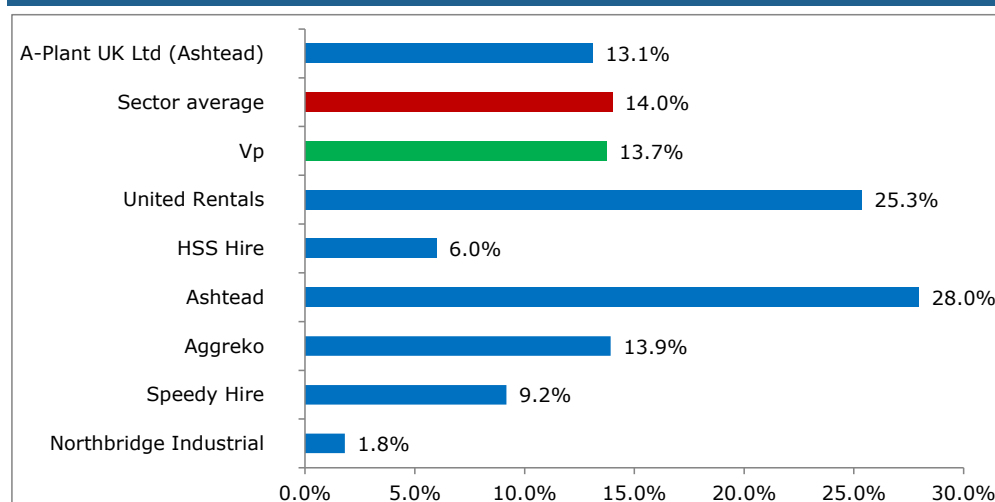
Source: Equity Development : arithmetic average for sector

Current Year (FY20) EBITDA margins vs peers



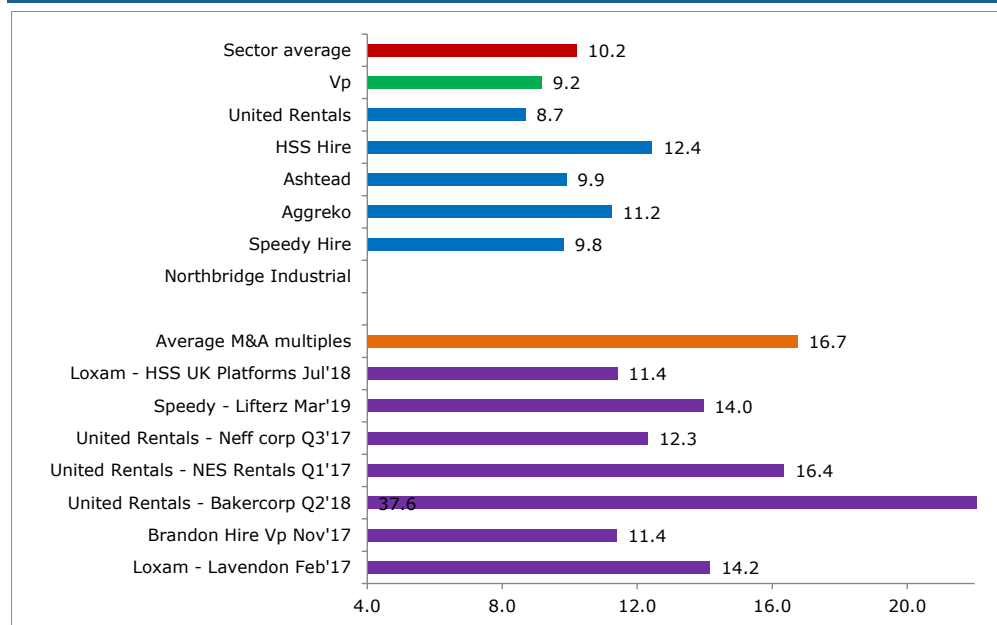
Source: Equity Development : arithmetic average for sector

Current Year (CY) EBIT margins vs peers



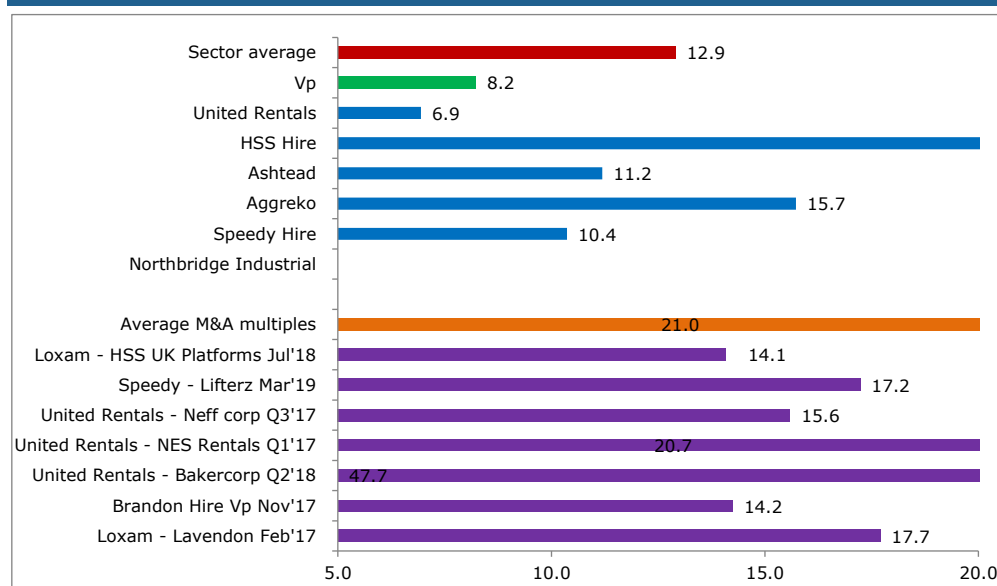
Source: Equity Development, arithmetic average for sector

Current Year EV / EBIT vs peers



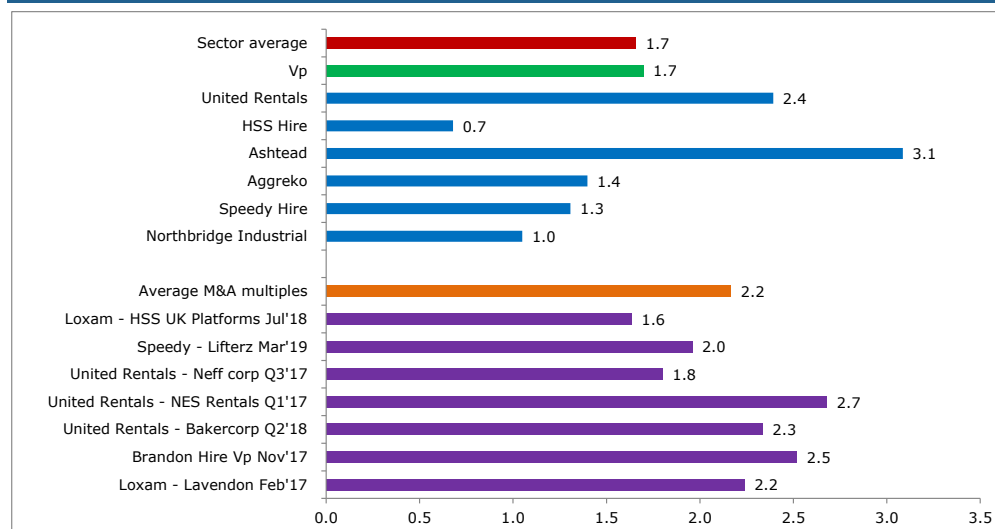
Source: Equity Development, arithmetic average for sector

Current Year PER vs peers



Source: Equity Development, arithmetic average for sector

Current Year Price : Book vs peers



Source: Equity Development, arithmetic average for sector



Investor Access

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