

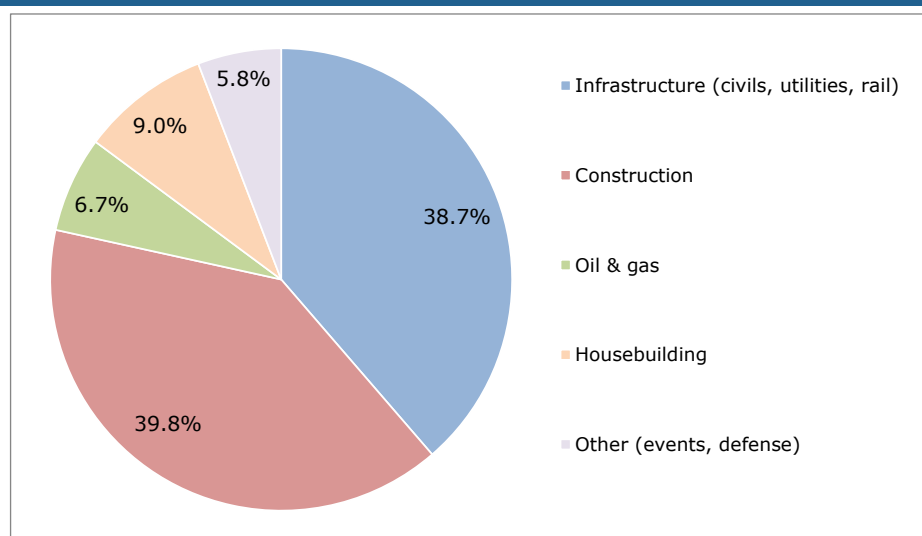
## Safe harbour amidst COVID-19 storm

25th March 2020

During today's choppy coronavirus induced seas, it's nice to find a relatively safe port for investors to anchor until the storm passes.

This morning, specialist equipment rental firm Vp said that **H2'20 trading had been "satisfactory"**. With softness in UK construction, particularly around London & the South East (pre/post the UK General Election) – being partly offset by **infrastructure & housebuilding**, which **"held up well"**, reflecting low borrowing costs, good mortgage availability and the popular Help to Buy scheme.

### H1'20 revenue (£186.6m) split by market



Source: Equity Development

## Robust balance sheet with plenty of liquidity

So what does this mean? Well for the y/e March 2020, **the Board anticipates adjusted pre-tax profits to be "marginally behind expectations"** (revised ED est of £47.2m vs previous consensus at £49.6m) – ending the period with a **net debt of £165m** (or circa 1.7x EBITDA, pre IFRS16).

Elsewhere, **International performed broadly in line with estimates**, thanks to solid results in Australia/NZ, augmented by further progress in Malaysia. The group also signed a new 7 year £65m loan note in Jan'20 with private investors (ie non-bank finance). Thus providing **ample headroom** from **guaranteed facilities of £207.5m**, with another \$39.6m uncommitted credit line on top.

## Vp will emerge from COVID-19 stronger

That said, investor sentiment has been shaken by the COVID-19 pandemic, with the UK now temporarily hunkering down alongside many other countries. However, regardless of what happens over the next few months, we think **essential building/maintenance work** (tracks, roads, sewage) within **systemically important sectors like infrastructure** (water, electricity, rail), **housebuilding and construction will still have to completed**. As underlined at the Budget on 11th March.

### Company Data

EPIC	LSE: VP.
Price (last close)	525p
52 week Hi/Lo	1,060p/510p
Market cap	£211m
Mar'20 net debt	£165m
Share count	40.154m
ED valuation/share	£8.60
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% H1'20 turnover), but also from overseas.

In terms of sector split: 38.7% H1'20 sales came from infrastructure, 39.8% construction, 9.0% housing building, 6.7% oil & gas and 5.8% other.

Member of FTSE SmallCap Index.

**Next news:** Prelims June 2020

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## Resilient business despite macro concerns

What's more, Vp has been through this type of short, sharp, economic shock before - and come out the other side in far better shape than many of its rivals. We reckon this will happen again, even if near term demand is pushed to the right by site closures, business interruption and social distancing measures.

### Solid FY'20 performance

£'000s	Act H1'19	Act H1'20	%	Act H2'19	Est H2'20	%	Act FY 19	Est FY 20	%
March yearend									
UK sales	175,338	170,016	-3.0%	174,992	168,484	-3.7%	350,330	338,500	-3.4%
International	17,873	16,569	-7.3%	14,627	14,931	2.1%	32,500	31,500	-3.1%
<b>Group revenues</b>	<b>193,211</b>	<b>186,585</b>	<b>-3.4%</b>	<b>189,619</b>	<b>183,415</b>	<b>-3.3%</b>	<b>382,830</b>	<b>370,000</b>	<b>-3.4%</b>
<b>Group EBITDA</b>	<b>51,629</b>	<b>51,840</b>	<b>0.4%</b>	<b>49,710</b>	<b>51,629</b>	<b>3.9%</b>	<b>101,339</b>	<b>99,907</b>	<b>-1.4%</b>
EBIT % margin	26.7%	27.8%		26.2%	28.1%		26.5%	27.0%	
EBITDA (post IFRS 16)		64,782			61,009			125,791	
UK	26,912	27,245	1.2%	22,959	22,515	-1.9%	49,871	49,760	-0.2%
International	1,266	1,070	-15.5%	434	978	125.2%	1,700	2,048	20.4%
<b>Group EBITA</b>	<b>28,178</b>	<b>28,315</b>	<b>0.5%</b>	<b>23,393</b>	<b>23,492</b>	<b>0.4%</b>	<b>51,571</b>	<b>51,807</b>	<b>0.5%</b>
EBITA (post IFRS 16)		30,250			25,427			55,677	
UK	15.3%	16.0%		13.1%	13.4%		14.2%	14.7%	
International	7.1%	6.5%		3.0%	6.5%		5.2%	6.5%	
<b>EBIT % margin</b>	<b>14.6%</b>	<b>15.2%</b>		<b>12.3%</b>	<b>12.8%</b>		<b>13.5%</b>	<b>14.0%</b>	
Interest	-2,325	-2,383	2.5%	-2,417	-2,217	-8.3%	-4,742	-4,600	-3.0%
<b>PBTA</b>	<b>25,853</b>	<b>25,932</b>	<b>0.3%</b>	<b>20,976</b>	<b>21,275</b>	<b>1.4%</b>	<b>46,829</b>	<b>47,207</b>	<b>0.8%</b>
PBTA (post IFRS16)		25,772			21,115			46,887	
<b>Adj EPS - pre IFRS16</b>	<b>52.3p</b>	<b>52.5p</b>	<b>0.2%</b>	<b>42.8p</b>	<b>42.8p</b>	<b>0.1%</b>	<b>95.1p</b>	<b>95.3p</b>	<b>0.2%</b>
Adj EPS - post IFRS16		52.1p			42.5p			94.6p	
<b>Dividend</b>	<b>8.2p</b>	<b>8.45p</b>	<b>3.0%</b>	<b>22.0p</b>	<b>22.7p</b>	<b>3.0%</b>	<b>30.2p</b>	<b>31.1p</b>	<b>3.0%</b>
Net debt (pre IFRS 16)	-188,236	-183,746	-2.4%	-168,100	-165,000	-1.8%	-168,100	-165,000	-1.8%
Net debt : EBITDA							1.7	1.7	
<b>Group ROCE</b>	<b>15.6%</b>	<b>14.5%</b>		<b>13.4%</b>	<b>14.5%</b>		<b>14.5%</b>	<b>14.5%</b>	

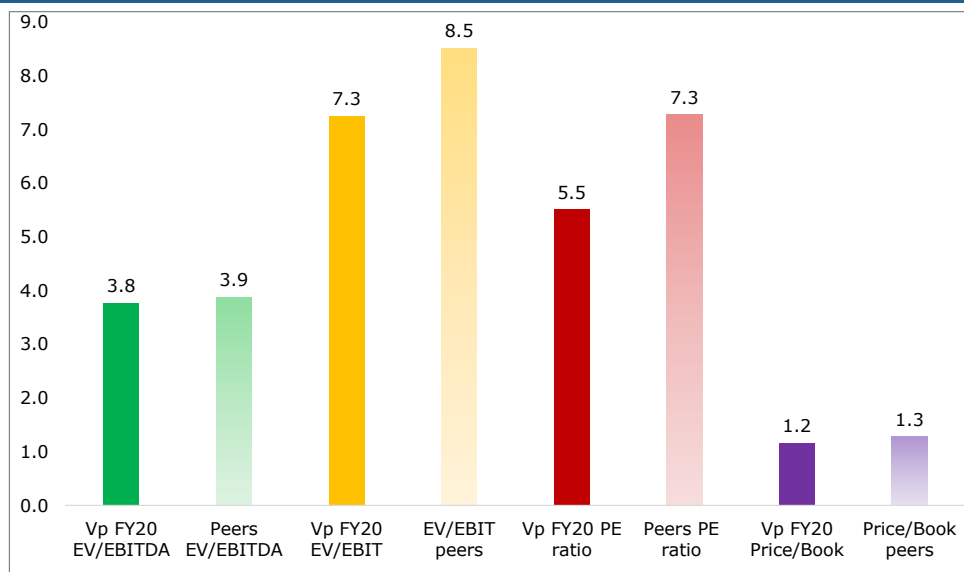
Source: Equity Development

## Shares attractively priced

Besides, there are **other levers to pull if things were to significantly deteriorate**. Not least, shrinking fleet capex (Est £60m gross in FY20), cutting discretionary spend and accelerating plant hire disposals for under-utilised or aged equipment.

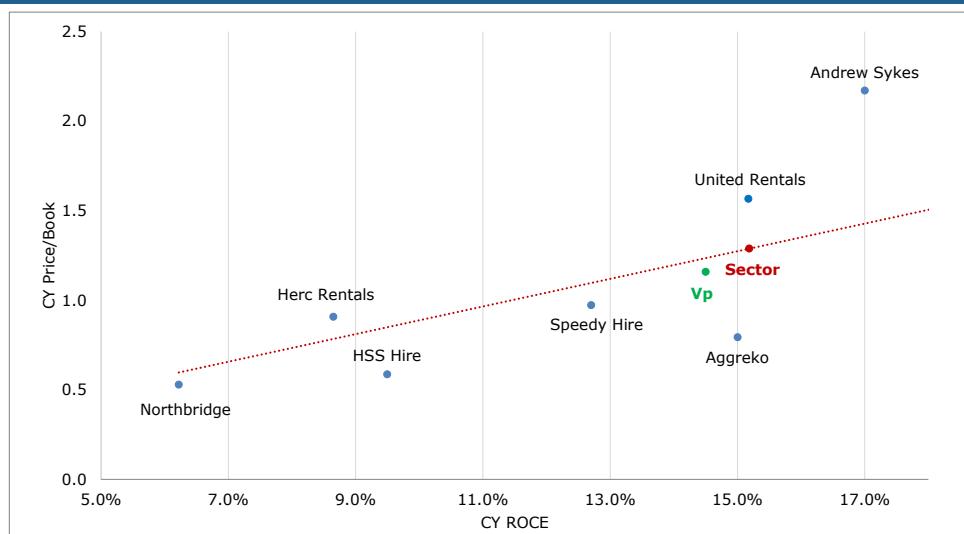
Consequently at 525p, **the stock appears attractively priced**, trading on trailing 5.5x PE, 1.2x Price:Book and 3.8x EV/EBITDA multiples - offering substantial potential upside vs **our 860p/share valuation** (vs £10.75 before).

### CY summary multiples vs peers (pre IFRS16)



Source: Equity Development

### Current Year ROCE vs Price: Book



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
<b>Turnover</b>						
UK	184,142	193,555	220,015	271,989	350,330	338,500
International	21,460	15,191	28,725	31,650	32,500	31,500
<b>Total</b>	<b>205,602</b>	<b>208,746</b>	<b>248,740</b>	<b>303,639</b>	<b>382,830</b>	<b>370,000</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>-3.4%</b>
UK		5.1%	13.7%	23.6%	28.8%	-3.4%
International		-29.2%	89.1%	10.2%	2.7%	-3.1%
<b>EBITDA</b>	<b>53,803</b>	<b>59,266</b>	<b>71,238</b>	<b>84,337</b>	<b>101,339</b>	<b>99,907</b>
% Margin	26.2%	28.4%	28.6%	27.8%	26.5%	27.0%
EBITDA (post IFRS16)						125,791
<b>Adjusted EBIT</b>						
UK	26,027	30,659	35,871	43,001	49,871	49,760
International	2,753	1,232	1,886	1,017	1,700	2,048
<b>Total</b>	<b>28,780</b>	<b>31,891</b>	<b>37,757</b>	<b>44,018</b>	<b>51,571</b>	<b>51,807</b>
EBIT (post IFRS16)						55,677
<b>% Margin</b>	<b>14.0%</b>	<b>15.3%</b>	<b>15.2%</b>	<b>14.5%</b>	<b>13.5%</b>	<b>14.0%</b>
UK	14.1%	15.8%	16.3%	15.8%	14.2%	14.7%
International	12.8%	8.1%	6.6%	3.2%	5.2%	6.5%
Interest charge (pre IFRS 16)	-2,023	-2,093	-2,906	-3,421	-4,742	-4,600
<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>47,207</b>
PBT (post IFRS16)						46,887
<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>37,766</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>95.3</b>
EPS growth rate	29.7%	14.3%	11.7%	22.1%	12.0%	0.2%
<b>Adjusted EPS diluted</b>	<b>50.2</b>	<b>59.0</b>	<b>67.6</b>	<b>83.9</b>	<b>92.2</b>	<b>92.3</b>
Basic EPS (post IFRS16)						94.6
<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>31.1</b>
Dividend growth	17.9%	14.2%	16.7%	18.2%	16.2%	3.0%
<b>Valuation benchmarks</b>						
P/E ratio (pre IFRS 16)	9.6	8.4	7.6	6.2	5.5	5.5
P/E ratio (post IFRS 16)						5.5
EV/Sales	1.8	1.8	1.5	1.2	1.0	1.0
EV/EBITDA (pre IFRS 16)	7.0	6.3	5.3	4.5	3.7	3.8
EV/EBITDA (post IFRS 16)						3.6
EV/EBITA (pre IFRS 16)	13.1	11.8	10.0	8.5	7.3	7.3
EV/EBITA (post IFRS 16)						8.1
PEG ratio	0.3	0.6	0.6	0.3	0.5	33.0
Dividend yield	3.1%	3.6%	4.2%	5.0%	5.8%	5.9%
Dividend cover	3.3	3.3	3.2	3.3	3.2	3.1
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	1.7
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>-165,000</b>
Fleet capital expenditure (gross)	49,300	45,900	57,600	64,900	63,800	60,000
Investment as % sales	24.0%	22.0%	23.2%	21.4%	16.7%	16.2%
Reported sharecount Ks (net Treasury)	38,940	38,942	39,215	39,476	39,603	39,630
<b>Shareprice (p)</b>	<b>525p</b>					

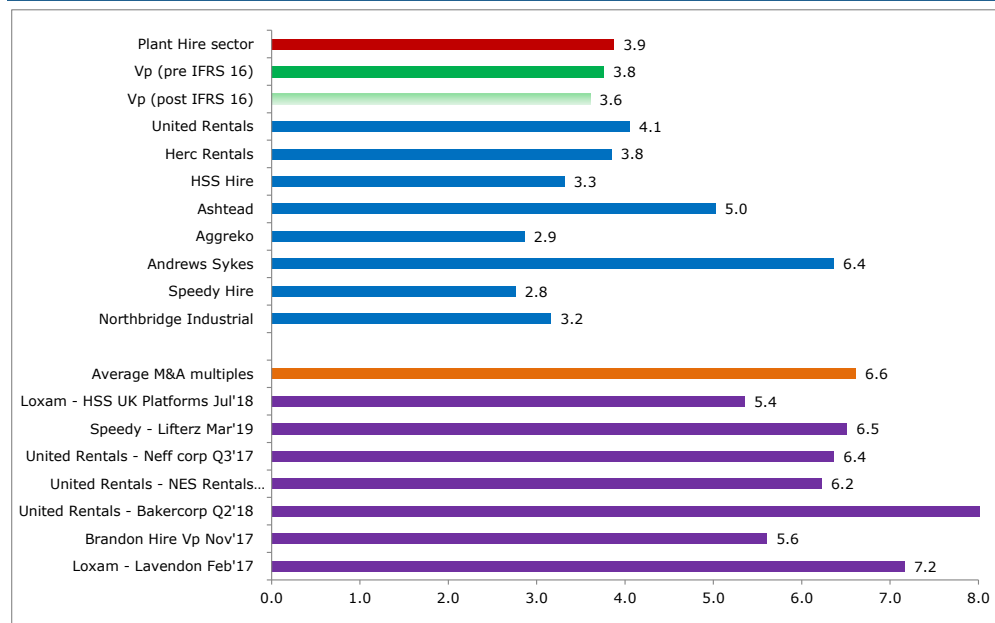
Source: Equity Development

## 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, yet 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.

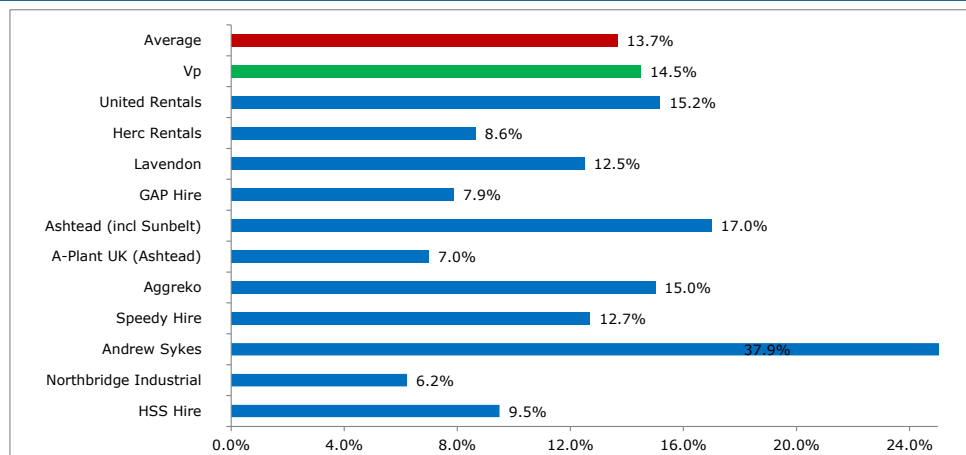
## Appendix - Sector valuation metrics and KPIs

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



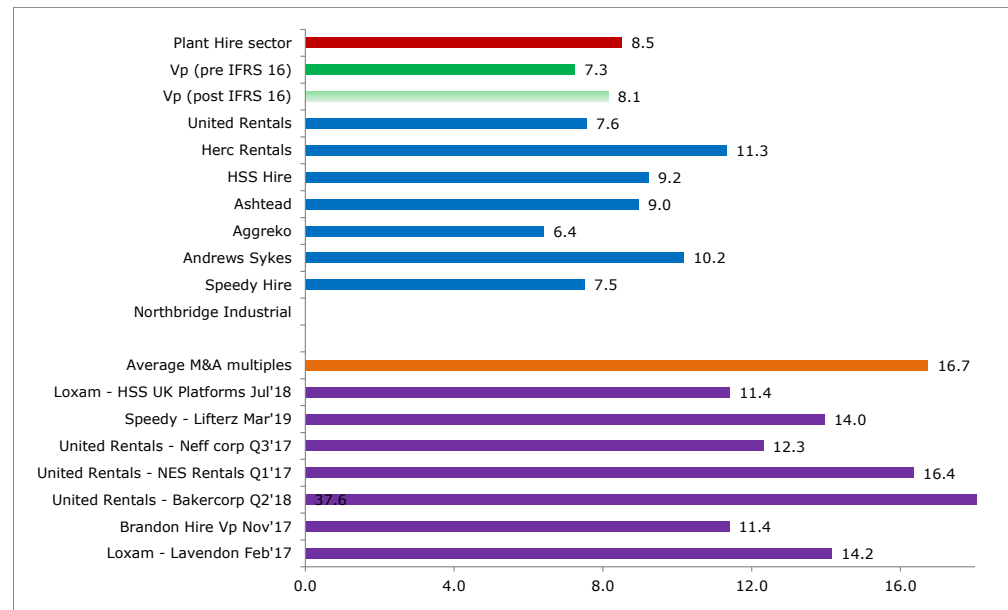
Source: Equity Development, arithmetic average for sector

### CY ROCE across sector



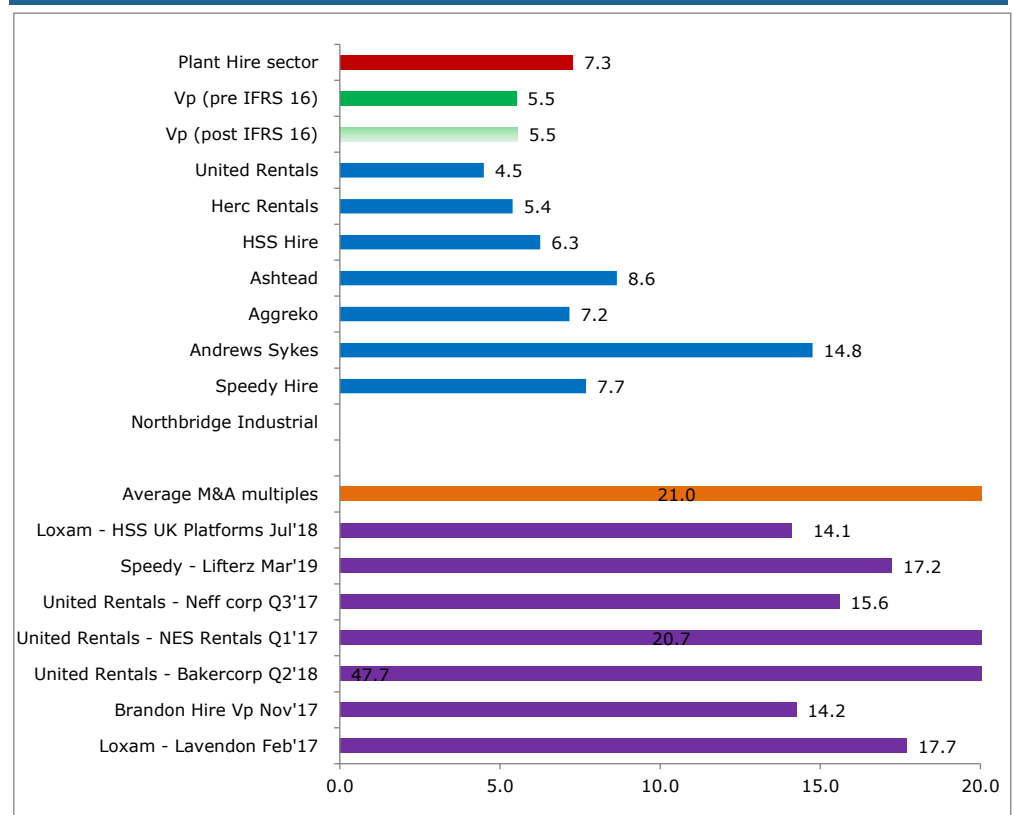
Source: Equity Development

### CY EV / EBIT vs peers



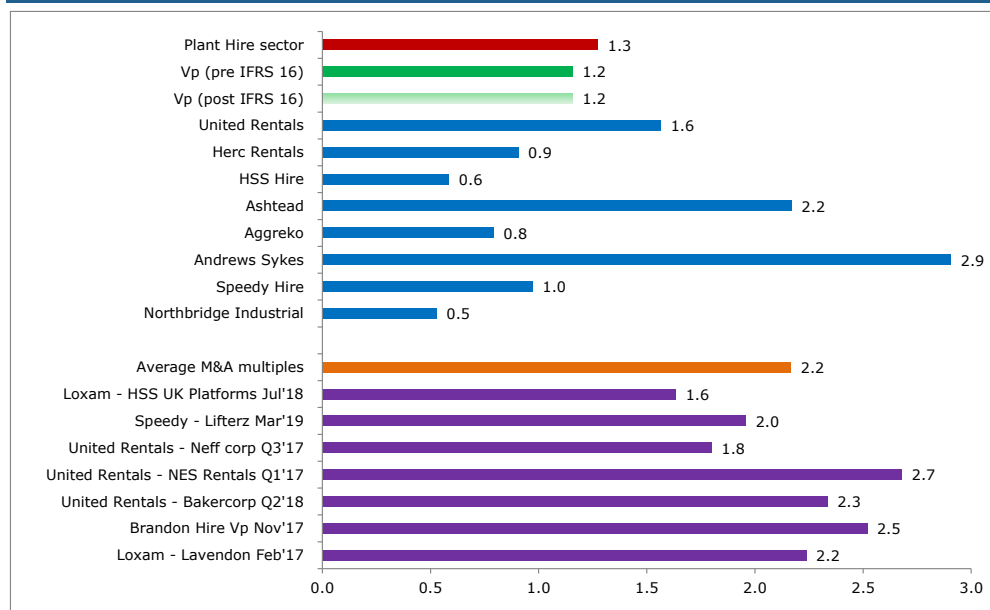
Source: Equity Development, arithmetic average for sector

### CY PER vs peers



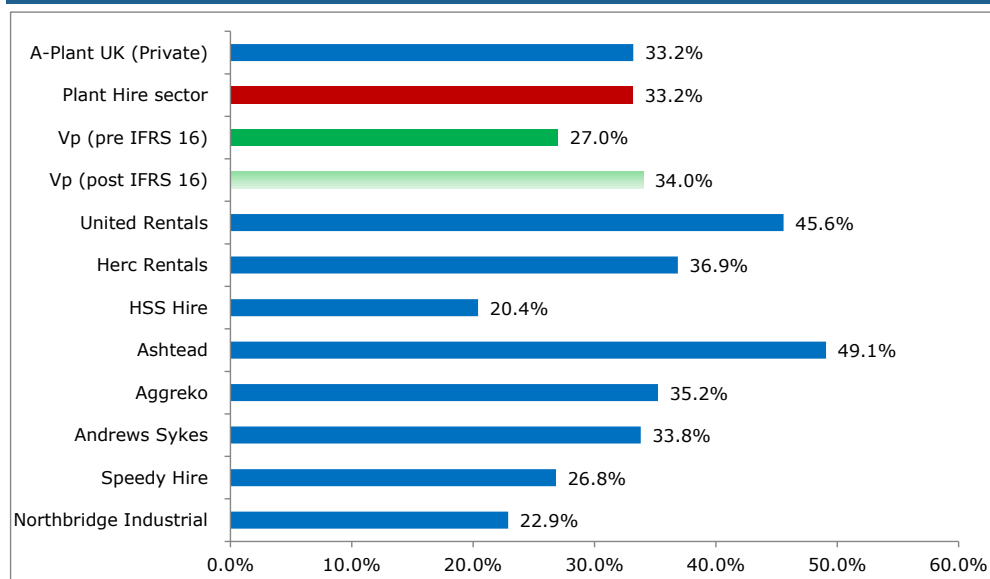
Source: Equity Development, arithmetic average for sector

### CY Price: Book



Source: Equity Development (arithmetic average for sector).

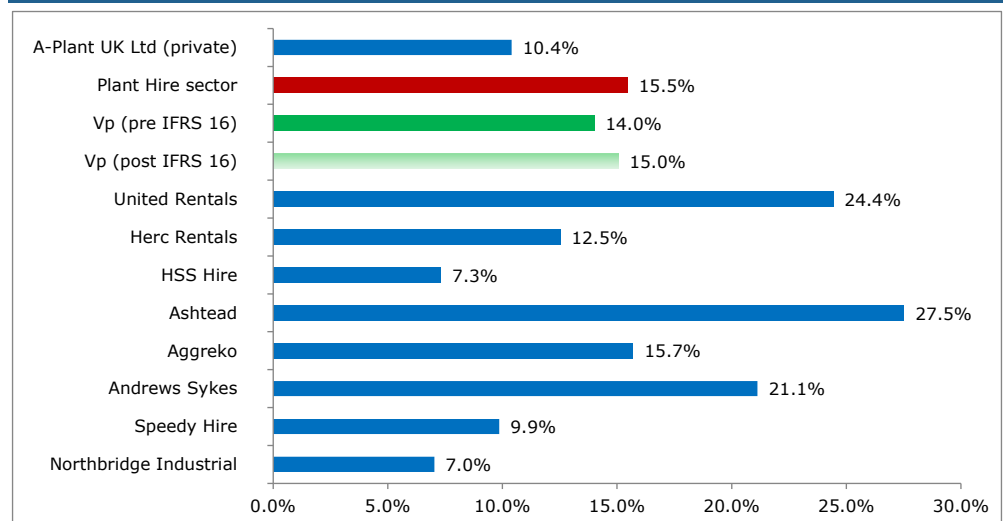
### CY % EBITDA margins vs peers



Source: Equity Development (arithmetic average for sector)

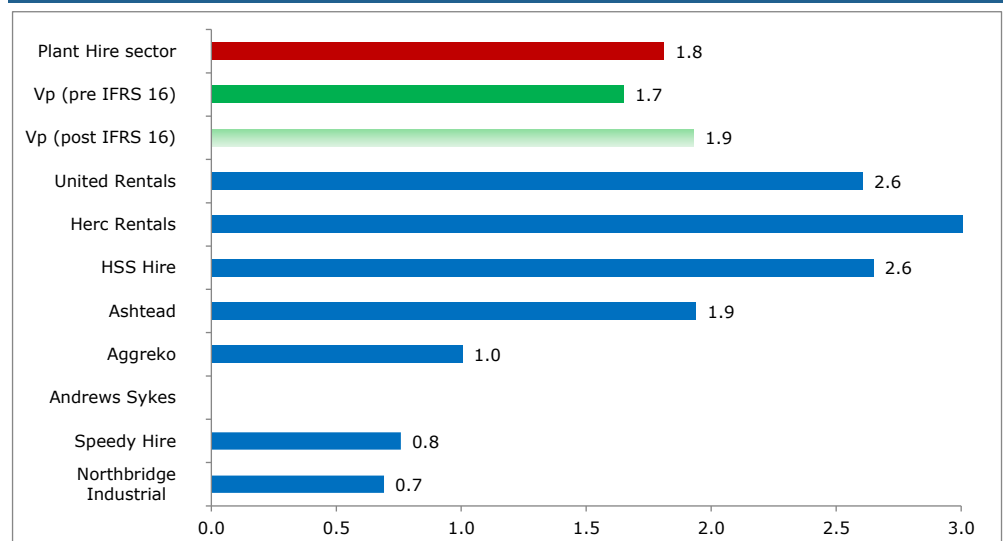


### CY EBIT margins vs peers



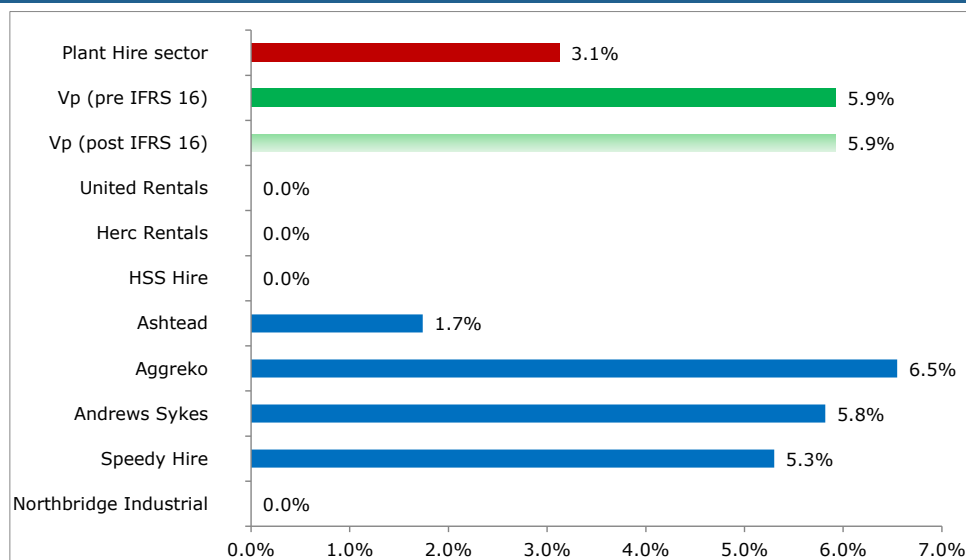
Source: Equity Development (arithmetic average for sector)

### CY Net debt : EBITDA



Source: Equity Development (arithmetic average for sector).

### CY dividend yield vs peers



Source: Equity Development

### Market capitalisation of sector

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Northbridge Industrial	71.0p	£20.0	-£5.6	£25.6
Speedy Hire	41.5p	£218	-£83	£301
Andrews Sykes	409p	£172	£20	£153
Aggreko	423p	£1,079	-£584	£1,663
Ashtead	1,580p	£7,584	-£4,770	£12,354
HSS Hire	27.4p	£46.6	-£186.0	£232.6
Herc Rentals	\$18.5	£538	-£2,147	£2,685
United Rentals	\$86.5	£6,315	-£11,376	£17,691
Vp	525p	£211	-£165	£376

Source: Equity Development



## Investor Access

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