

Solid as a rock

6th April 2018

Given the 9-year bull market, rarely do investors have the opportunity today to buy proven, quality growth stocks at a reasonable price. Albeit we believe this is the case for Vp.

This morning the company said in a y/e pre-close trading update that it had once again delivered another **predictably "good" set of numbers**, despite this year's unusually wintry weather disrupting the broader UK construction industry. Here, the group enjoyed **continued solid demand** from its core infrastructure (AMP6 water, transmission & rail), construction (repair & maintenance/office fit out) and housebuilding markets - in aggregate contributing >80% revenues. Importantly too, **providing a favourable backdrop** for the likes of Hire Station, Groundforce and UK Forks as FY19 kicks off.

Elsewhere, this organic growth was augmented by a couple of relatively small bolt-on UK acquisitions (Re Zenith Survey Equipment and Jackson Mechanical Services in April 2017). Although further afield the International division experienced difficult conditions in Oil/Gas which impacted Airpac Bukom, partly offset by encouraging signs in the AsiaPac test/measurement business (TR Pty).

Confident outlook supported by robust fundamentals

That said, one of the beauties of Vp is its natural balance across several specialised areas, thus enabling it to ride out most transitional storms or mini speed-bumps. Consequently **FY18 results are anticipated to be "in line with expectations"** - ED PBTA at £39.2m (vs consensus £38.9m), generating adjusted EPS of 79.7p, alongside a healthy 25.2p dividend (3.0% yield).

Looking ahead, **we make no change to our forecasts or 970p/share valuation**, which would leave **substantial upside at current price levels** if reached - reflecting the expected step change in performance this year, thanks to the synergistic £68.8m Brandon deal (completed 7th November and cleared 7th March by the CMA) in terms of enhanced geographical spread, strategic positioning and cost savings (eg fleet capex and overhead procurement).

Quality "GARP" stock looks far too cheap

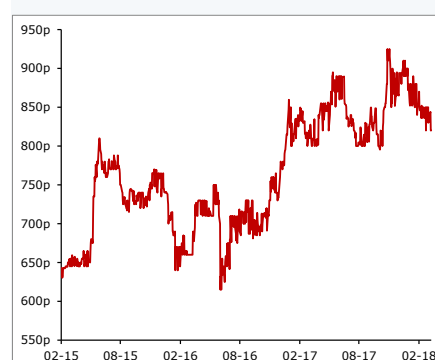
Indeed, based on our FY19 estimates, at 825p Vp trades at an undeserved discount to the equipment hire sector, equivalent to EV/EBITDA, EV/EBIT and PER multiples of 5.3x, 9.9x and 8.8x respectively (see below). Or in other words, far too cheap for this quality GARP stock, especially in light of its predicted CY **double digit earnings growth and PEG of 0.5x**.

Prelims for the year ended 31 March 2018 are scheduled for Tuesday, 5 June.

Company Data

EPIC	LSE: VP.
Price	825p
52 week Hi/Lo	935p/790p
Market cap	£331m
ED valuation/share	970p
Daily volume	10,000

Share Price, p



Source: DigitalLook

Description

Vp is a specialist rental business providing equipment and services to a wide range of markets including civil engineering, rail, oil and gas exploration, construction, outdoor events and industry, primarily (>90% FY19 sales) within the UK, but also from overseas.

In terms of sector, 42% FY17 sales came from infrastructure, 27% construction, 13% housing building, 9% oil & gas and 9% other.

Member of FTSE SmallCap Index.

Next news: Prelims 5 June 2018.

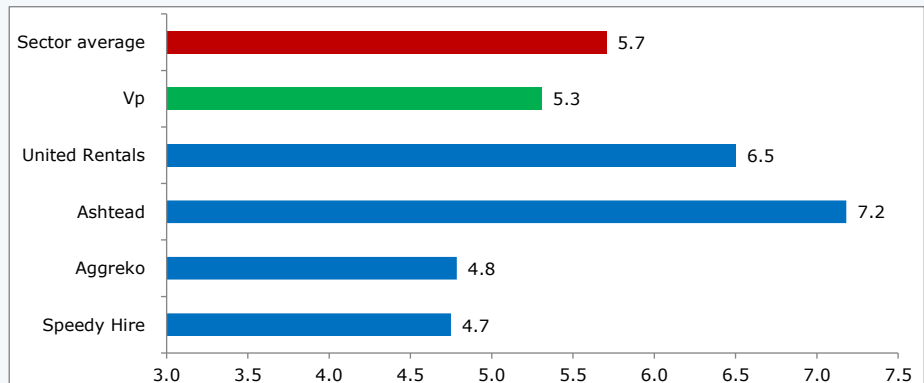
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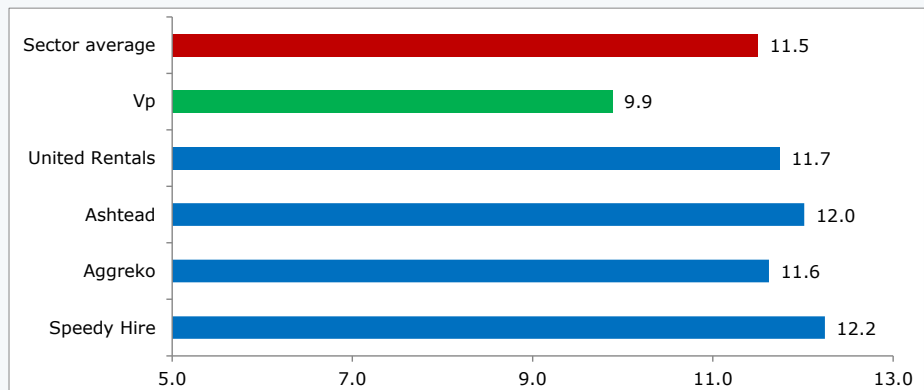
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Current year (CY) EV/EBITDA multiples



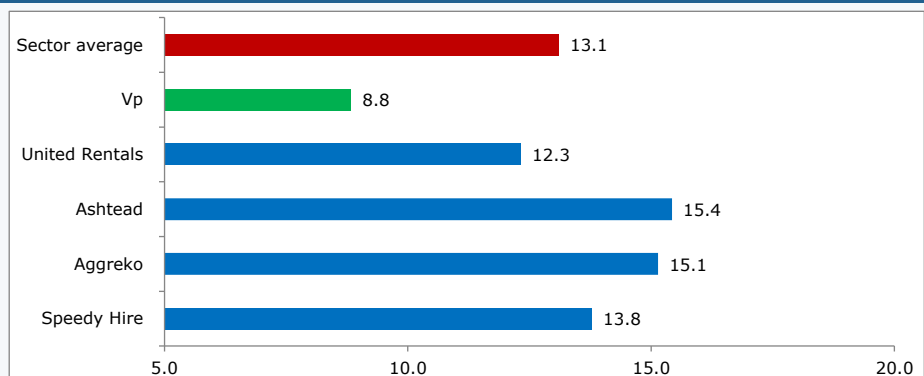
Source: Equity Development. Closing prices as per 5th April 2018

CY EV/EBIT multiples



Source: Equity Development. Closing prices as per 5th April 2018

CY PERs



Source: Equity Development. Closing prices as per 5th April 2018

Forecasts (£'000s)

Vp (March year end)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Est £'000s	2019 Est £'000s	2020 Est £'000s
Turnover						
UK	184,142	193,555	220,015	272,750	336,412	349,813
International	21,460	15,191	28,725	29,750	31,045	32,397
Total	205,602	208,746	248,740	302,500	367,457	382,211
% growth	12.3%	1.5%	19.2%	21.6%	21.5%	4.0%
UK		5.1%	13.7%	24.0%	23.3%	4.0%
International		-29.2%	89.1%	3.6%	4.4%	4.4%
EBITDA	53,803	59,266	71,238	82,290	96,075	100,032
% Margin	26.2%	28.4%	28.6%	27.2%	26.1%	26.2%
Adjusted EBIT						
UK	26,027	30,659	35,871	41,555	49,775	51,527
International	2,753	1,232	1,886	1,418	1,802	2,221
Total	28,780	31,891	37,757	42,972	51,577	53,748
% Margin	14.0%	15.3%	15.2%	14.2%	14.0%	14.1%
UK	14.1%	15.8%	16.3%	15.2%	14.8%	14.7%
International	12.8%	8.1%	6.6%	4.8%	5.8%	6.9%
Underlying Interest charge	-2,023	-2,093	-2,906	-3,800	-5,000	-4,900
Adjusted PBT (pre amortisation)	26,757	29,798	34,851	39,172	46,577	48,848
Adjusted earnings	21,201	24,226	27,262	31,730	37,728	39,567
Adjusted Basic EPS (p)	54.4	62.2	69.5	79.7	93.3	96.4
EPS growth rate	29.7%	14.3%	11.7%	14.6%	17.1%	3.3%
Dividend (pence)	16.5	18.9	22.0	25.2	29.5	30.5
Valuation benchmarks						
P/E ratio	15.2	13.3	11.9	10.4	8.8	8.6
EV/Sales	2.5	2.4	2.1	1.7	1.4	1.3
EV/EBITDA	9.5	8.6	7.2	6.2	5.3	5.1
EV/EBITA	17.7	16.0	13.5	11.9	9.9	9.5
PEG ratio	0.5	0.9	1.0	0.7	0.5	2.6
Dividend yield	2.0%	2.3%	2.7%	3.1%	3.6%	3.7%
Dividend cover	3.3	3.3	3.2	3.2	3.2	3.2
Corporation tax rate	-20.8%	-18.7%	-21.8%	-19.0%	-19.0%	-19.0%
Net debt / EBITDA (proforma)	1.2	1.5	1.4	2.0	1.8	1.6
Return on average capital employed	16.2%	16.3%	16.0%	15.3%	14.3%	14.5%
Net cash/(debt)	-66,764	-86,134	-98,933	-178,648	-169,812	-157,013
Fleet capital expenditure	49,300	45,900	57,600	59,637	65,637	64,637
Investment as % sales	24.0%	22.0%	23.2%	19.7%	17.9%	16.9%
Reported sharecount Ks (net Treasur	38,940	38,942	39,215	39,821	40,427	41,033
Shareprice (p)	825					

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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