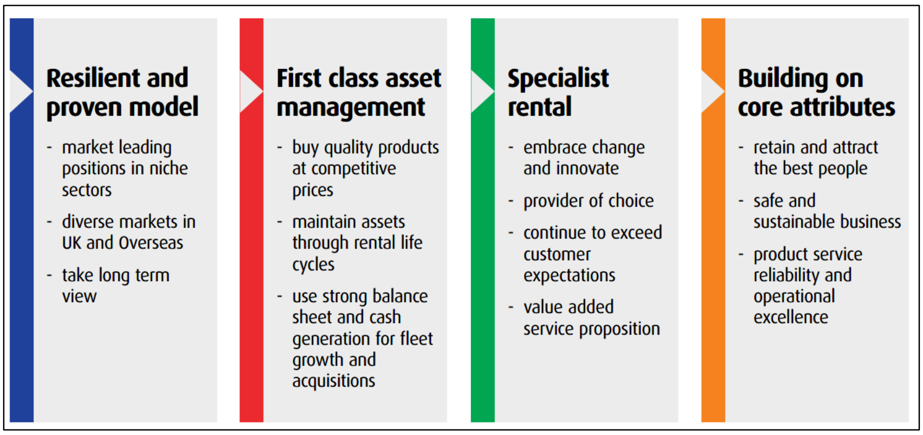
Vp plc

Resilient 1st half despite macro uncertainty

1st October 2019

'A rising tide lifts all boats' – although for the FTSE, not all ships are built the same. You see, high quality stocks tend to outperform others during both calm and choppy seas. Such as specialist plant hire firm Vp, which enjoys strong niche positions across a range of verticals, geographies & equipment types (see below).

Built to last

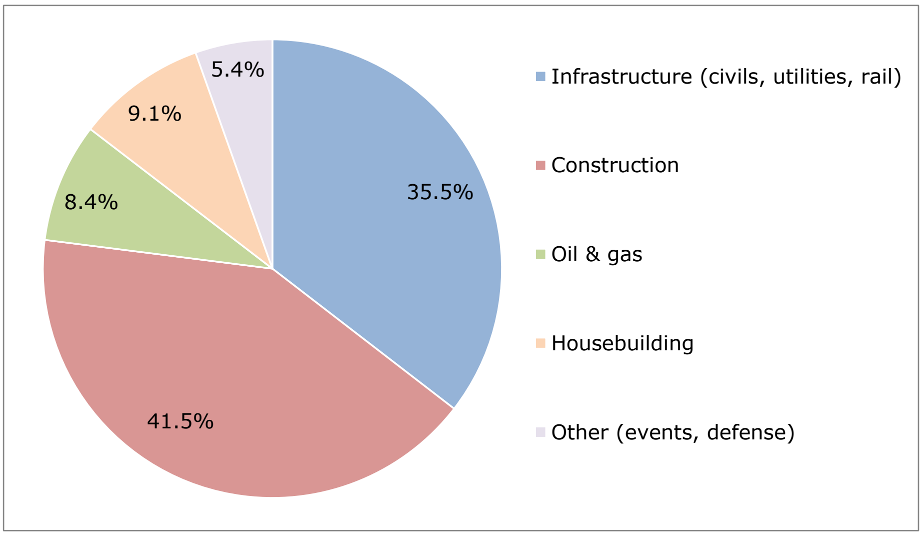


Source: Company

On track to hit expectations

Indeed this resilience came through again at this morning's **positive H1 trading update**. Here, notwithstanding macro headwinds (eg Brexit) and the completion of the 5-year Water (AMP 6) and Rail (CP5) investment rounds, **FY20 is anticipated to be "*in line with expectations*"**. UK infrastructure spend "*held up well*", whilst housebuilding remains stable, due to near-record employment, low borrowing costs, good mortgage availability and the popular Help to Buy scheme. Partly offset by softness in general construction, particularly centred on London and the South East.

FY19 revenue (£382.8m) split by market



Source: Equity Development

Company Data

EPIC	LSE: VP.
Price (last close)	810p
52 week Hi/Lo	1,130p/696p
Market cap	£325m
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 (91.5% FY19 turnover), but also from overseas.

In terms of sector split: 35.5% FY19 sales came from infrastructure, 41.5% construction, 8.4% housing building, 8.4% oil & gas and 5.4% other.

Member of FTSE SmallCap Index.

Next news: Interims 4th Dec'19

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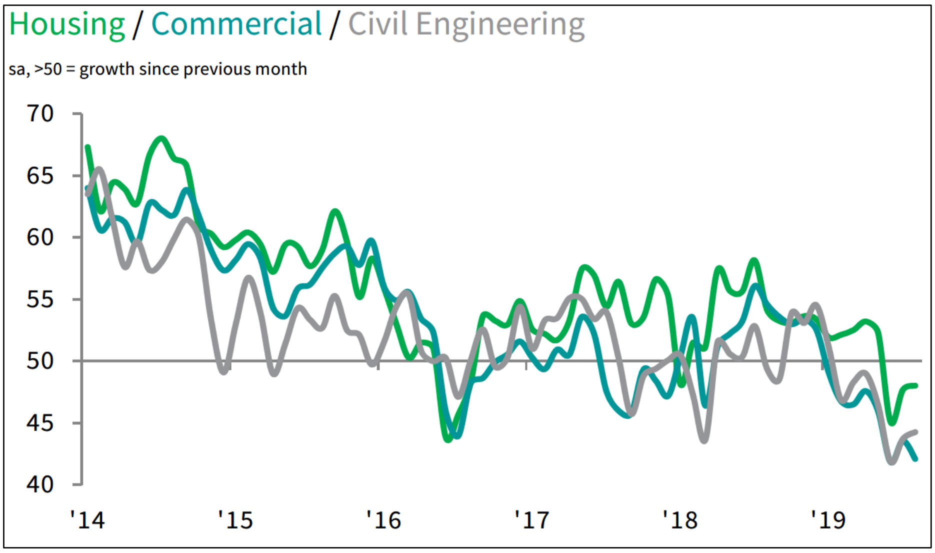
Brandon Hire Station now the UK's #1 tool hire firm

Elsewhere, **the £69.2m acquisition of Brandon Hire in Nov'17 has been successfully integrated with Hire Station**. Some of the synergies will be realised later, albeit we estimate the deal should ultimately deliver c.£4m of annualised savings, related to procurement/cost improvements, economies of scale and greater asset/inventory utilisation. In turn, boosting the original RoI from 8.7% to >14% - materially above Vp's 'through cycle' cost of capital

An impressive performance, especially considering the latest IHS Markit/CIPS UK Construction Index (see below) dropped to 45 in August (<50 implies contraction) – with "*delays to spending decisions contributing to the sharpest fall in new orders for >10 years*".

UK construction PMI (purchasing managers' index)



Source: IHS Markit

Long term fundamentals remain robust

What's more further out, there is no a shortage civils demand either. Not least in power generation (renewables, Hinkley Point C), rail (electrification, track upgrades, Crossrail 2, HS2), water (London's super sewer, national grid), airport (eg Heathrow 3rd runway), road (electric vehicles), residential property and 5G wireless / broadband.

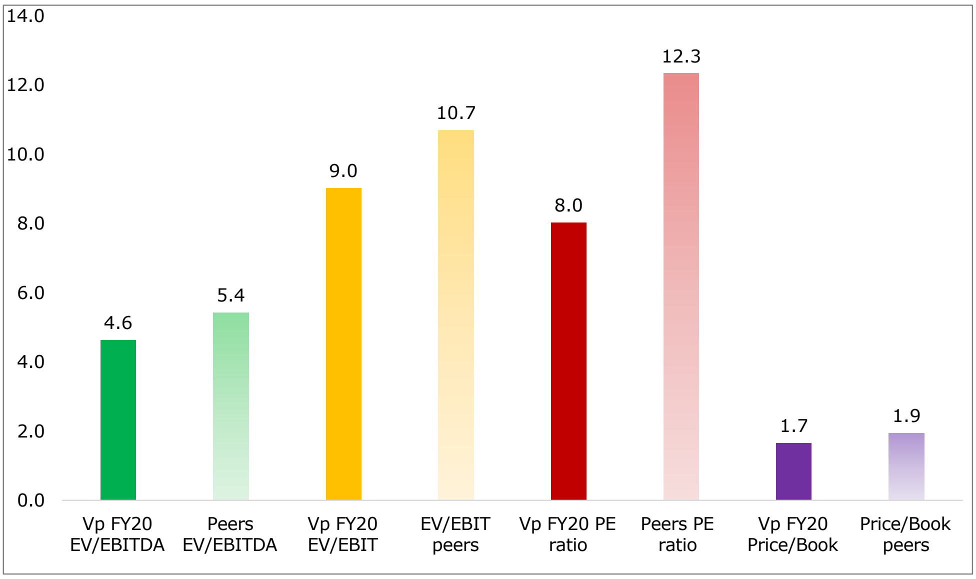
Granted Vp's International division experienced a "*softer start to FY20*" (eg oil & gas) than anticipated. Yet equally, there has been a recent uptick in activity across petrochemical and test & measurement.

No change to forecasts or £10.75/share valuation

Consequently overall, **we reiterate our adjusted FY20 PBT forecast of £49.6m and 1,075p/share valuation** – offering 33% upside to patient investors. Plus, we suspect the present bearish sentiment towards equipment hire stocks (re 5.4x EV/EBITDA) has reached elevated levels. Meaning that there may only need to be a modest shift in economic data to trigger a much sharper rebound in shareprices.

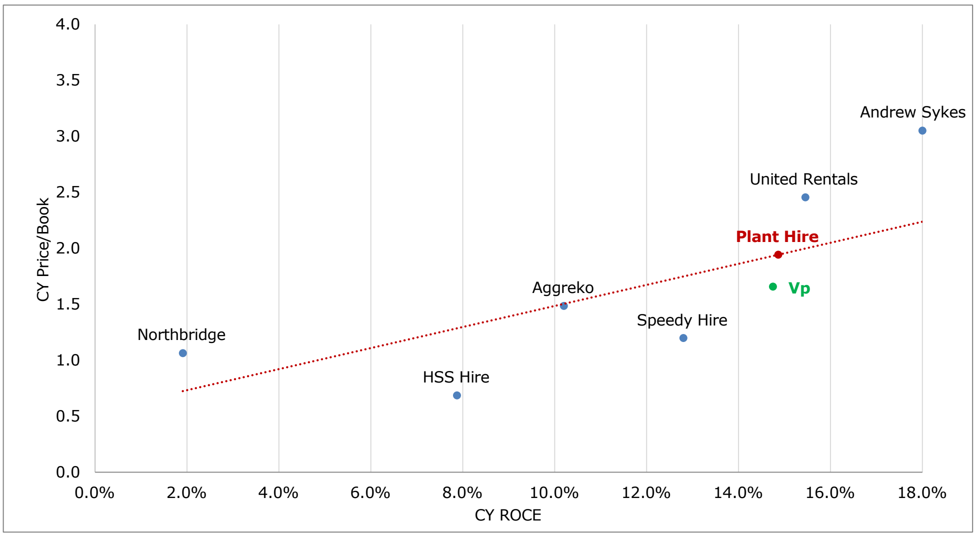
To us at 810p, **Vp appears substantially undervalued on just about all metrics** (see below/appendices).

Vp FY20 multiples vs peers



Source: Equity Development

Current Year ROCE vs Price: Book



Source: Equity Development

£4.5m one-off provision for CMA investigation

Lastly, there was no comment in the RNS with regards to the ongoing Competition and Markets Authority (CMA) investigation. In April, the CMA provisionally concluded that 3 major suppliers of groundwork products – including Vp's Groundforce unit - were involved in alleged anti-competitive behaviour.

Hence consistent with IAS 37, Vp included an exceptional charge of £4.5m in its FY19 accounts. Being the arithmetic midpoint of a range of possible outcomes (£0m to £9.0m), which was calculated based upon previous cases and published guidance. Either way however, we envisage any possible fine will be immaterial in the context of the group's £325m marketcap.

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	*14.9*	*13.0*	*11.7*	*9.5*	*8.5*	*8.0*	*7.7*	*7.4*	*7.1*
EV/Sales	*2.4*	*2.3*	*2.0*	*1.6*	*1.3*	*1.2*	*1.2*	*1.2*	*1.1*
EV/EBITDA	*9.1*	*8.2*	*6.9*	*5.8*	*4.8*	*4.6*	*4.5*	*4.3*	*4.2*
EV/EBITA	*17.0*	*15.3*	*12.9*	*11.1*	*9.5*	*9.0*	*8.7*	*8.4*	*8.1*
PEG ratio	*0.5*	*0.9*	*1.0*	*0.4*	*0.7*	*1.3*	*2.1*	*1.6*	*1.6*
Dividend yield	*2.0%*	*2.3%*	*2.7%*	*3.2%*	*3.7%*	*4.0%*	*4.1%*	*4.3%*	*4.5%*
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)	**810**								

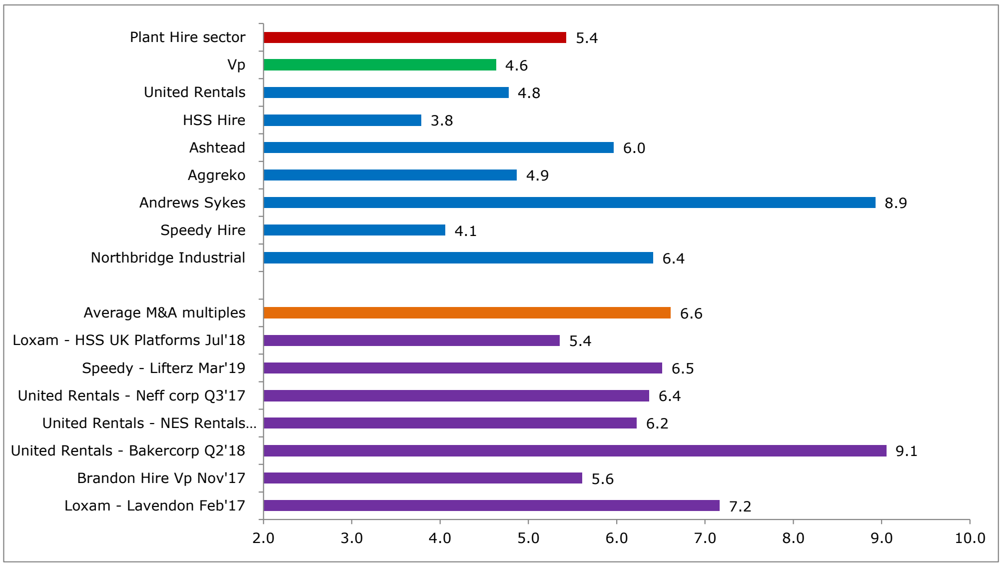
Source: Equity Development

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.

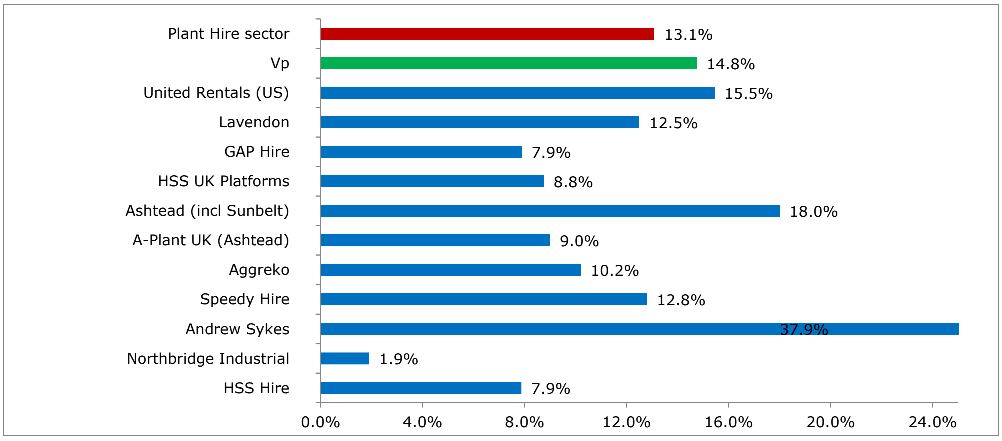
Appendix - Sector valuation metrics and KPIs

Current Year EV / EBITDA vs peers



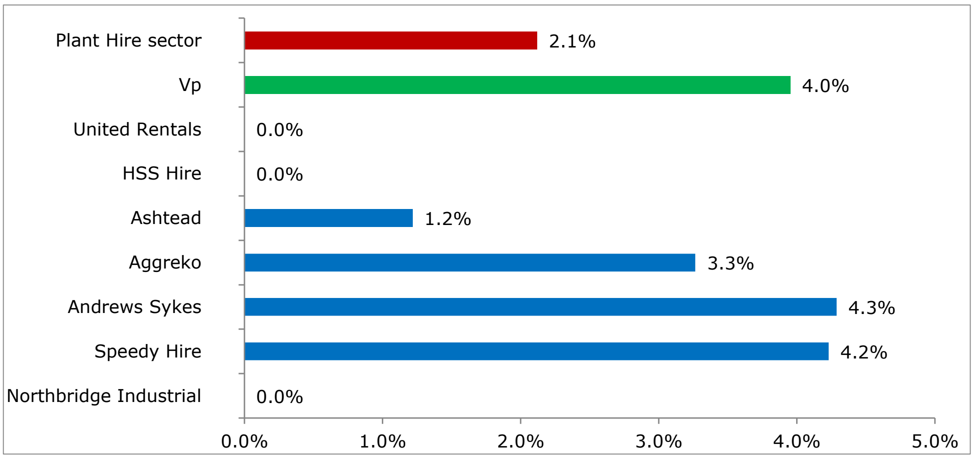
Source: Equity Development, arithmetic average for sector

Current Year (FY20) ROCE vs peers



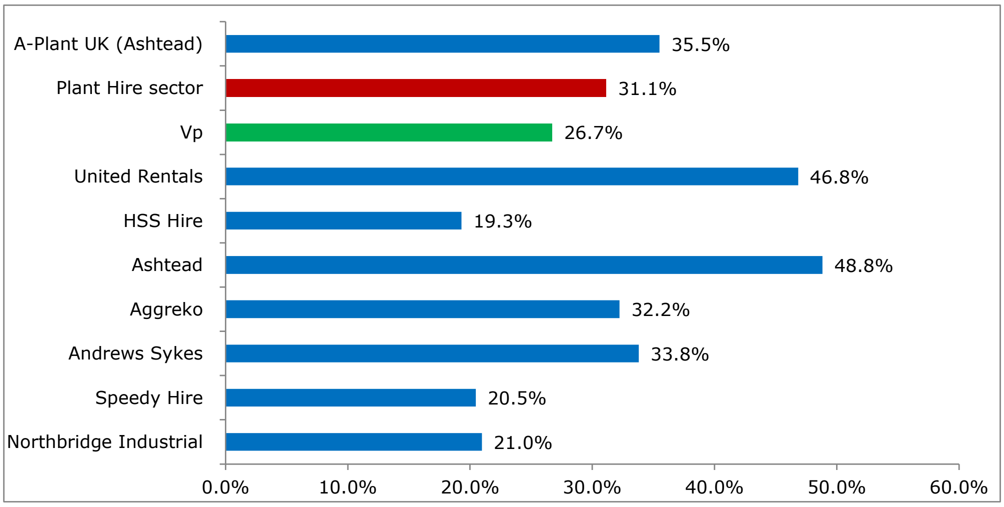
Source: Equity Development : arithmetic average for sector

Current Year dividend yield (%)



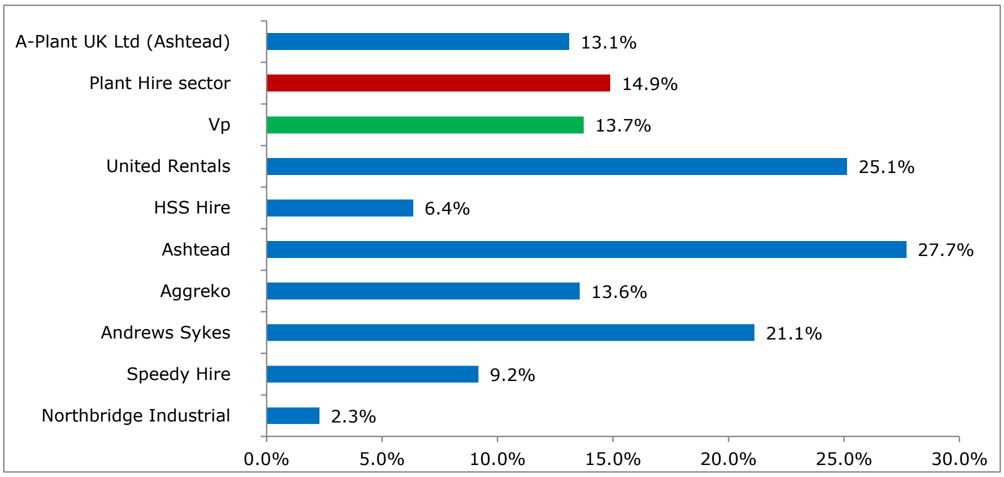
Source: Equity Development, arithmetic average for sector

Current Year (FY20) EBITDA margins vs peers



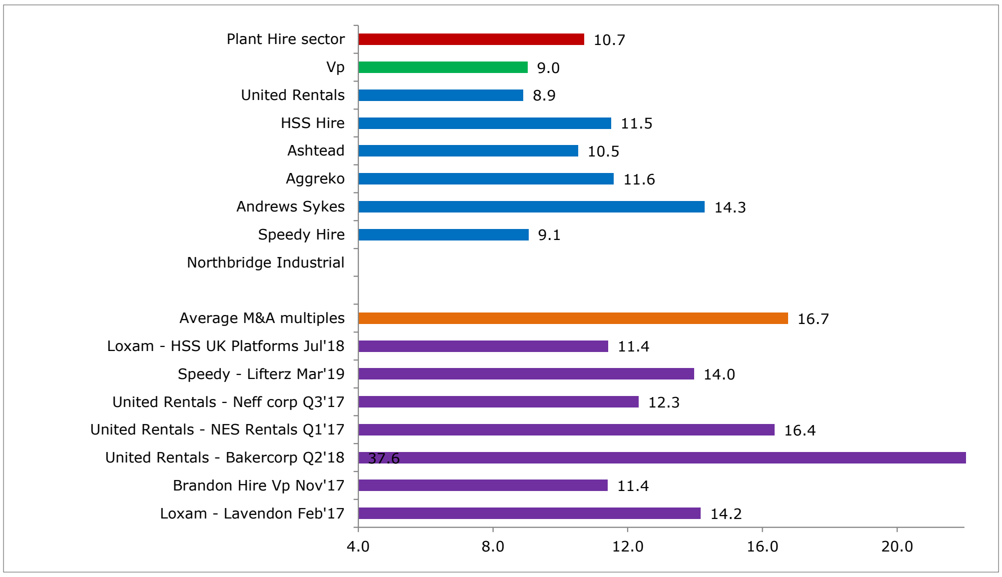
Source: Equity Development : arithmetic average for sector

Current Year (CY) EBIT margins vs peers



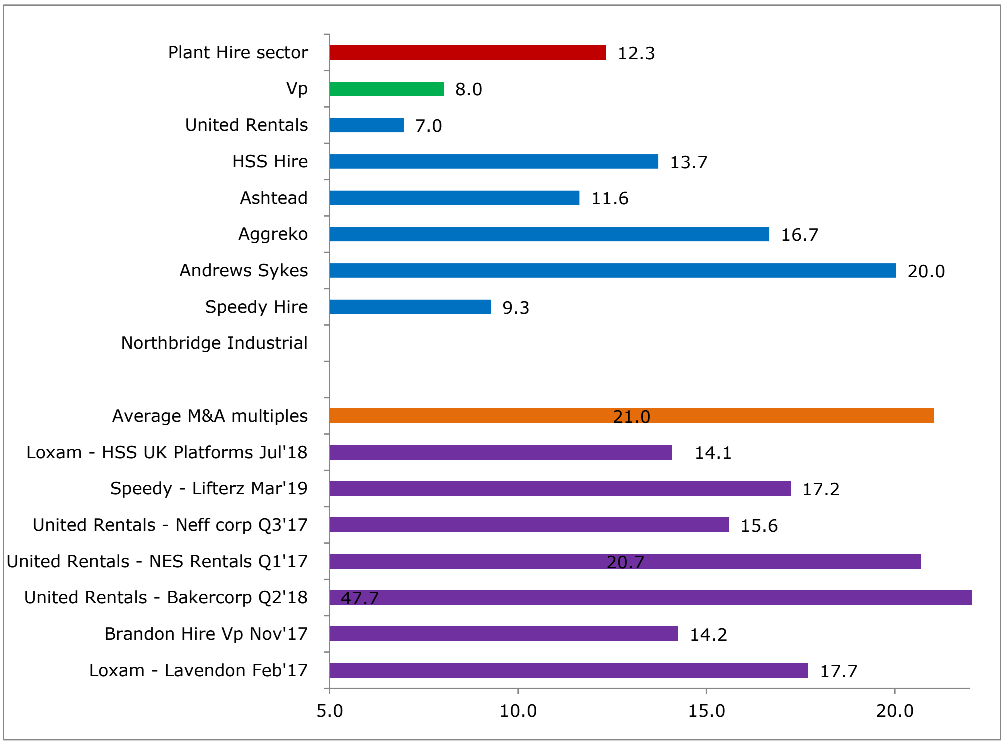
Source: Equity Development, arithmetic average for sector

Current Year EV / EBIT vs peers



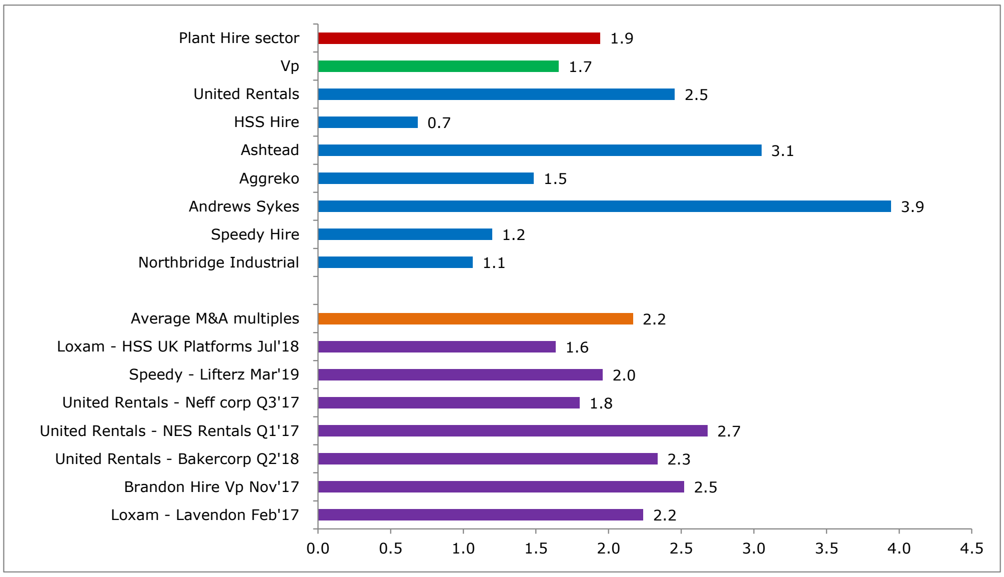
Source: Equity Development, arithmetic average for sector

Current Year PER vs peers



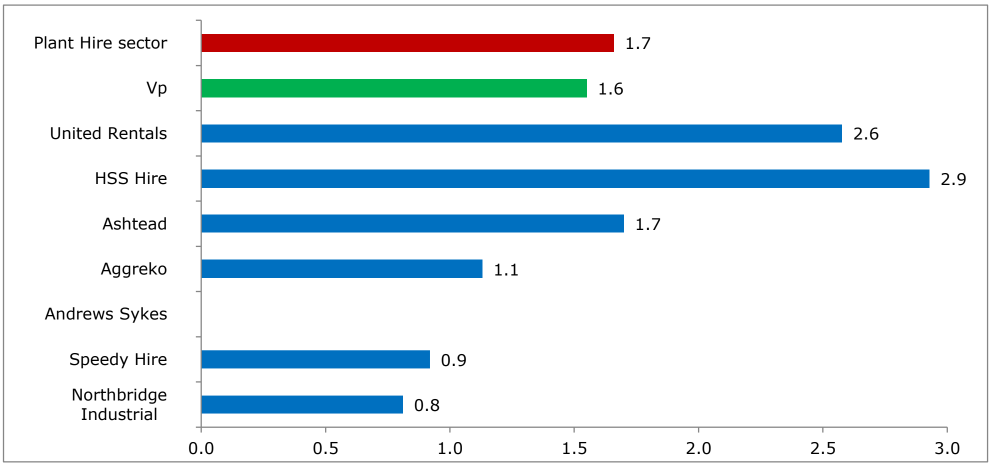
Source: Equity Development, arithmetic average for sector

Current Year Price : Book vs peers



Source: Equity Development, arithmetic average for sector

Current Year net debt / EBITDA



Source: Equity Development

Market capitalisation of sector

	Shareprice	**Mrk Cap (Millions)**	**CY net cash / (debt) Ms**	**Enterprise Value (Millions)**
Northbridge Industrial	137p	£38.6	-£5.6	£44.2
Speedy Hire	52p	£273	-£80	£353
Andrews Sykes	555p	£234	£20	£214
Aggreko	830p	£2,117	-£640	£2,757
Ashtead	2,260p	£10,848	-£4,586	£15,434
HSS Hire	32p	£54.5	-£186.0	£240.5
United Rentals	$125	£9,625	-£11,289	£20,914
Vp	810p	£325	-£163	£489

Source: Equity Development

Investor Access

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