

## On track for another year of progress

2<sup>nd</sup> August 2018

House prices are almost as British as fish & chips. Hardly surprising really, given in total residential property is worth a staggering £7.1 trillion (source: Savills), or >4x GDP. So what's the latest word on the street? Well despite being buffeted in Q1'18 by the country's other favourite topic, the weather – the recent outlook from the nation's housebuilders appears to be positive. The UK construction industry rebounded 2.9% in May, led by 'new build homes' which were up 8.4% on LFL terms.

Going forward, **we expect activity levels to remain supportive** – albeit slightly less so in central London, which has greater BREXIT exposure and much higher property values. This positive outlook underpins our forecasts for specialist plant hire group Vp, who released an **upbeat trading statement** this morning ahead of its AGM.

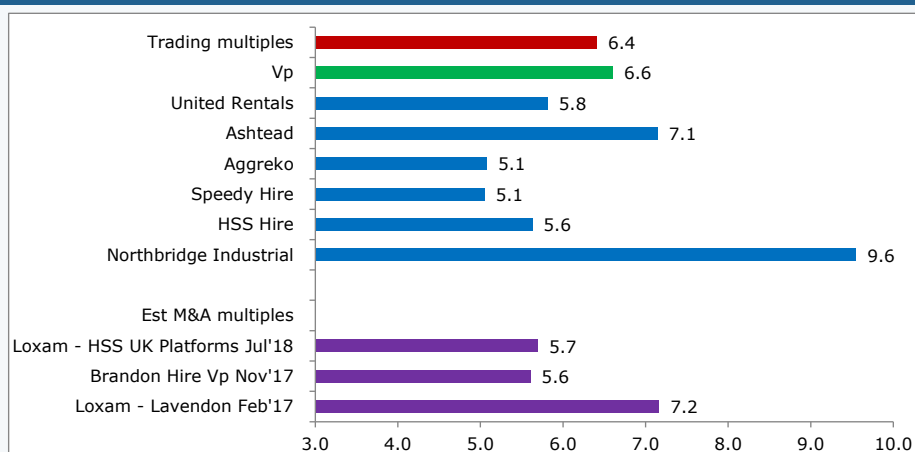
### Vp's growth is unlikely to be derailed by Brexit

Here, **the company has enjoyed an encouraging 1<sup>st</sup> four months**, with its **core UK infrastructure, housebuilding & construction markets demonstrating solid demand**. The **integration of Brandon Hire is also progressing to plan**.

Elsewhere, there has been a "*modest recovery*" in the overseas oil & gas business (Airpac Bukom) reflecting improved crude prices, allied to good trading at the AsiaPac test & measurement operation.

Consequently, **we make no change to our numbers**, but **nudge up the valuation to £11.00/share from £10.70** – based on a 12x EV/EBIT multiple, which is consistent with sector EV/EBITDA averages of 6.4x (see below).

#### Current year EV/EBITDA multiples

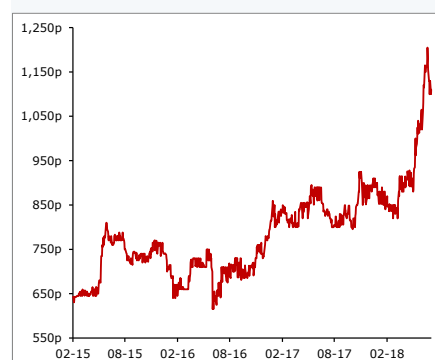


Source: Equity Development. Closing prices as per 1<sup>st</sup> August 2018

#### Company Data

EPIC	LSE: VP.
Price (last close)	1,145p
52 week Hi/Lo	1,230p/795p
Market cap	£460m
ED valuation/share	1,100p
Daily volume	13,000

#### Share Price, p



Source: Web Financial

#### 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, 37% FY18 sales came from infrastructure, 33% construction, 11% housing building, 8% oil & gas and 10% other.

Member of FTSE SmallCap Index.

**Next news:** Interims in November 2018.

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## Forecasts (£'000s)

Vp (March year end)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s
<b>Turnover</b>							
UK	184,142	193,555	220,015	271,989	333,184	343,723	354,621
International	21,460	15,191	28,725	31,650	33,018	34,445	35,934
<b>Total</b>	<b>205,602</b>	<b>208,746</b>	<b>248,740</b>	<b>303,639</b>	<b>366,201</b>	<b>378,168</b>	<b>390,556</b>
% growth	12.3%	1.5%	19.2%	22.1%	20.6%	3.3%	3.3%
UK		5.1%	13.7%	23.6%	22.5%	3.2%	3.2%
International		-29.2%	89.1%	10.2%	4.3%	4.3%	4.3%
<b>EBITDA</b>	<b>53,803</b>	<b>59,266</b>	<b>71,238</b>	<b>84,337</b>	<b>96,729</b>	<b>101,100</b>	<b>104,420</b>
% Margin	26.2%	28.4%	28.6%	27.8%	26.4%	26.7%	26.7%
<b>Adjusted EBIT</b>							
UK	26,027	30,659	35,871	43,001	50,131	52,299	53,765
International	2,753	1,232	1,886	1,017	1,570	2,301	2,631
<b>Total</b>	<b>28,780</b>	<b>31,891</b>	<b>37,757</b>	<b>44,018</b>	<b>51,700</b>	<b>54,600</b>	<b>56,397</b>
<b>% Margin</b>	<b>14.0%</b>	<b>15.3%</b>	<b>15.2%</b>	<b>14.5%</b>	<b>14.1%</b>	<b>14.4%</b>	<b>14.4%</b>
UK	14.1%	15.8%	16.3%	15.8%	15.0%	15.2%	15.2%
International	12.8%	8.1%	6.6%	3.2%	4.8%	6.7%	7.3%
Underlying Interest charge	-2,023	-2,093	-2,906	-3,421	-4,700	-4,600	-4,500
<b>Adjusted PBT (pre amortisation)</b>	<b>26,757</b>	<b>29,798</b>	<b>34,851</b>	<b>40,597</b>	<b>47,000</b>	<b>50,000</b>	<b>51,897</b>
<b>Adjusted earnings</b>	<b>21,201</b>	<b>24,226</b>	<b>27,262</b>	<b>32,290</b>	<b>38,070</b>	<b>40,500</b>	<b>43,074</b>
<b>Adjusted Basic EPS (p)</b>	<b>54.4</b>	<b>62.2</b>	<b>69.5</b>	<b>81.8</b>	<b>95.0</b>	<b>99.5</b>	<b>104.3</b>
EPS growth rate	29.7%	14.3%	11.7%	17.7%	16.1%	4.8%	4.8%
<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>31.6</b>	<b>33.2</b>
<b>Valuation benchmarks</b>							
P/E ratio	21.0	18.4	16.5	14.0	12.1	11.5	11.0
EV/Sales	3.1	3.1	2.6	2.1	1.7	1.7	1.6
EV/EBITDA	11.9	10.8	9.0	7.6	6.6	6.3	6.1
EV/EBITA	22.2	20.0	16.9	14.5	12.4	11.7	11.3
PEG ratio	0.7	1.3	1.4	0.8	0.7	2.4	2.3
Dividend yield	1.4%	1.6%	1.9%	2.3%	2.6%	2.8%	2.9%
Dividend cover	3.3	3.3	3.2	3.1	3.1	3.1	3.1
Corporate tax rate	-20.8%	-18.7%	-21.8%	-20.5%	-19.0%	-19.0%	-17.0%
Net debt / EBITDA (proforma)	1.2	1.5	1.4	2.0	1.8	1.6	1.4
Return on average capital employed	16.2%	16.3%	16.0%	14.8%	14.3%	14.5%	14.8%
<b>Net cash/(debt)</b>	<b>-66,764</b>	<b>-86,134</b>	<b>-98,933</b>	<b>-179,172</b>	<b>-169,567</b>	<b>-158,815</b>	<b>-147,674</b>
Fleet capital expenditure	49,300	45,900	57,600	64,900	61,847	63,847	66,847
Investment as % sales	24.0%	22.0%	23.2%	21.4%	16.9%	16.9%	17.1%
Reported sharecount Ks (net Treasur	38,940	38,942	39,215	39,476	40,082	40,688	41,294
<b>Shareprice (p)</b>	<b>1,145</b>						

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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