Vp plc

Resilient FY24, confident long-term outlook

16th April 2024

Vp's full year update highlights sector-leading results, once again benefiting from the diversity of its end markets and the quality of its specialist businesses. With results expected to be broadly in line with expectations, we trim our FY24 PBT forecast by c.5% to £39.0m, a shade below the FY23 outturn (£40.2m). We consider this an impressively resilient performance set against a mixed market backdrop. Under new leadership, a strategic refresh is underway and management is confident in long term prospects. In our view, the valuation is compelling (FY25E P/E of c7x). We reiterate our Fair Value estimate of 1090p per share.

Resilient performance in challenging markets

Results in FY24 have again been underpinned by the diversity of Vp's end markets, with supportive conditions in Infrastructure, notably the rail, transmission and water sectors. It comes as no surprise that general construction remains challenging, which has impacted the performance of Brandon Hire Station. An operational review of this division is well advanced, and the new management team is focused on actions to drive margin improvements alongside medium-term strategic objectives.

Strategy refresh – further details in June

To recap, Anna Bielby became CEO on 1st September, having joined Vp as CFO in January '23. Keith Winstanley then joined the Group as CFO in January '24 to complete the new leadership team. The strategy is being refreshed with further details to follow at the full year results in June. It is clear that the new team is ambitious to build on Vp's strong foundations and deliver long term growth.

Industry data showing tentative signs of recovery

Construction industry conditions have been subdued for some time, but the latest PMI surveys (typically a good forward indicator) show tentative signs of improvement. UK construction companies highlighted a renewed increase in total activity in March, ending a six-month period of decline and, encouragingly, new orders expanded at the fastest pace since May 2023.

Modest forecast changes, compelling valuation

We trim our forecasts (see p. 2) to reflect challenges within the general construction sector but consider this an impressive performance in the context of the wider market. We expect a return to profit growth in FY25 with significant potential thereafter. A P/E rating of c7x is compelling, in our view.

Key Financials and Valuation metrics

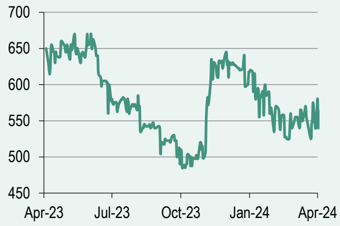
Year end March, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	362.9	308.0	350.9	371.5	378.0	390.0
EBITDA	123.8	96.7	108.4	111.9	111.5	113.8
Adjusted PBT	46.6	23.2	38.9	40.2	39.0	41.8
FD EPS (p)	88.7	45.8	71.2	78.4	70.7	75.9
DPS (p)	30.5	25.0	36.0	37.5	38.5	40.0
Net Cash/(Debt)*	-159.8	-121.9	-130.6	-134.4	-126.2	-115.7
Net Cash/(Debt)**	-231.7	-178.7	-188.3	-192.9	-184.7	-174.2
Net Debt**/EBITDA	1.9x	1.8x	1.7x	1.7x	1.7x	1.5x
P/E	6.1x	11.8x	7.6x	6.9x	7.6x	7.1x
EV/EBITDA	3.6x	4.1x	3.7x	3.7x	3.6x	3.4x
Price/ TNAV	2.3x	2.4x	2.1x	1.8x	1.7x	1.5x
Dividend yield	5.6%	4.6%	6.7%	6.9%	7.1%	7.4%
FCF yield	13.5%	25.4%	4.3%	5.4%	11.7%	12.9%

*Source: ED analysis, IFRS 16 basis unless stated *excluding leases (pre IFRS 16) ** including leases (IFRS 16)*

Company Data

EPIC	LSE: VP.
Price (last close)	565p
52 weeks Hi/Lo	680p/485p
Market cap	£227m
ED Fair Value	1090p
Proforma net cash/ (net debt)	(£126.2m)
Avg. daily volume	21,000

Share Price, p



Source: ADVFN

Description

Vp is a specialist equipment hire business serving a wide range of markets including civil engineering, rail, oil & gas, construction, outdoor events and industry, primarily within the UK (83%), but also overseas. It has an excellent track record of revenue growth and high returns, and an attractive dividend policy.

Key markets are infrastructure (38%) construction (41%), housebuilding (8%), and energy (6%).

Next news: FY results June 2024

James Tetley (Analyst)
0207 065 2690
james.tetley@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

Trading Update

Vp's full year update highlights another resilient performance, with sector-leading results, which are expected to be broadly in line with market expectations.

Key takeaways

- Infrastructure has been particularly supportive with continued strong demand from the rail, transmission and water sectors.
- General construction remains challenging, which has impacted the performance of Brandon Hire Station in particular. An operational review of this division is well advanced and the new management team is focused on actions to drive margin improvements alongside medium term strategic objectives.
- The Group continues to invest in new fleet, with a year-on-year increase in capex and a focus on lower emission technology.
- Net debt has reduced and the Revolving Credit Facility was successfully refinanced in November 2023 on favourable terms. Vp is therefore well positioned to take advantage of organic and acquisitive opportunities as they arise.

Minor forecast changes

We make minor changes to our forecasts within this note, as summarised in the table below. Our revenue forecasts are unchanged, but we have trimmed our margin estimates to reflect the impact of ongoing weakness in the general construction sector.

Minor forecast changes

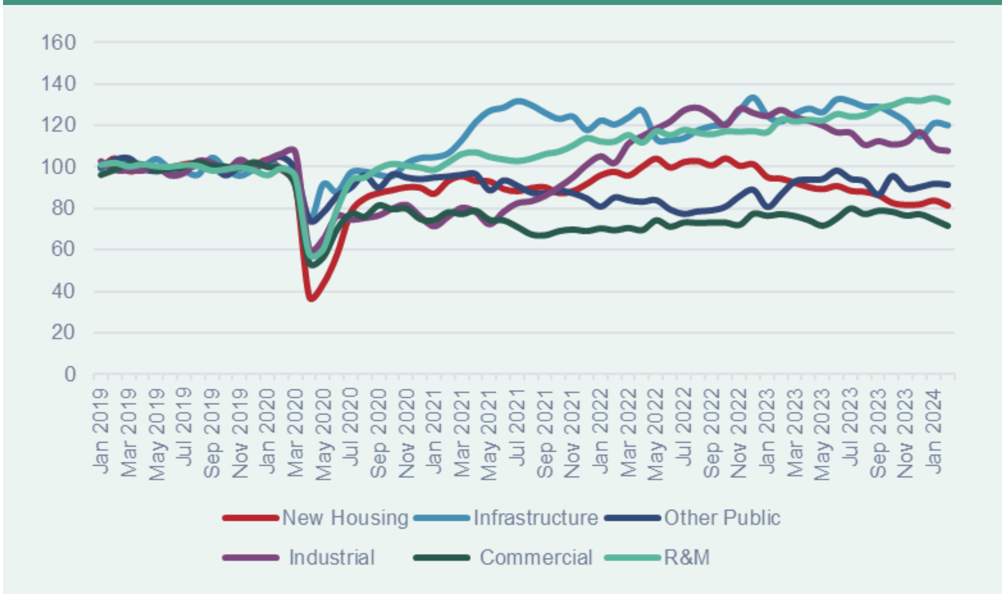
Year End March	2024(E) Revised	2024(E) Old	2024(E) Change	2025(E) Revised	2025(E) Old	2025(E) Change
Revenue £m	378.0	378.0	0.0%	390.0	390.0	0.0%
EBITDA £m	111.5	113.5	-1.8%	113.8	115.8	-1.7%
PBT (underlying) £m	39.0	41.0	-4.9%	41.8	43.8	-4.6%
EPS fully diluted p	70.7	74.3	-4.9%	75.9	79.5	-4.6%
Dividend p	38.5	39.0	-1.3%	40.0	41.0	-2.4%
Net cash/ (debt) ex. leases £m	-126.2	-124.2	1.6%	-115.7	-112.5	2.9%
Net cash/ (debt) inc. leases £m*	-184.7	-182.8	1.1%	-174.2	-171.0	1.9%

Source: Equity Development forecasts

Industry data highlight recent market challenges…

Conditions across the construction industry have been subdued for some time now, with particular weakness in new housing, as builders have adjusted output in response to the higher interest rate environment. Vp's relative resilience reflects the Group's end market diversity and its weighting towards infrastructure spending, notably the regulated water and rail sectors.

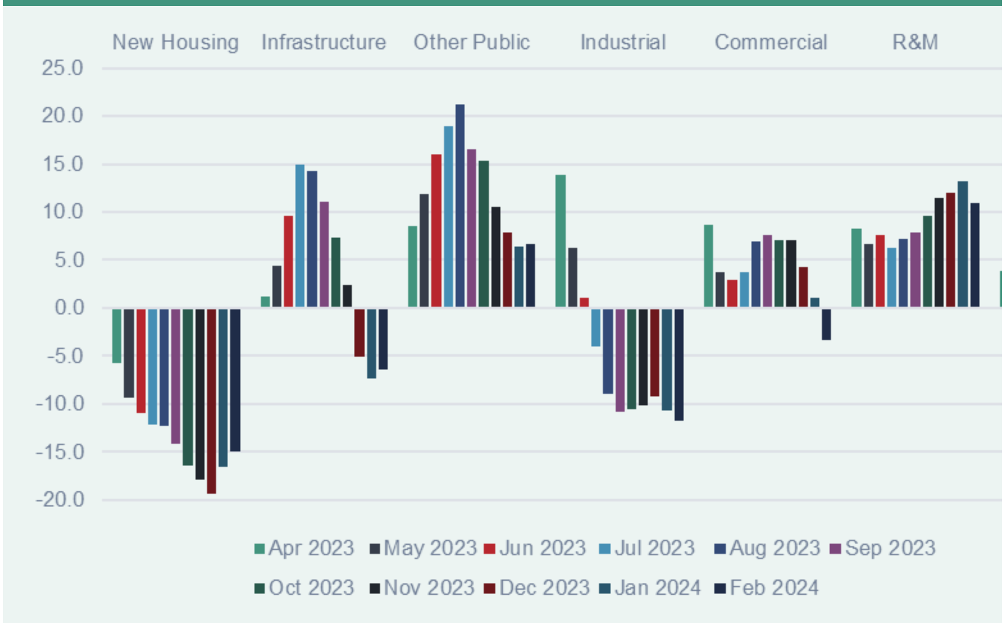
Construction output in Great Britain, index numbers by sector



Source: ONS

Repair & Maintenance spending has been the one industry bright spot, whilst most areas have experienced year-on-year declines.

Construction output in Great Britain, percentage change versus prior year

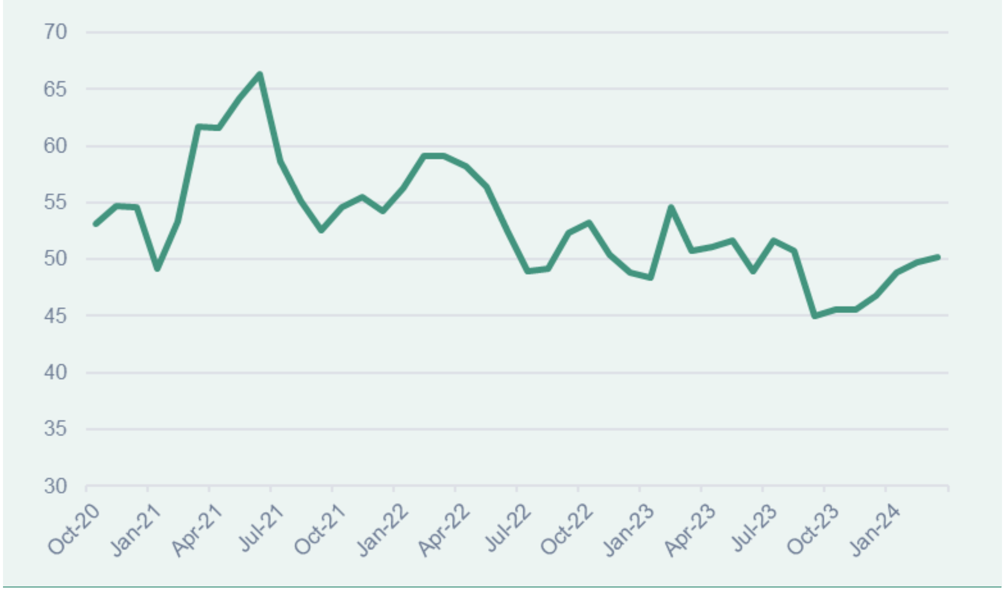


Source: ONS

...but indicate improving sentiment in early ‘24

The UK construction PMI is a key forward-looking indicator derived from a monthly survey of 170 construction companies. By contrast with the negative ONS data on the previous page, the latest PMI surveys show tentative signs of improvement in the early months of 2024, as illustrated by the chart below.

UK Construction PMI



Source: S&P/ CIPS Construction PMI

UK construction companies highlighted a renewed increase in total activity in March, ending a six-month period of decline. They also pointed to a turnaround in their sales pipelines and greater new business enquiries linked to the improving economic outlook and more stable financial conditions.

Encouragingly, new orders expanded at the fastest pace since May 2023 and inflation has eased further but most companies remain cautious about hiring new staff. Survey respondents were hopeful of an improvement in house building projects, but mindful of political uncertainty in a General Election year.

Valuation compelling relative to peers & historic rating

In our view, Vp's share price represents compelling value and does not reflect the Group's track record of resilience and growth. Whilst UK small/ midcap valuations are generally depressed, we believe that a sustained improvement in industry sentiment would represent a clear catalyst for Vp. We also look forward to the launch of the new strategy at June's results, which we would expect to stimulate investor interest and provide a reminder of the Group's long term growth potential.

Peer group valuation metrics

Company	Market Cap £m	Share Price £	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	Div Yield (NTM)
Ashtead	25,295.5	57.96	19.0x	17.9x	8.8x	8.2x	1.5%
HSS Hire	60.2	0.09	7.1x	9.6x	2.6x	2.9x	6.6%
Speedy Hire	115.4	0.25	9.7x	7.1x	3.0x	2.8x	6.6%
Vp	213.5	5.40	7.6x	7.1x	3.6x	3.4x	7.1%
Peer average			**10.9x**	**10.4x**	**4.5x**	**4.3x**	**5.4%**
Average ex Vp			11.9x	11.5x	4.8x	4.6x	4.9%
Vp			**7.6x**	**7.1x**	**3.6x**	**3.4x**	**7.1%**

Source: Equity Development, Koyfin

Vp is currently trading at a significant, 40% discount to its long-run historic average P/E rating of 12x. The same discount applies on an EV/EBITDA basis, where a multiple of 6x is more typical (compared to <4x at today's share price). We note that recent sector M&A has also tended to take place at EV/EBITDA multiples of >6x, which provides further underpinning for our Fair Value analysis.

We maintain our Fair Value estimate of £10.90 per share, based on the Group's historic average trading multiples, noting the impressive track record of long-term growth, high returns and the successful navigation of previous economic cycles.

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690