Vp plc

Robust results confirm quality and growth ambition

26th November 2024

Vp has delivered another robust H1 performance, with revenue and profits essentially in line with the prior year. This achievement should not be underestimated in the context of significant end market headwinds. Good progress has been made with the refreshed operating model, with the overarching aim of increasing collaboration across the Group and improving customer engagement.

Full year guidance has been reiterated and the half-year results provide cover for 55% of our operating profit forecast. Increasing National Insurance contributions will have an impact in FY26 but we expect this to be partially mitigated and continue to anticipate a return to profit growth next year. Management is committed to delivering long term growth, driven by operational improvements, targeted capex and strategic M&A. In our view, a track record of consistently high returns warrants a higher rating. We reiterate our 1000p Fair Value estimate.

Resilient H1 results – in line with prior year despite market challenges

Vp's half year results represent another resilient performance, which we consider highly impressive in the context of a mixed end market backdrop. Revenue, profits, earnings and dividend are all essentially in line with the prior year, as growth in Infrastructure and Energy markets have offset ongoing challenges in Construction and Housebuilding.

Strategic and operational progress

The period was notable for operational and strategic improvements, including the launch of Vp Rail, the Group's first dedicated, Group-wide sector offering. Post period end, Vp announced the acquisition of Charleville Hire & Platform, a specialist powered access company, which provides a platform for growth in the Republic of Ireland. Management is also moving towards the centralisation of re-hire activities amongst other initiatives to drive growth and operational efficiencies.

Compelling valuation: 7% dividend yield and significant recovery potential

Recent strategic and operational initiatives should enhance returns over the medium to long term and the dependable dividend yield is attractive at c.7%. We make no change to our Fair Value estimate of 1000p. This is based on a 5x EV/EBITDA rating, which we consider undemanding. At 1000p, the P/E rating would be 14x and the dividend yield c.4%.

Key Financials and Valuation metrics

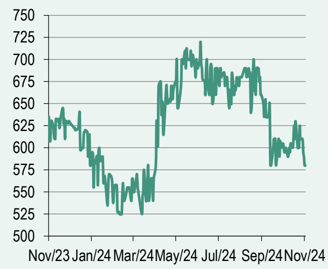
Year end March, £m	2021A	2022A	2023A	2024A	2025E	2026E
Sales	308.0	350.9	371.5	368.7	374.0	392.0
EBITDA	96.7	108.4	111.9	111.0	110.2	112.0
Adjusted PBT	23.2	38.9	40.2	39.9	37.0	38.2
FD EPS (p)	45.8	71.2	78.4	73.2	67.8	70.1
DPS (p)	25.0	36.0	37.5	39.0	39.0	40.0
Net Cash/(Debt)*	-121.9	-130.6	-134.4	-125.2	-143.0	-140.3
Net Cash/(Debt)**	-178.7	-188.3	-192.9	-187.2	-203.0	-200.2
Net Debt**/EBITDA	1.8x	1.7x	1.7x	1.7x	1.8x	1.8x
P/E	12.7x	8.2x	7.4x	7.9x	8.6x	8.3x
EV/EBITDA	4.3x	3.9x	3.8x	3.8x	4.0x	3.9x
Price/ TNAV	2.6x	2.2x	2.0x	1.8x	1.9x	1.8x
Dividend yield	4.3%	6.2%	6.5%	6.7%	6.7%	6.9%
FCF yield	23.6%	4.0%	5.0%	11.0%	7.4%	8.8%

*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)	580p
52 weeks Hi/Lo	720p/525p
Market cap	£233m
ED Fair Value/share	1000p
Proforma net cash/ (net debt)	(£143.0m)
Avg. daily volume	30,000

Share Price, p



Source: ADVFN

Description

Vp plc is a specialist equipment rental business providing equipment, people, services and support for specialist projects. It focuses on niche sectors principally in the Infrastructure (38% of Group revenue), Construction (36%), Housebuilding (7%) and Energy (10%) markets in the UK and Overseas.

It has an excellent track record of growth and high returns over many years as well as a 30+ year unbroken dividend record.

Next news: Year-end trading update – Mar/Apr '25 (est)

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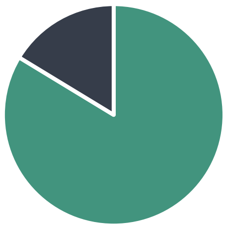
Segmental revenue FY25E (new presentation)



Interim results – an impressively resilient performance

Vp's half year results confirm another resilient performance, which we consider highly impressive in the context of a mixed end market backdrop.

Revenue, profits, earnings and dividend are all essentially in line with the prior year, as growth in Infrastructure and Energy markets have offset ongoing challenges in Construction and Housebuilding. By geography, International has delivered strong growth, and the UK has seen a small year on year decline.

To deliver the refreshed strategy, further additions have been made to the senior team, including the leadership of Technology, Health & Safety and Sustainability, and Procurement. Meanwhile the launch of Vp Rail creates a dedicated, Group-wide solution providing customers with direct access to all of Vp's rail specialisms. Management is also moving towards the centralisation of re-hire activities amongst other initiatives to drive growth and operational efficiencies.

Post period end, in early October, Vp announced the acquisition of Charleville Hire & Platform, the first acquisition under the current management team. See our Research note for further details (Click here: Navigating market challenges, acquisition in Ireland).

A robust outlook statement confirms the performance for the full year is expected to be in line with current market expectations and assumes no short-term improvement in the more challenging end markets.

We make no changes to our headline forecasts for FY25 but we do reflect an impact from upcoming increases to employers National Insurance contributions and the National Minimum Wage, as set out in the Autumn budget. These changes are expected to impact Vp by c.£4m next year, before mitigating actions. We assume around half of this can be mitigated and reflect this in our new forecasts (see page 5).

Financial highlights

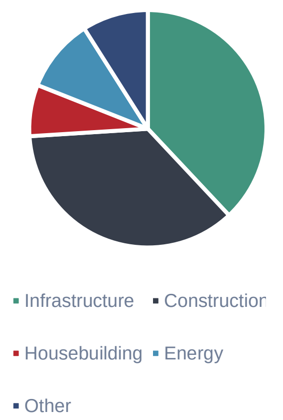
- Revenue increased by 1% to £192.5m, representing a very resilient performance against a mixed market backdrop. Vp's Infrastructure and Energy segments delivered growth, but Construction and Housebuilding contracted, given ongoing challenging market conditions.
- Operating margin reduced slightly to 13.4% from 13.8%.
- Return on Average Capital Employed was maintained at a sector leading 14.7% (H1'24: 14.7%), in line with management's 15% target.
- As a result, adjusted PBT reduced by just 2% to £21.0m. There were no exceptional charges in the period and statutory profit before tax also reduced by 2% to £19.5m.
- Capital investment in the rental fleet increased to £38.5m from £27.8m, the increase focused on demand in Germany in the Transmission sector (steel for temporary roadways).
- Net debt (ex. leases) was £140.4m, 5% higher than prior year, following the increase in capex, remaining well within management's <2.0x leverage target. Leverage is expected to be c.1.5x at the current year end.
- There is substantial headroom against facilities of c.£50m. The first date of any debt maturity is now January 2027, following the successful extension of the RCF post period end.
- Refinancing of £90m RCF successfully completed, complementing the existing £93m private placement.
- Interim dividend unchanged at 11.5p per share. The Group target remains 2x dividend cover over the medium term and today's announcement maintains a 30-year track record of uninterrupted dividends.

Divisional analysis

Year end March	H124(A)	H224(A)	2024(A)	H125(A)	H225(E)	2025(E)	2026(E)
	£m	£m	£m	£m	£m	£m	£m
Revenue							
UK	165.6	153.1	318.7	162.6	150.4	313.0	327.0
International	25.3	24.7	50.0	29.8	31.2	61.0	65.0
Group	190.9	177.8	368.7	192.5	181.5	374.0	392.0
Growth Rate	*2.4%*	*-3.9%*	*-0.8%*	*0.8%*	*2.1%*	*1.4%*	*4.8%*
Adjusted Operating Profit							
UK	22.1	18.8	40.9	21.4	16.0	37.4	38.0
International	4.3	4.3	8.6	4.5	4.8	9.3	10.0
Group	26.4	23.1	49.5	25.9	20.8	46.7	48.0
Adjusted Operating Margin							
UK	*13.3%*	*12.3%*	*12.8%*	*13.1%*	*10.7%*	*11.9%*	*11.6%*
International	*17.0%*	*17.5%*	*17.2%*	*15.1%*	*15.4%*	*15.2%*	*15.4%*
Group	*13.8%*	*13.0%*	*13.4%*	*13.4%*	*11.5%*	*12.5%*	*12.2%*
Interest	-4.9	-4.7	-9.6	-4.8	-4.9	-9.8	-9.8
Adjusted PBT (IFRS 16)	21.5	18.4	39.9	21.0	15.9	37.0	38.2

Source: Company actuals, Equity Development forecasts

Revenue by end market (H125)



Infrastructure

Infrastructure saw good momentum in Water and Transmission, whilst Rail revenues were lower as a result of a relatively slow start to the transition from Control Spend Period 6 (CP6) to CP7, as highlighted in the half year trading update. The medium-term outlook for Rail remains positive and will benefit from the launch of Vp Rail, an integrated rail solution providing customers with direct access to all Vp's rail specialisms. This will be led by a newly appointed Director of Vp Rail, promoted from within the Group, with the intention of giving customers easier access to all of the Group's specialist capabilities.

Construction

The UK Construction sector remains challenging, as we highlight in the market commentary on page 4, and it is no surprise that Vp reports a decline in revenue in this segment, as well as a tough credit environment. The Group's specialist activities are proving to be more successful, whilst General Construction remains highly competitive and more impacted by wider economic headwinds. The recovery plan at Brandon Hire Station continues. As well as refocusing the core business and optimising its physical footprint, certain activities are being moved from Brandon Hire to the centre of the Group. Management expects to incur exceptional costs as a result of these changes in H2'25 and FY'26 and we have reflected these in our forecasts.

Energy

The Energy market remains positive and Vp continues to see strong growth and a good level of project activity in the UK and Internationally. Investment has been made in capex to support the strength of demand.

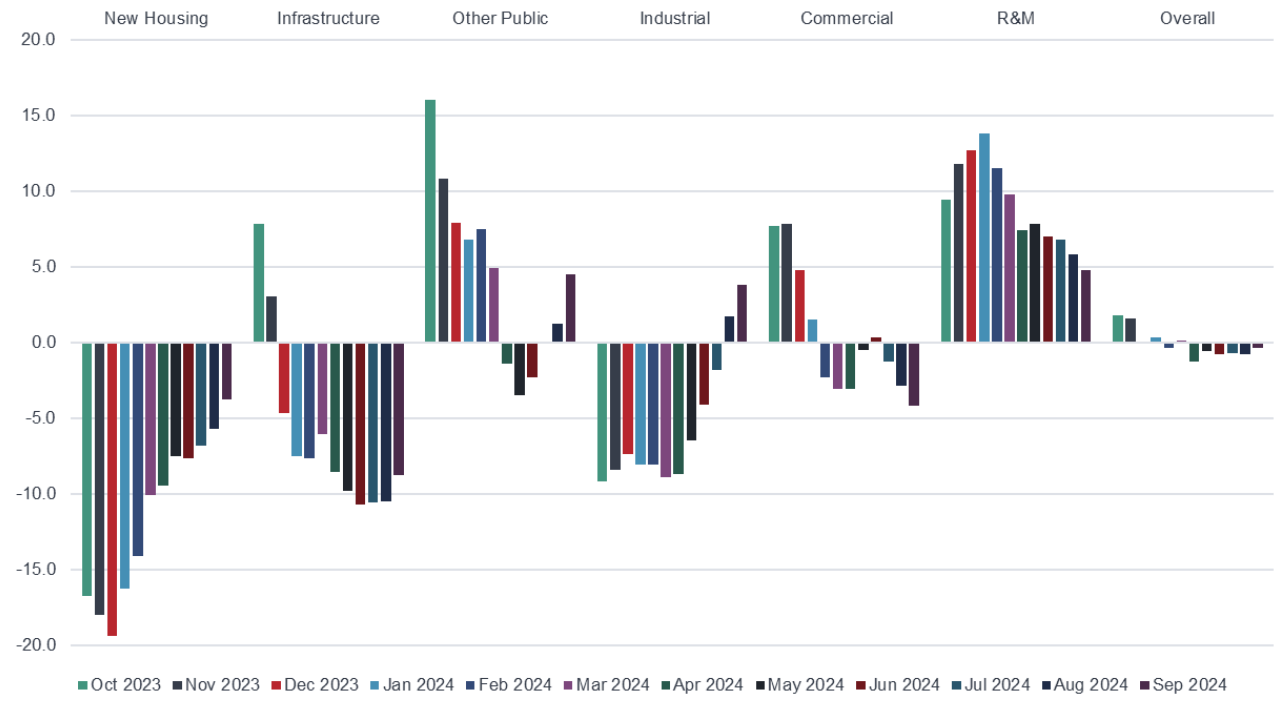
Housebuilding

Housebuilding market conditions remain challenging, but recent Government commentary has been encouraging. Capex investment has been adjusted to reflect current conditions and the cost base is being carefully managed.

Mixed market data, tentative upturn in sentiment

UK construction output, as measured by the ONS, has been negative for the past six months, with negative or declining readings across most subsectors (see chart below). This is clearly in keeping with Vp's comments around end market challenges, but this is a backwards looking metric.

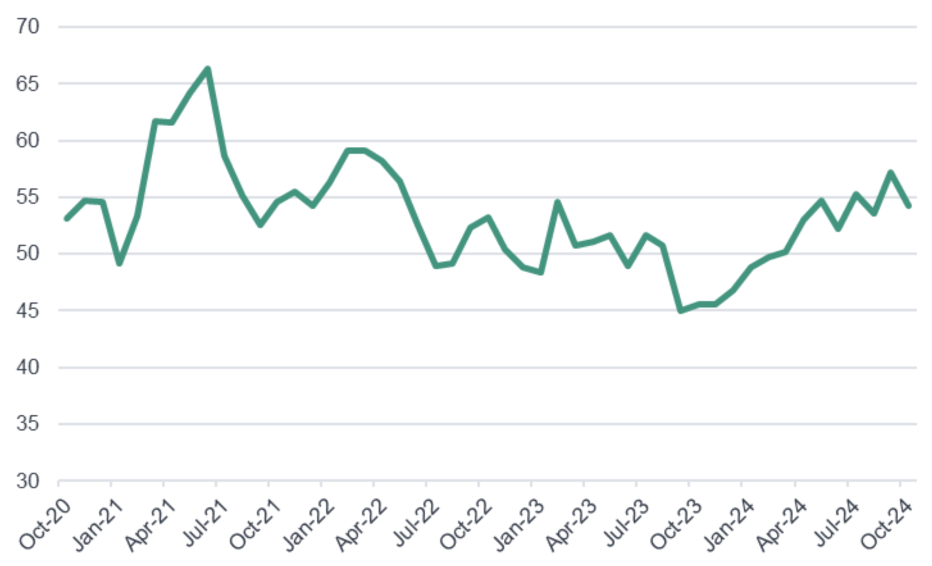
UK Construction output by sector, % change year on year



Source: ONS, ED analysis

The UK Construction PMI (chart below) provides a more up to date snapshot of sector sentiment and provides a somewhat more encouraging picture, given that the past 8 months have been in positive territory (>50 signalling expansion). The dip in the October reading has been attributed to uncertainty around the Autumn Budget and any recovery in sentiment would appear to be relatively fragile (Click for report).

UK Construction PMI



Source: S&P/ CIPS Construction PMI

Full year guidance reiterated, FY26 trimmed for NICs impact

Vp's early October trading update prompted us to reduce forecasts, reflecting the slower than anticipated improvement in performance at Brandon Hire Station, as well as the slower than expected rollout of projects under the new Network Rail Control Period (CP7).

It is therefore encouraging to see that full year guidance is maintained within today's update. The robust H1 results provide cover for 55% of our full year operating profit forecast, which is comfortably in line with the normal seasonal pattern, as shown below (53% in H1 last year), with the additional benefit this year of the first contribution from the CPH acquisition in H2'25.

Operating profit: H1 profit covers 55% of FY forecast (vs 53% last year)

Source: Company actuals, Equity Development forecasts

We do make some changes to our FY26 forecasts to reflect the increased employer National Insurance Contributions (NICs) and increases to the National Minimum Wage, as introduced in the Autumn Budget. These changes are expected to impact Vp by c.£4m next year, before mitigating actions. We assume that c.£2m can be mitigated and reflect this in our new forecasts, as illustrated below.

We also reflect guidance for exceptional items in H2'25 and FY'26. We forecast around £5m and £10m respectively and assume around half of this will impact the cashflow.

Minor forecast adjustments

Year End	2025(E)	2025(E)	2025(E)	2026(E)	2026(E)	2026(E)
March	Revised	Old	Change	Revised	Old	Change
Revenue £m	374.0	374.0	0.0%	392.0	392.0	0.0%
EBITDA £m	110.2	110.2	0.0%	112.0	114.3	-2.0%
PBT (underlying) £m	37.0	37.0	0.0%	38.2	40.5	-5.7%
EPS fully diluted p	67.8	67.1	1.0%	70.1	73.5	-4.7%
Dividend p	39.0	40.0	-2.5%	40.0	41.5	-3.6%
Net cash/ (debt) ex. leases £m	-143.0	-140.0	2.1%	-140.3	-134.5	4.3%
Net cash/ (debt) inc. leases £m*	-203.0	-200.0	1.5%	-200.2	-194.5	2.9%

Source: Equity Development forecasts

Valuation – <9x P/E and c.7% dividend yield

In our view, Vp's valuation remains compelling. End market weakness has inevitably put pressure on the shares in recent periods, but Vp has delivered another impressively resilient performance and remains well placed to benefit from any recovery in end markets.

Recent strategic and operational initiatives should enhance returns over the medium to long term and the dependable dividend yield is attractive at c.7%.

We make no change to our Fair Value estimate of 1000p, which is based on a 5x EV/EBITDA rating, which we consider undemanding. At 1000p, the P/E rating would be 14x and the dividend yield c.4%.

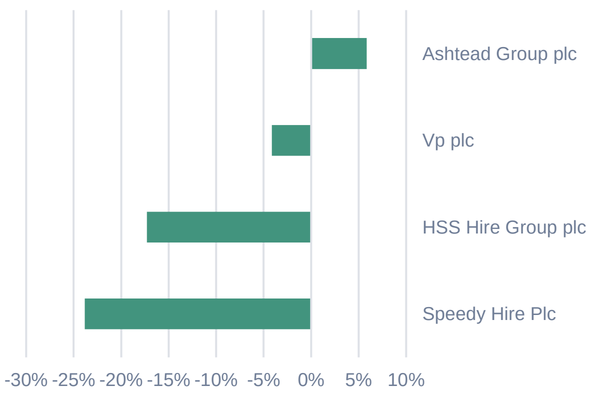
Peer group valuation metrics

Company	Market Cap £m	Share Price £	P/E (FY1)	P/E (FY2)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	Div Yield (NTM)
Ashtead	26,978	61.82	20.6x	17.9x	8.9x	8.1x	1.4%
HSS Hire	40	0.06	6.7x	7.0x	2.2x	2.2x	10.2%
Speedy Hire	127	0.28	7.9x	6.2x	3.1x	3.0x	9.4%
Vp	229	5.80	8.6x	8.3x	4.0x	3.9x	6.7%
Peer average			11.0x	9.9x	4.6x	4.3x	6.9%
Average ex Vp			11.7x	10.4x	4.7x	4.4x	7.0%
Vp			8.6x	8.3x	4.0x	3..9x	6.7%
Vp discount to peers			-26.7%	-19.9%	-15.5%	-12.0%	-4.6%

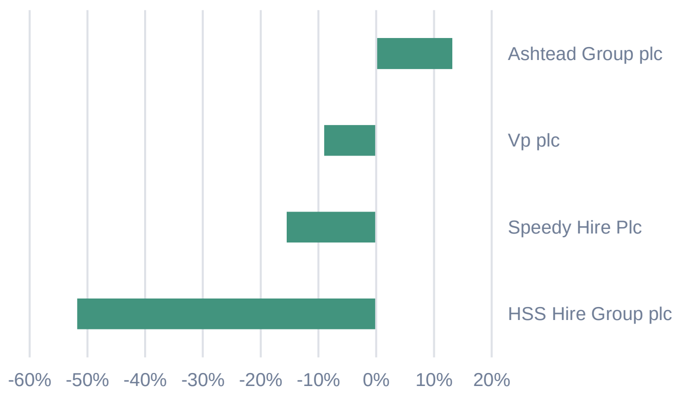
Source: Equity Development, Koyfin 21st November '24

We note that sector peers (with the exception of US-focused Ashtead) have endured a difficult year in terms of share price performance, as illustrated below, reflecting end market challenges and uncertainty.

One month share price performance



Year to date share price performance



Source: Koyfin, ED analysis

Summary Financials

Income statement						
Year end March	**2021A**	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue						
UK	281.3	320.2	333.5	318.7	313.0	327.0
International	26.7	30.7	38.1	50.0	61.0	65.0
Group	**308.0**	**350.9**	**371.5**	**368.7**	**374.0**	**392.0**
Revenue growth						
UK	*-15%*	*14%*	*4%*	*-4%*	*-2%*	*4%*
International	*-16%*	*15%*	*24%*	*31%*	*22%*	*7%*
Group	*-15%*	*14%*	*6%*	*-1%*	*1%*	*5%*
Adjusted operating profit						
UK	30.3	44.7	45.6	40.9	37.4	38.0
International	0.7	1.6	3.2	8.6	9.3	10.0
Group Operating Profit	**30.9**	**46.3**	**48.8**	**49.5**	**46.7**	**48.0**
Net Interest	-7.8	-7.4	-8.6	-9.6	-9.8	-9.8
Adjusted PBT	**23.2**	**38.9**	**40.2**	**39.9**	**37.0**	**38.2**
Exceptional	-15.1	0.0	-5.0	-5.8	-5.0	-10.0
Amortisation of acquired intangibles	-10.4	-3.3	-4.5	-31.2	-3.0	-3.0
Reported PBT	**-2.3**	**35.6**	**30.7**	**2.8**	**29.0**	**25.2**
EPS (adjusted)	46.5p	71.9p	78.8p	73.6p	68.1p	70.4p
EPS (adjusted fully diluted)	45.8p	71.2p	78.4p	73.2p	67.8p	70.1p

Source: Company actuals, Equity Development forecasts, IFRS 16 basis

Cashflow statement						
Year end March	**2021A**	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**
	£m	£m	£m	£m	£m	£m
Operating profit	**.**	**46.3**	**48.8**	**49.5**	**46.7**	**48.0**
Depreciation	45.0	45.5	46.9	45.0	47.5	48.0
Profit on Disposals	-4.3	-7.0	-9.2	-7.5	-8.0	-8.0
Exceptionals	-15.1	0.0	-5.0	-5.8	-2.5	-5.0
Working Capital	33.9	-12.5	-18.4	9.8	-4.5	-1.5
Other	1.3	1.6	0.9	0.4	0.5	0.5
Operating cashflow	**91.8**	**73.8**	**63.9**	**91.4**	**79.7**	**82.0**
Interest	-4.8	-7.4	-8.4	-9.8	-9.8	-9.8
Tax	-2.9	-6.3	-5.5	-9.2	-7.8	-6.8
Cashflow from operations	**84.2**	**60.1**	**50.0**	**72.4**	**62.1**	**65.4**
Capital Expenditure	-46.6	-68.7	-63.3	-72.3	-65.0	-65.0
Sale of Fixed Assets	17.5	17.8	24.9	25.3	20.0	20.0
Free cashflow	**55.1**	**9.3**	**11.5**	**25.3**	**17.1**	**20.4**
Acquisitions	0.0	-2.7	0.0	0.0	-10.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares	-5.1	-0.5	-1.1	-0.7	-0.5	-2.0
Dividends	-8.7	-14.1	-14.5	-15.0	-15.4	-15.6
Other	0.0	0.0	0.0	0.0	-9.0	0.0
Underlying cashflow	**41.4**	**-8.0**	**-4.0**	**9.6**	**-17.8**	**2.8**
Other/FX	-3.4	-0.8	0.2	-0.4	0.0	0.0
Overall cashflow	**38.0**	**-8.8**	**-3.8**	**9.2**	**-17.8**	**2.8**
Net Cash/(Debt) pre IFRS16	**-121.9**	**-130.6**	**-134.4**	**-125.2**	**-143.0**	**-140.3**
Lease adjustment	-56.9	-57.6	-58.5	-62.0	-60.0	-60.0
Net Cash/ (Debt) post IFRS 16	**-178.7**	**-188.3**	**-192.9**	**-187.2**	**-203.0**	**-200.2**

Source: Company actuals, Equity Development forecasts

Balance sheet						
Year end March	**2021A**	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Non-current assets						
PPE	233.9	247.5	252.4	256.9	262.4	267.4
Goodwill	43.8	44.9	44.6	16.6	13.6	10.6
Intangible assets	20.6	17.5	13.1	12.0	11.5	11.5
Right of use assets	53.3	54.2	54.6	58.6	58.6	58.6
Employee benefits	2.2	2.7	2.3	1.9	1.9	1.9
Total non-current assets	**353.8**	**366.8**	**367.1**	**346.0**	**348.0**	**350.0**
Current Assets						
Inventories	7.3	8.0	8.9	9.5	9.5	9.5
Trade and other receivables	66.5	76.1	81.5	74.8	79.3	80.8
Cash and cash equivalents	15.9	13.6	11.1	6.1	-11.7	-9.0
Income tax receivable	0.8	0.0	0.7	3.6	3.6	3.6
Total Current Assets	**90.6**	**97.6**	**102.3**	**93.9**	**80.6**	**84.9**
Current Liabilities						
Interest bearing loans and borrowings	-73.0	0.0	0.0	0.0	0.0	0.0
Income tax payable	0.0	-0.2	0.0	-1.5	0.0	0.0
Lease liabilities	-14.9	-14.1	-14.6	-16.3	-16.3	-16.3
Trade and other payables	-86.2	-80.7	-72.2	-71.7	-71.7	-71.7
Total Current Liabilities	**-174.1**	**-95.0**	**-86.8**	**-89.5**	**-88.0**	**-88.0**
Non-Current Liabilities						
Interest bearing loans and borrowings	-64.8	-144.2	-145.5	-131.3	-131.3	-131.3
Lease liabilities	-42.0	-43.5	-43.9	-45.6	-43.6	-43.6
Provisions	0.0	-1.5	-1.6	-3.8	-3.8	-3.8
Deferred tax liabilities	-10.4	-13.7	-16.6	-16.6	-16.6	-16.6
Total non-current liabilities	**-117.2**	**-202.9**	**-207.6**	**-197.4**	**-195.4**	**-195.4**
Net Assets	**153.1**	**166.6**	**174.9**	**153.0**	**145.2**	**147.9**
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	**153.1**	**166.6**	**174.9**	**153.0**	**145.2**	**147.9**

Source: Company actuals, Equity Development forecasts

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