

Infrastructure & house building powering ahead

30th November 2021

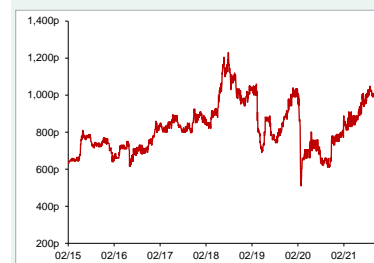
Notwithstanding investor angst over the new 'Omicron' variant, we suspect this uncertainty will clear by the yearend, especially if the symptoms are milder than other covid 'super strains'. Indeed the 'probable' worst case scenario in the UK is a 3-4 month economic lull - as vaccines are reformulated and distributed to those most at risk. Hence potentially providing a 'buying opportunity' for those with a longer term perspective.

Ok, but where to allocate fresh capital? Well most people are aware that demand for residential housing & associated RMI remains robust. Yet far less fully appreciate the buoyancy of **UK infrastructure** - which is currently **running at c. 40% above pre-pandemic levels** (Source: ONS), driven by multi-year projects such as HS2, Hinkley Point & off-shore wind (re Transmission). All areas of expertise for specialist equipment rental, Vp.

Company Data

EPIC	LSE: VP.
Price (last close)	£9.55
52 week Hi/Lo	£10.70/£7.30
Market cap	£383m
Est Mar22 net debt (ex IFRS16)	£128m
Share count	40.154m
ED valuation / share	1,130p

Share Price, p



Source: Yahoo Finance

Description

Vp is a specialist equipment 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% of pre-covid turnover), but also overseas.

In terms of sector split: circa 40% sales is derived from infrastructure, 39% construction, 9% housing building, 7% Energy and 5% other.

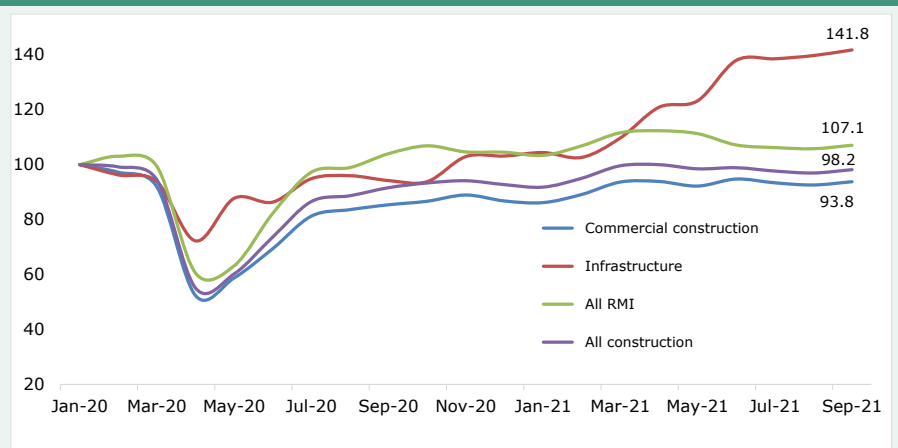
Member of FTSE SmallCap Index.

Next news: Trading update Apr'22

Paul Hill (Analyst)

0207 065 2690
paul.hill@equitydevelopment.co.uk

UK Construction output (indexed to 100 at Jan'20)



Source: ONS

Moreover, two major 5 year investment cycles – namely rail (CP6) and water (AMP7) – haven't yet fully turned the taps back on. Alongside new build (not fit-out) commercial property (eg offices, hotels, shops, etc), where the timeline might be slightly longer, as cities readjust to the 'new normal'. All told **offering (hopefully) future upside compared to our more conservative FY23 estimates.**

Trading in line with FY22 estimates with possible FY23 upside

Ok, but how is Vp faring with the widespread material, labour & transport shortages, on top of surging input cost inflation?

Sure, this is causing disruption for most operators, but as evidenced by today's improvement in H1'22 EBIT margins (12.8% vs 7.6% LY) and ROCE (13.5% vs 10.3%). Neither profitability nor growth appears to have been too badly affected, regardless of some construction schemes are being pushed to the right. Here Vp has successfully managed the industry's supply chain challenges via a combination of early fleet ordering, internal efficiencies, greater plant utilisation, fewer equipment disposals and improved pricing as 12 month contracts roll-over.

Best in class 1st half results

Meaning that all told, **H1 revenues & adjusted PBT** (see overleaf) **came in at £176.1m** vs £182.8m H1'20 (or 96% of pre-Covid levels) **& £20.2m** (£8.6m) respectively.

24% revenue growth delivering leading margins

£'000s	Act H1'22	Act H1'21	%	Est H2'22	Act H2'21	%	Est FY22	Act FY21
March yearend								
UK sales	160,761	128,880	24.7%	163,624	152,429	7.3%	324,385	281,309
International	15,342	13,209	16.1%	15,942	13,479	18.3%	31,284	26,688
Group revenues	176,103	142,089	23.9%	179,565	165,908	8.2%	355,668	307,997
Group EBITDA	44,546	34,079	30.7%	49,710	36,219	37.2%	85,929	72,701
EBITDA % margin	25.3%	24.0%		27.7%	21.8%		24.2%	23.6%
EBITDA (post IFRS 16)	54,521	47,444		55,367	49,216		109,888	96,660
UK	21,810	9,921	119.8%	17,116	17,235	-0.7%	38,926	27,156
International	700	879	-20.4%	1,803	-314	-674.1%	2,503	565
Group EBITA	22,510	10,800	108.4%	18,919	16,921	11.8%	41,429	27,721
EBITA (post IFRS 16)	23,988	12,417			18,511			30,928
UK	13.6%	7.7%		10.5%	11.3%		12.0%	9.7%
International	4.6%	6.7%		11.3%	-2.3%		8.0%	2.1%
EBIT % margin	12.8%	7.6%		10.5%	10.2%		11.6%	9.0%
Interest	-2,298	-2,193	4.8%	-2,444	-2,255	8.4%	-4,742	-4,448
PBTA	20,212	8,607	134.8%	16,517	14,666	12.6%	36,729	23,273
PBTA (post IFRS16)	20,202	8,477		16,430	14,699		36,632	23,176
Adj EPS - pre IFRS16	37.6p	17.4p	116.3%	30.7p	29.2p	4.8%	68.3p	46.7p
Adj EPS - post IFRS16		16.8p			29.3p			46.2p
Dividend	10.5p	22.0p		21.0p	25.0p		31.5p	47.0p
Net debt (pre IFRS 16)	-131,721	-118,702	11.0%	-128,000	-121,906	5.0%	-128,000	-121,906
Net debt : EBITDA							1.5	1.7
Group ROCE	13.5%	10.3%		15.5%	9.2%		14.5%	9.2%

Source: Equity Development

Reinstatement of progressive dividend shows confidence

Elsewhere despite significant fleet capex (£31m gross), **net debt** (pre IFRS16) ticked up by only 8% to **£131.7m** (Est FY22 1.5x EBITDA) in the first 6 months, reflecting ongoing **tight cost** and **working capital control**. In fact, there's still ample liquidity for further investment in H2, alongside **the reinstatement of a progressive dividend** (3.3% yield) towards 2x cover.

Current year summary valuation multiples vs peers (pre IFRS16)



Source: Equity Development

Consequently **we reiterate our FY22 numbers and fair value of £11.30/share**. With the stock (at 955p) being **attractively priced** both in absolute terms and vs peers (see below) - trading on FY22 multiples (pre IFRS16) of 14.0x PER, 12.3x EV/EBIT and 6.0x EV/EBITDA.

Ultimately too, we suspect Vp may be able to surpass its own stretching 15% ROCE target (re operating leverage), thanks a leaner cost base, dovetailed with **best-of-breed ESG and digital solutions** to take advantage of the post-pandemic world.

Success breeds success

Exec Chairman Jeremy Pilkington commenting: *“I am pleased to report an **excellent set of results** for the period, reflecting a strong and **continuing recovery in all of our businesses and delivery of market leading profit margins.**”*

*“Very encouragingly, some of our businesses are trading in line or ahead of expectations. Where this is not the case, it is generally down to factors such as the longer-term cyclical nature of some of our infrastructure markets and localised supply chain constraints which are impacting elements of the construction sector. **We expect these markets will recover and this remains an opportunity for further growth.**”*

Key risks

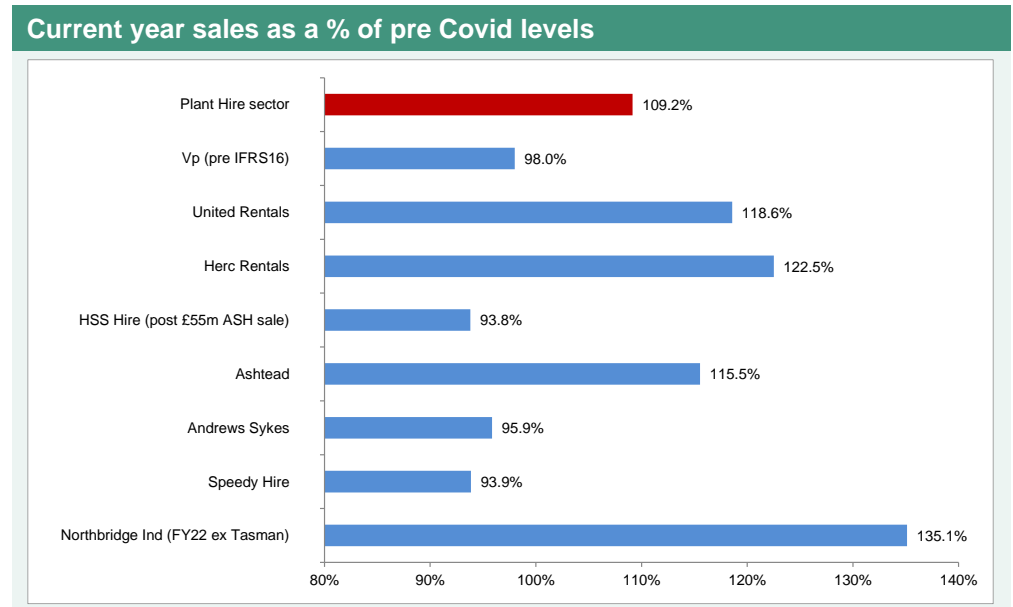
- COVID-19 related impacts to demand, customers and building investment.
- In light of Vp's operational gearing, if the economy stalled then this could impact earnings as costs are predominantly fixed. That said, investment in the hire fleet can be flexed as conditions change as occurred during the 2008/9 recession.
- Competitive pricing pressures and higher interest rates that could lift funding costs. Mitigated by c.70% of gross debt being fixed, although falling over the next 3 years (Re £65m fixed rate private placement).
- 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.

Summary projections (£'000s)

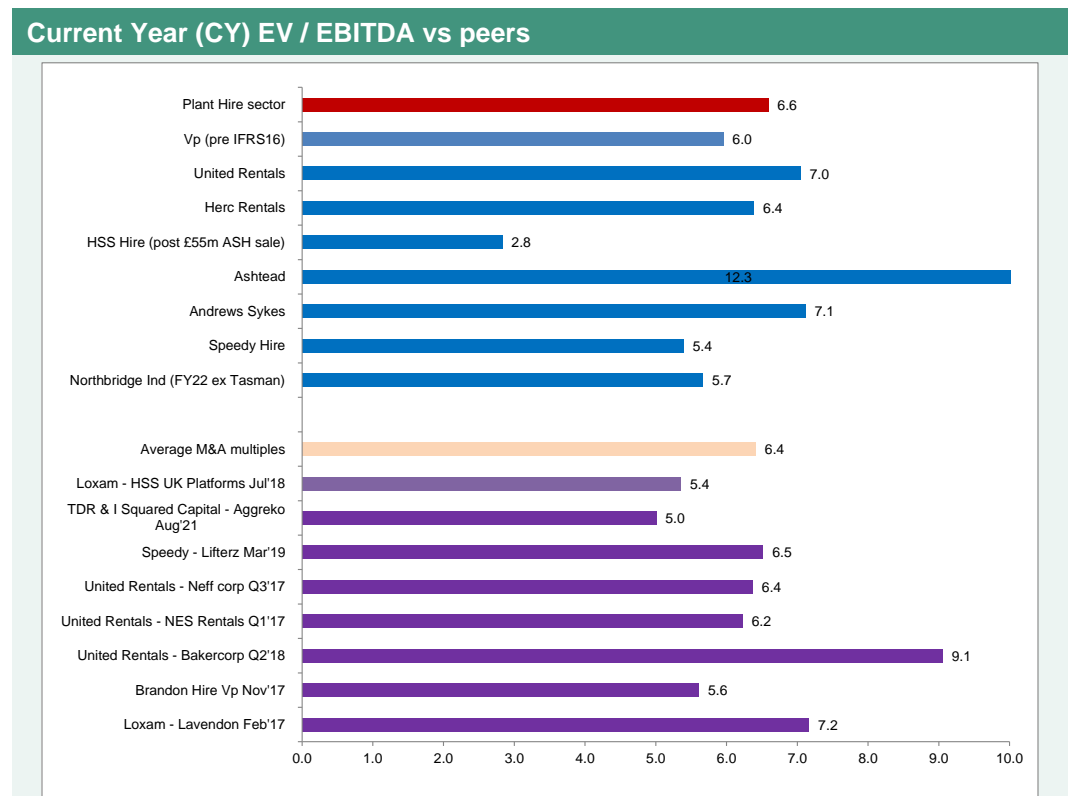
Vp (March year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s	2023 Est £'000s
Turnover						
UK	271,989	350,330	331,005	281,309	324,385	343,848
International	31,650	32,500	31,922	26,688	31,284	33,161
Total	303,639	382,830	362,927	307,997	355,668	377,009
% growth	22.1%	26.1%	-5.2%	-15.1%	15.5%	6.0%
UK	23.6%	28.8%	-5.5%	-15.0%	15.3%	6.0%
International	10.2%	2.7%	-1.8%	-16.4%	17.2%	6.0%
EBITDA	84,337	101,339	98,050	72,701	85,929	91,800
% Margin	27.8%	26.5%	27.0%	23.6%	24.2%	24.3%
EBITDA (post IFRS16)			123,817	96,660	109,888	115,759
Adjusted EBIT						
UK	43,001	49,838	50,190	27,156	38,926	42,981
International	1,017	1,733	1,700	565	2,503	2,984
Total	44,018	51,571	51,890	27,721	41,429	45,965
EBIT (post IFRS16)			55,480	30,928	42,698	46,753
% Margin	14.5%	13.5%	14.3%	9.0%	11.6%	12.2%
UK	15.8%	14.2%	15.2%	9.7%	12.0%	12.5%
International	3.2%	5.3%	5.3%	2.1%	8.0%	9.0%
Interest charge (pre IFRS 16)	-3,421	-4,742	-4,791	-4,448	-4,700	-4,600
Adjusted PBT (pre amortisation)	40,597	46,829	47,099	23,273	36,729	41,365
PBT (post IFRS16)			46,640	23,176	36,632	41,268
Adjusted earnings	33,520	37,677	35,740	18,472	27,179	31,024
Adjusted Basic EPS (p) - pre IFRS 16	84.9	95.1	90.2	46.7	68.3	77.6
EPS growth rate	22.1%	12.0%	-5.2%	-48.3%	46.4%	13.6%
Adjusted EPS diluted	83.9	92.9	88.8	45.9	67.2	76.4
Basic EPS (post IFRS16)			88.9	46.2	68.1	77.4
Dividend (pence)	26.0	30.2	8.5	47.0	31.5	38.2
Dividend growth	18.2%	16.2%	-72.0%	456.2%	-33.0%	21.2%
Valuation benchmarks						
P/E ratio (pre IFRS 16)	11.2	10.0	10.6	20.5	14.0	12.3
P/E ratio (post IFRS 16)			10.7	20.7	14.0	12.3
EV/Sales	1.7	1.3	1.4	1.7	1.4	1.4
EV/EBITDA (pre IFRS 16)	6.1	5.0	5.2	7.0	6.0	5.6
EV/EBITDA (post IFRS 16)			4.6	5.9	5.2	4.9
EV/EBITA (pre IFRS 16)	11.6	9.9	9.9	18.5	12.3	11.1
EV/EBITA (post IFRS 16)			10.2	18.4	13.3	12.2
PEG ratio	0.5	0.8	-2.0	-0.4	0.3	0.9
Dividend yield	2.7%	3.2%	0.9%	4.9%	3.3%	4.0%
Dividend cover	3.3	3.2	10.7	1.0	2.2	2.0
EBIT drop through rate (%)		9.5%	-1.6%	44.0%	28.8%	21.3%
Corporate tax rate	-17.4%	-19.5%	-20.0%	-21.1%	-26.0%	-25.0%
Net debt / EBITDA (pre IFRS 16)	2.0	1.7	1.6	1.7	1.5	1.3
Return on average capital employed	14.8%	14.5%	14.5%	9.2%	14.0%	14.5%
Net cash/(debt) - pre IFRS16	-179,172	-168,100	-159,806	-121,906	-128,000	-122,199
Fleet capital expenditure (gross)	64,900	63,800	49,100	40,200	45,000	55,000
Investment as % sales	21.4%	16.7%	13.5%	13.1%	12.7%	14.6%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,595	39,793	39,992
Shareprice (p)	955					

Source: Equity Development – FY21 includes special dividend of 22p/share

Appendices - sector valuation metrics and KPIs

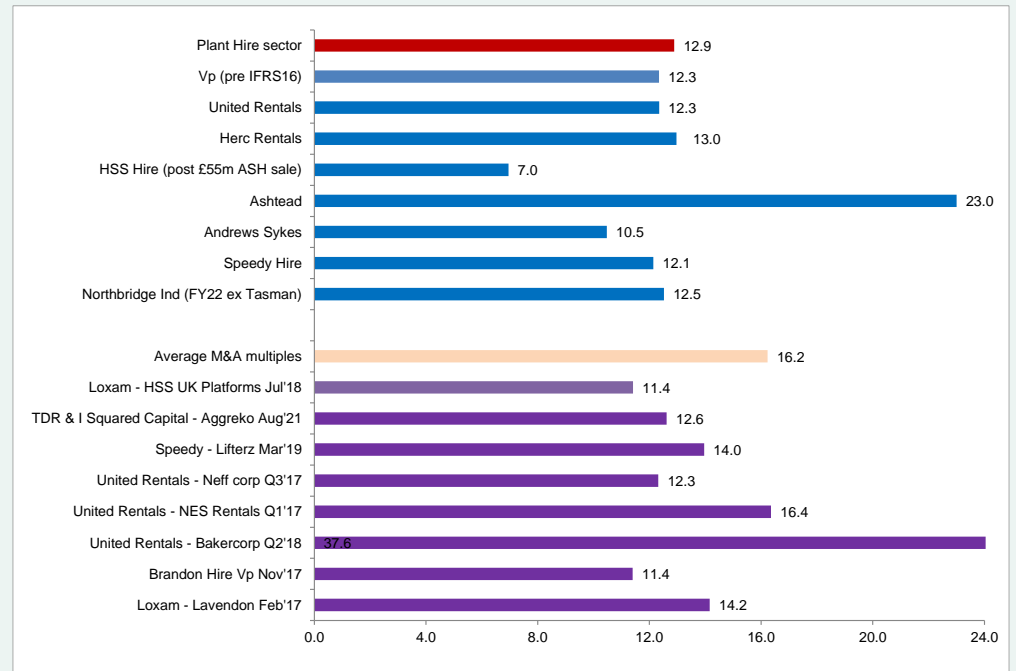


Source: Equity Development.



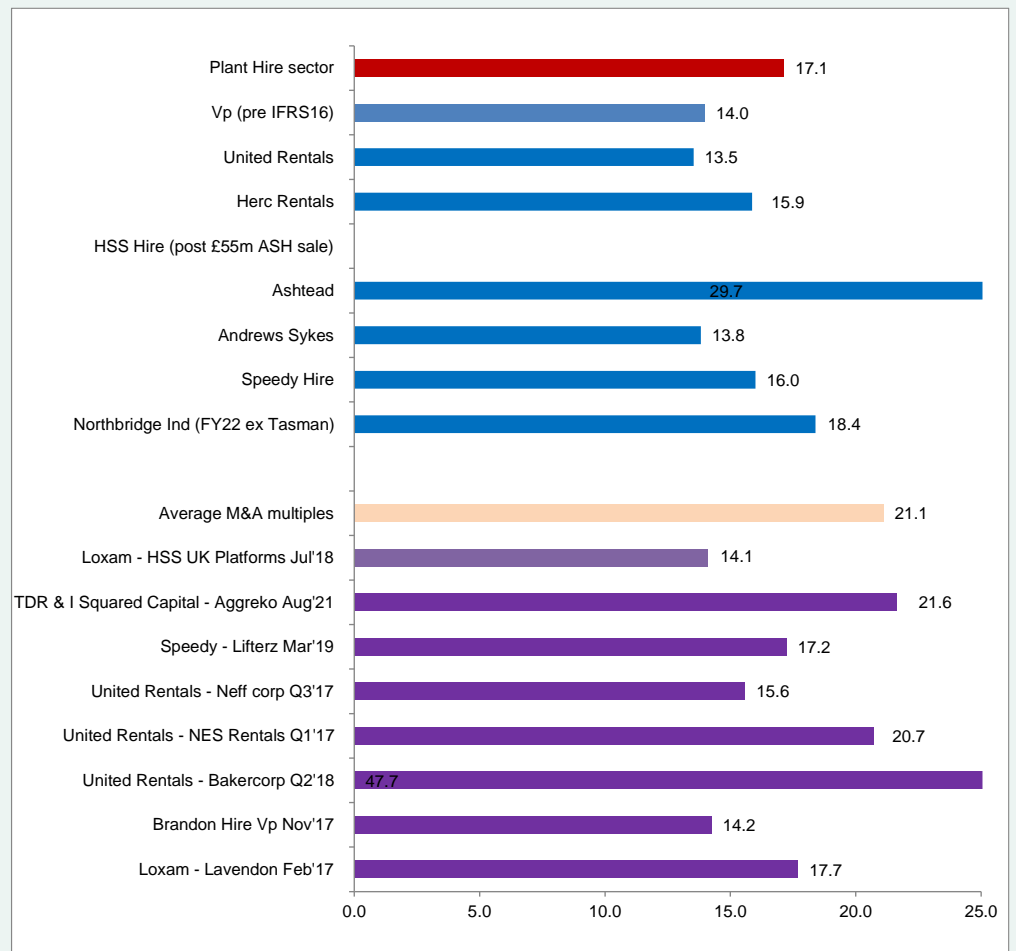
Source: Equity Development

Current Year (CY) EV / EBIT vs peers

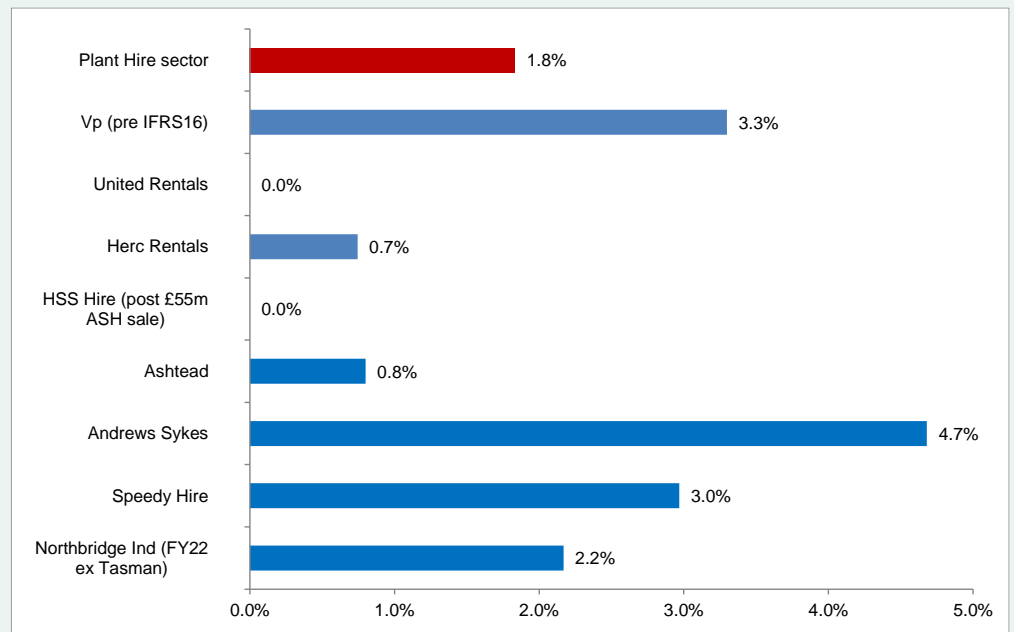


Source: Equity Development

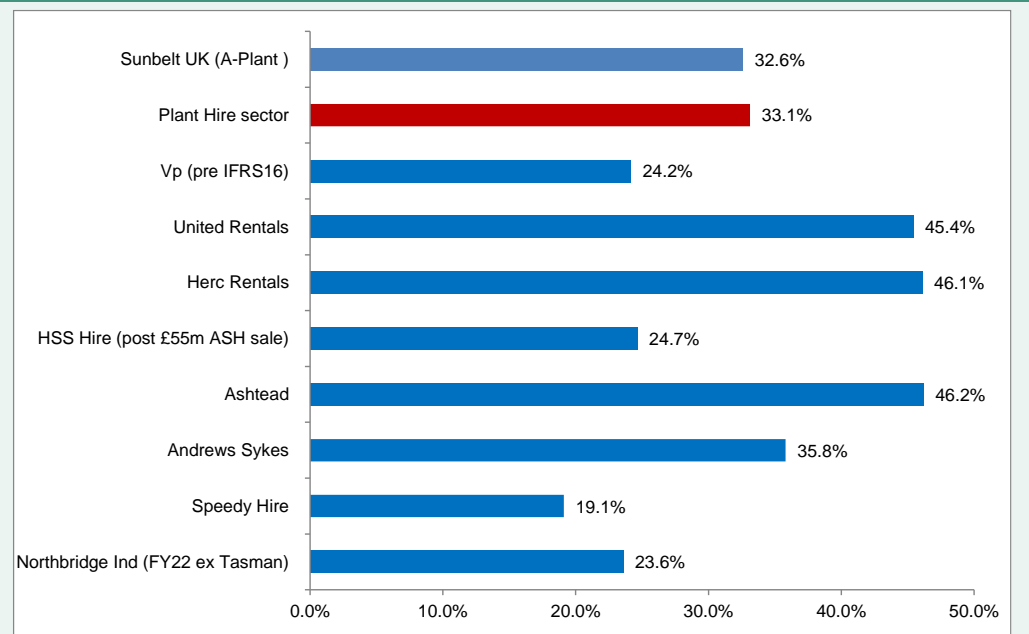
CY PERs vs peers



Source: Equity Development

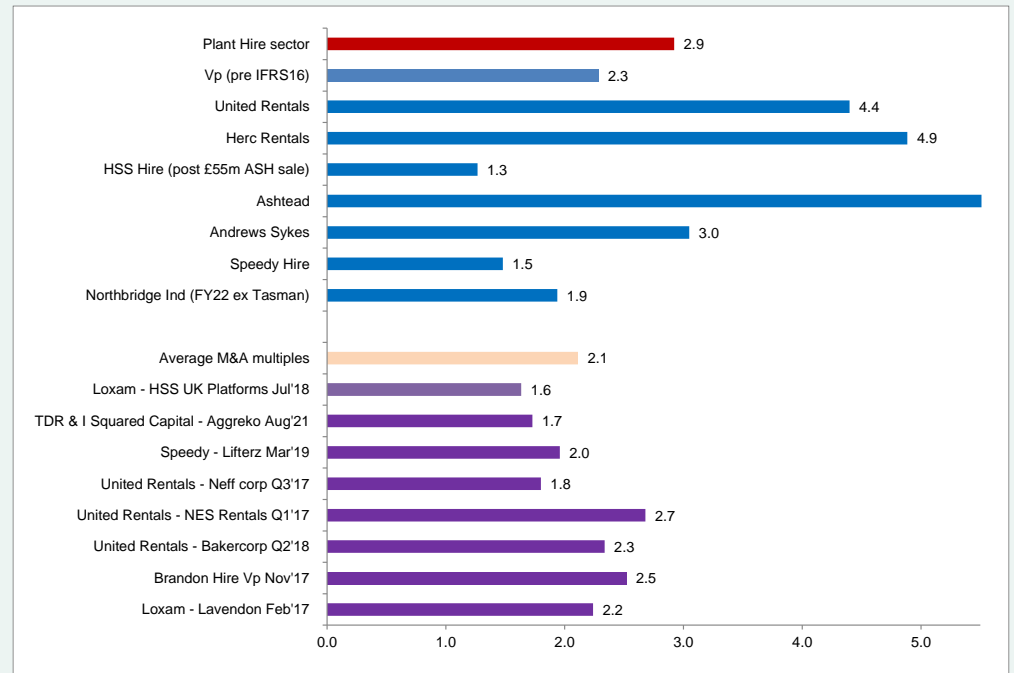
CY dividend yield vs peers


Source: Equity Development

CY % EBITDA margins vs peers


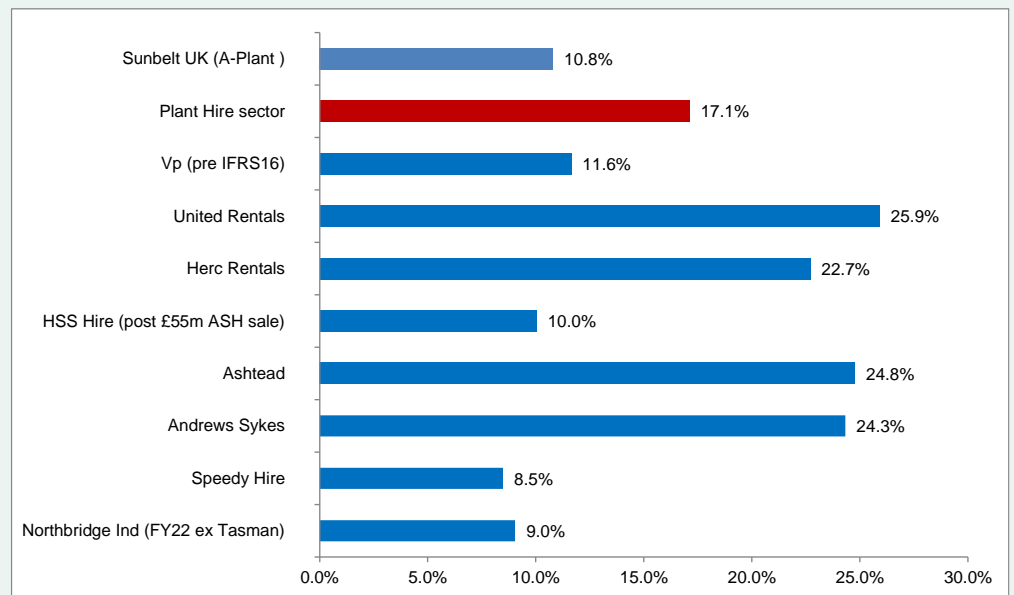
Source: Equity Development

CY Price: Book



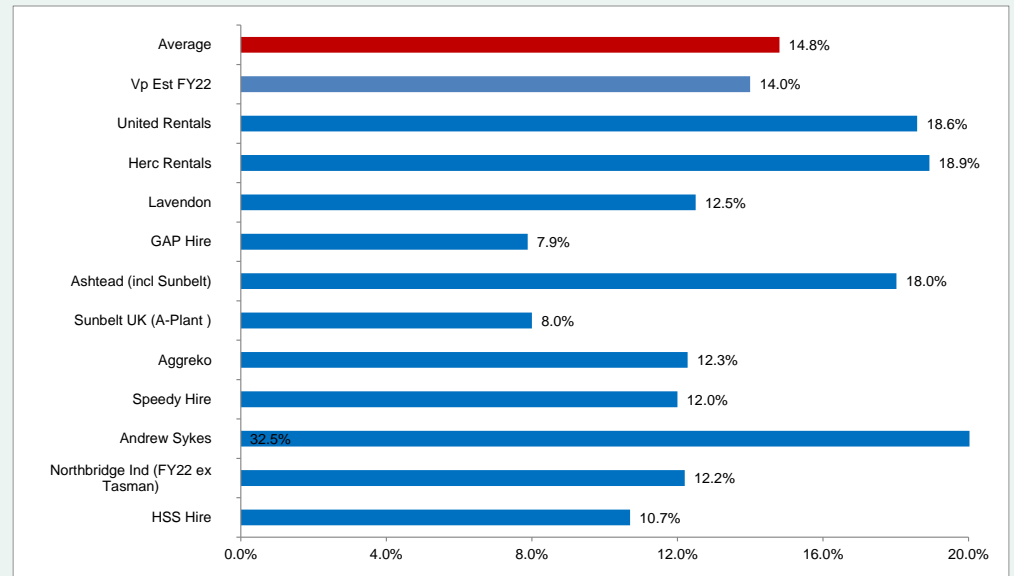
Source: Equity Development

CY % EBIT margins vs peers



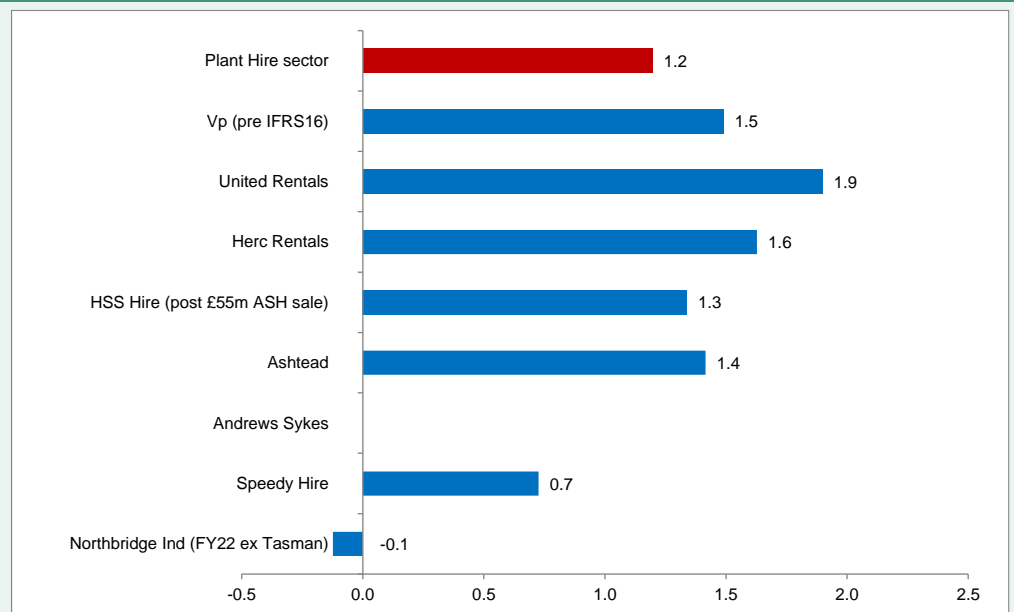
Source: Equity Development

CY % ROCE vs peers



Source: Equity Development

CY Net debt : EBITDA



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Northbridge Ind (FY22 ex Tasman)	160.0p	£46.9	£1.0	£45.9
Speedy Hire	64.0p	£340	-£53	£393
Andrews Sykes	470p	£198	£10	£189
Ashtead	\$8,321.4	\$37,280	-\$4,835	\$42,115
HSS Hire (post £55m ASH sale)	16.0p	£111.4	-£100.0	£211.4
Herc Rentals	\$184.0	\$5,373	-\$1,838	\$7,211
United Rentals	\$360.0	\$25,920	-\$9,560	\$35,480
Vp	955p	£383	-£128	£511

Source: Equity Development



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

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

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

Equity Development, 15 Eldon Street, London, EC2M 7LD

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