

Construction boom coming down the track

7th April 2021

Last year's -9.8% UK GDP print was the worst since 1921. However it had little in common with normal recessions. Instead due to 6 months of lockdowns, pent-up demand is today 'off the charts'. So far DIY, RMI and home offices have benefited. Although, 'we've seen nothing yet' - with catchup work on delayed projects set to further boost construction. Moreover the government is committed to job creation by pumping £10bns into residential property & infrastructure (eg fibre-to-the-home, HS2, offshore wind, nuclear projects, Lower Thames Crossing, rail electrification, EVs, etc).

Company Data

EPIC	LSE: VP.
Price (last close)	830p
52 week Hi/Lo	890p/605p
Market cap	£333m
March 2021 net debt (ex IFRS16)	£124m
Share count	40.154m
ED valuation	1,100p/share

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 FY'20 turnover), but also overseas.

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

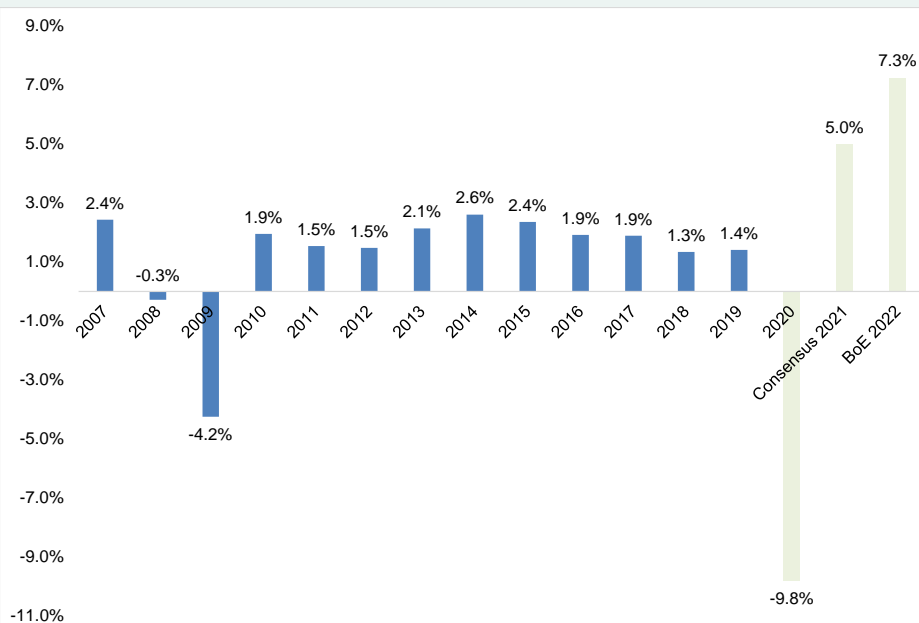
Member of FTSE SmallCap Index.

Next news: Prelims in June 2021

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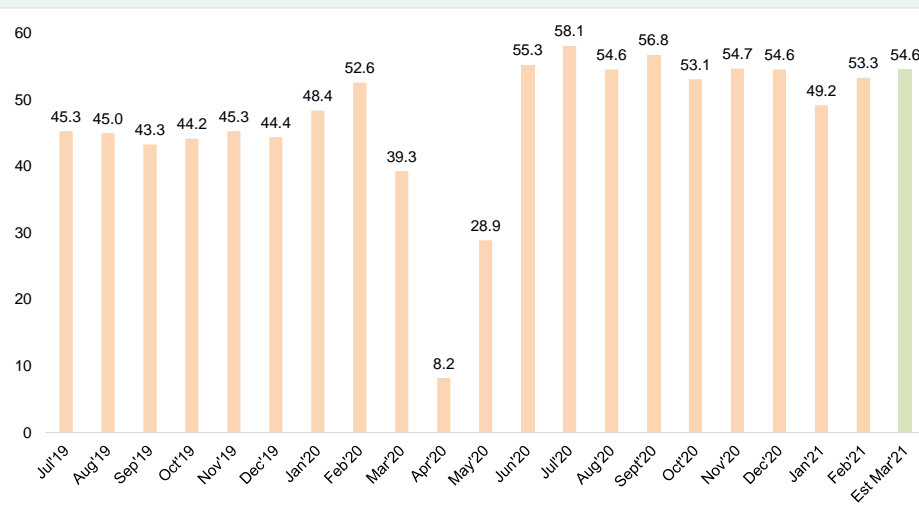
Expect a 'rip-roaring' H2'21 as the UK economy reopens



Source: ONS

Paving the way for a significant rebound, with the **Construction Products Association predicting a 14.0% output jump this year** (vs -14.3% in 2020) and 4.9% next.

UK Construction Purchasing Managers Index (PMI)

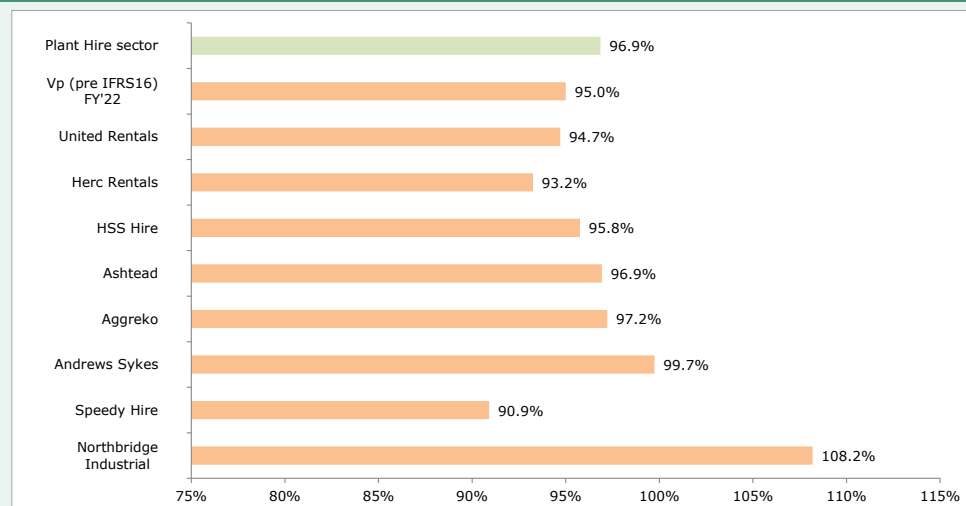


Source: Equity Development

Britain set for potentially ‘rip-roaring’ second half

Whilst equally providing a favourable backdrop for specialist equipment rental firm Vp, where Covid has impacted infrastructure (water & rail), housebuilding, events, oil/gas & hospitality.

Current year Sales as a % of pre Covid levels



Source: Equity Development.

Ok, but how is the group currently faring?

Well in short, given Britain's successful vaccine rollout, prospects have improved dramatically over the past 12 months, with Vp saying this morning that FY21 results were “*in line with expectations*”, and it **exited the period on a run-rate of c.“95% of pre-Covid levels”**. Despite “*some sectors (eg events & hospitality) remaining closed and infrastructure (eg AMP7 and CP6) not yet fully up to speed*”.

Resilient FY21 performance

£'000s	Act H1'20	Act H1'21	%	Act H2'20	Est H2'21	%	Act FY20	Est FY21	%
March yearend									
UK sales	170,016	128,880	-24.2%	160,989	144,134	-10.5%	331,005	273,014	-17.5%
International	16,569	13,209	-20.3%	15,353	13,357	-13.0%	31,922	26,566	-16.8%
Group revenues	186,585	142,089	-23.8%	176,342	157,491	-10.7%	362,927	299,580	-17.5%
Group EBITDA	51,840	34,079	-34.3%	49,710	48,340	-2.8%	98,050	73,895	-24.6%
EBITDA % margin	27.8%	24.0%		28.2%	30.7%		27.0%	24.7%	
EBITDA (post IFRS 16)		47,444			52,218			99,662	
UK	27,245	9,921	-63.6%	22,945	15,556	-32.2%	50,190	25,477	-49.2%
International	1,070	879	-17.9%	630	981	55.7%	1,700	1,860	9.4%
Group EBITA	28,315	10,800	-61.9%	23,575	16,537	-29.9%	51,890	27,337	-47.3%
EBITA (post IFRS 16)		12,417			18,350			30,767	
UK	16.0%	7.7%		14.3%	10.8%		15.2%	9.3%	
International	6.5%	6.7%		4.1%	7.3%		5.3%	7.0%	
EBIT % margin	15.2%	7.6%		13.4%	10.5%		14.3%	9.1%	
Interest	-2,383	-2,193	-8.0%	-2,359	-2,100	-11.0%	-4,742	-4,293	-9.5%
PBTA	25,932	8,607	-66.8%	21,167	14,437	-31.8%	47,099	23,044	-51.1%
PBTA (post IFRS16)		8,477			14,108			22,585	
Adj EPS - pre IFRS16	52.5p	17.4p	-66.8%	37.8p	28.4p	-24.8%	90.2p	45.8p	-49.2%
Adj EPS - post IFRS16		16.8p			28.0p			44.9p	
Dividend	8.5p	22.0p	160.4%	0.0p	22.0p		8.5p	44.0p	
Net debt (pre IFRS 16)	-183,746	-118,702	-35.4%	-159,806	-124,000	-22.4%	-159,806	-124,000	-22.4%
Net debt : EBITDA							1.6	1.7	
Group ROCE	14.5%	10.3%		14.5%	10.8%		14.5%	10.8%	

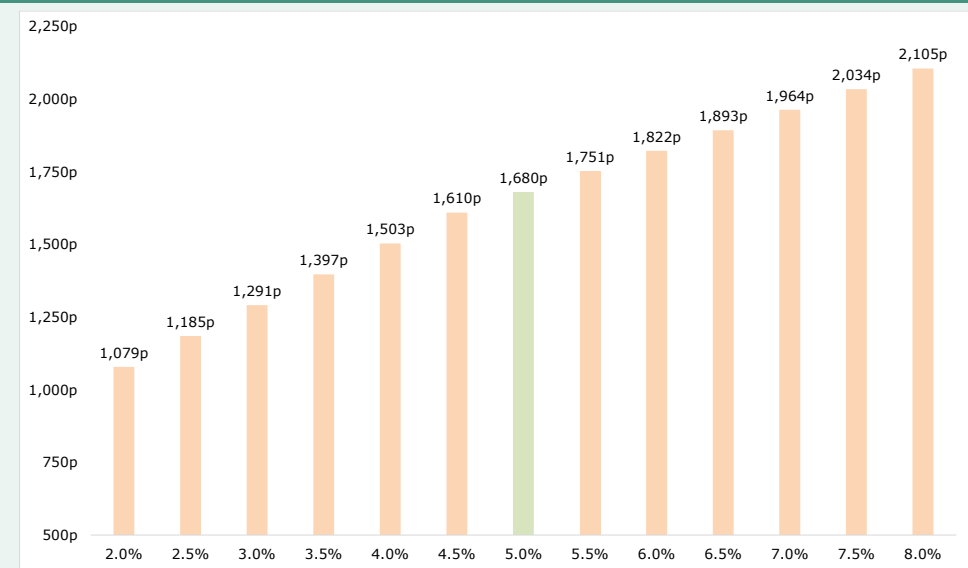
Source: Equity Development.

Here we are forecasting **FY21 adjusted PBT of £23.0m on sales of £299.6m** – ending the year with **£124m of net debt**. The latter reflecting **tight working capital control** (re debtors), **lower fleet capex** and approx £8m of deferred VAT to be repaid in FY22.

Strong track record of innovation & above-average returns

Similarly, **we have upgraded our FY22 PBT by 12% to £33.5m**, alongside **increasing the valuation from £9 to £11 per share**. What's more, in light of Vp's **consistent track record of innovation, execution & above-average returns**, we could readily see the stock tracking towards £16.80 by 2024 (see below) - assuming 5% organic top line growth can be achieved across the economic cycle.

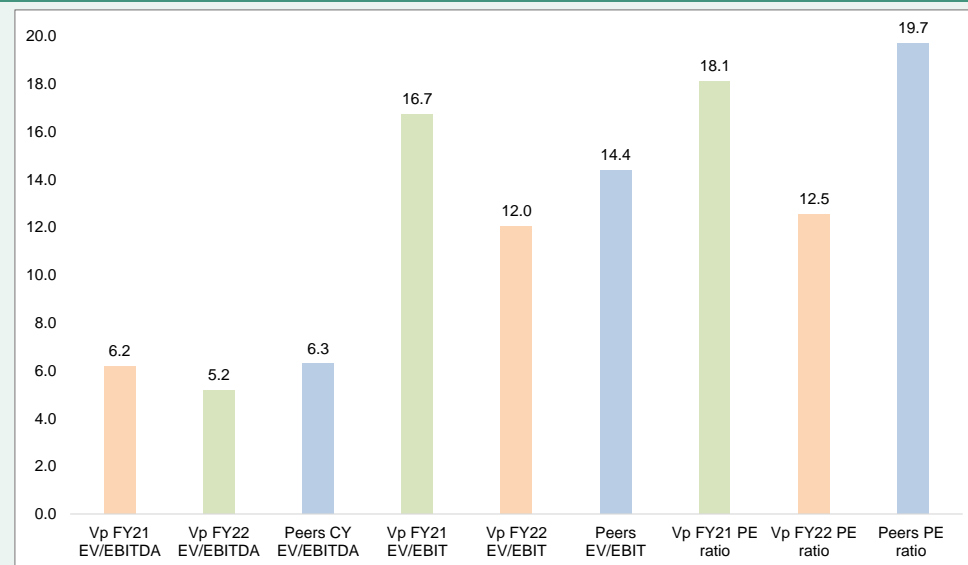
Hypothetical Vp shareprice by 2024 at a range of LFL growth rates



Source: Equity Development hypothetical price estimates

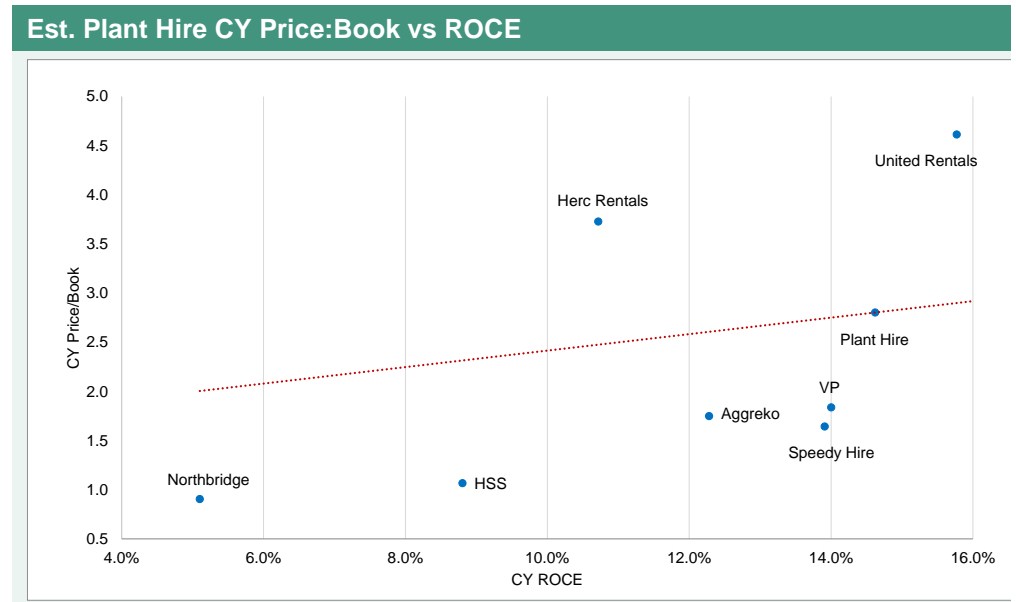
In fact even after the recent price appreciation, the **shares at 830p still trade on modest FY22 multiples of 5.2x EV/EBITDA, 12.0x EV/EBIT & 12.5x PER**, compared to 6.3x, 14.4x & 19.7x for peers (see below).

Vp valuation benchmarks vs peers



Source: Equity Development.

Elsewhere, Vp may ultimately be able to surpass its own stretching 15% ROCE target (re operating leverage) thanks to a leaner cost base, dovetailed with **industry leading digital solutions** (eg online self-service ordering) to take advantage of the post-pandemic world.



Source: Equity Development.

Strong execution should lead to another market leading year

Finally a big 'pat on the back' must go to the finance team. On a LFL basis in FY21, **Vp generated £36m of incremental cash** in the face of some of the harshest conditions for a century. Once again highlighting Vp's **durability, responsiveness and quality of earnings**.

CEO Neil Stothard commenting: *"As we have seen specific markets pick up, **we have started to invest again in new equipment to meet demand as the latent capacity of the fleet has been drawn back into productive use.** The timing of some of this investment has been accelerated due to hopefully short term supply chain challenges for certain products, relating to both Covid-19 and Brexit disruptions.*

*As we enter the new financial year, **we are pleased to see revenues returning to above 95% of pre-Covid levels** and this despite some sectors (such as events and hospitality) remaining closed, infrastructure programmes (such as AMP7 and CP6) not yet fully up to speed and confidence in the general construction market improving but still not fully recovered to pre-Covid levels. **Our financial position remains strong having further reduced debt during the period leaving a platform for growth.***

*"**We look forward to reporting another market leading performance** in the UK this year and view the next 12 months with increasing confidence."*

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).
- 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.

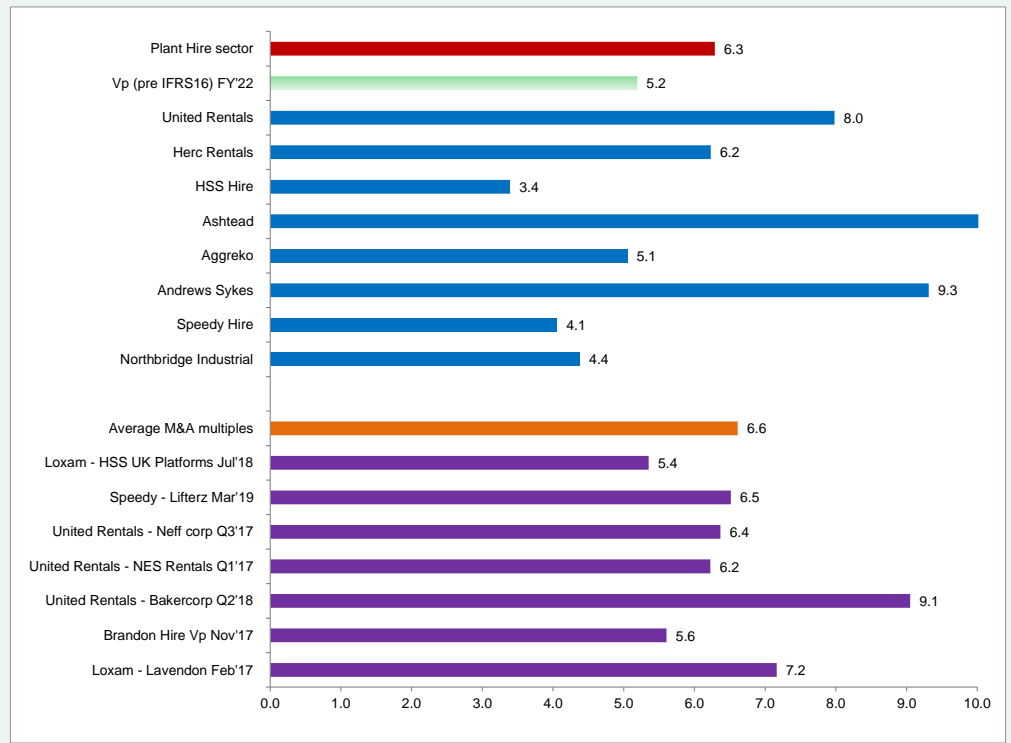
Summary projections

Vp (March year end)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
Turnover							
UK	271,989	350,330	331,005	273,014	314,455	361,623	379,704
International	31,650	32,500	31,922	26,566	30,326	33,358	35,026
Total	303,639	382,830	362,927	299,580	344,781	394,981	414,731
% growth	22.1%	26.1%	-5.2%	-17.5%	15.1%	14.6%	5.0%
UK	23.6%	28.8%	-5.5%	-17.5%	15.2%	15.0%	5.0%
International	10.2%	2.7%	-1.8%	-16.8%	14.2%	10.0%	5.0%
EBITDA	84,337	101,339	98,050	73,895	88,070	103,226	113,265
% Margin	27.8%	26.5%	27.0%	24.7%	25.5%	26.1%	27.3%
EBITDA (post IFRS16)			123,817	99,662	113,837	128,993	139,032
Adjusted EBIT							
UK	43,001	49,838	50,190	25,477	35,722	46,505	54,526
International	1,017	1,733	1,700	1,860	2,277	3,006	3,681
Total	44,018	51,571	51,890	27,337	38,000	49,510	58,207
EBIT (post IFRS16)			55,480	30,767	41,012	51,795	59,816
% Margin	14.5%	13.5%	14.3%	9.1%	11.0%	12.5%	14.0%
UK	15.8%	14.2%	15.2%	9.3%	11.4%	12.9%	14.4%
International	3.2%	5.3%	5.3%	7.0%	7.5%	9.0%	10.5%
Interest charge (pre IFRS 16)	-3,421	-4,742	-4,791	-4,293	-4,500	-4,400	-4,300
Adjusted PBT (pre amortisation)	40,597	46,829	47,099	23,044	33,500	45,110	53,907
PBT (post IFRS16)			46,640	22,585	33,041	44,651	53,448
Adjusted earnings	33,520	37,677	35,740	18,181	26,431	35,592	40,430
Adjusted Basic EPS (p) - pre IFRS 16	84.9	95.1	90.2	45.8	66.2	88.7	100.3
EPS growth rate	22.1%	12.0%	-5.2%	-49.2%	44.7%	34.0%	13.0%
Adjusted EPS diluted	83.9	92.9	88.8	45.0	65.1	87.2	98.6
Basic EPS (post IFRS16)			88.9	44.9	65.3	87.8	99.4
Dividend (pence)	26.0	30.2	8.5	44.0	30.0	32.0	34.0
Dividend growth	18.2%	16.2%	-72.0%	420.7%	-31.8%	6.7%	6.3%
Valuation benchmarks							
P/E ratio (pre IFRS 16)	9.8	8.7	9.2	18.1	12.5	9.4	8.3
P/E ratio (post IFRS 16)			9.3	18.5	12.7	9.4	8.3
EV/Sales	1.5	1.2	1.3	1.5	1.3	1.2	1.1
EV/EBITDA (pre IFRS 16)	5.4	4.5	4.7	6.2	5.2	4.4	4.0
EV/EBITDA (post IFRS 16)			4.3	5.4	4.7	4.1	3.8
EV/EBITA (pre IFRS 16)	10.4	8.9	8.8	16.7	12.0	9.2	7.9
EV/EBITA (post IFRS 16)			9.6	17.4	13.0	10.3	8.9
PEG ratio	0.4	0.7	-1.8	-0.4	0.3	0.3	0.6
Dividend yield	3.1%	3.6%	1.0%	5.3%	3.6%	3.9%	4.1%
Dividend cover	3.3	3.2	10.7	1.0	2.2	2.8	2.9
Corporate tax rate	-17.4%	-19.5%	-20.0%	-21.1%	-21.1%	-21.1%	-25.0%
Net debt / EBITDA (pre IFRS 16)	2.0	1.7	1.6	1.7	1.4	1.1	0.9
Return on average capital employed	14.8%	14.5%	14.5%	10.8%	14.0%	14.5%	14.5%
Net cash/(debt) - pre IFRS16	-179,172	-168,100	-159,806	-124,000	-120,000	-110,000	-100,000
Fleet capital expenditure (gross)	64,900	63,800	49,100	45,955	47,484	73,819	82,028
Investment as % sales	21.4%	16.7%	13.5%	15.3%	13.8%	18.7%	19.8%
Reported sharecount Ks (net Treasury)	39,476	39,603	39,618	39,712	39,910	40,110	40,310
Shareprice (p)	830						

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

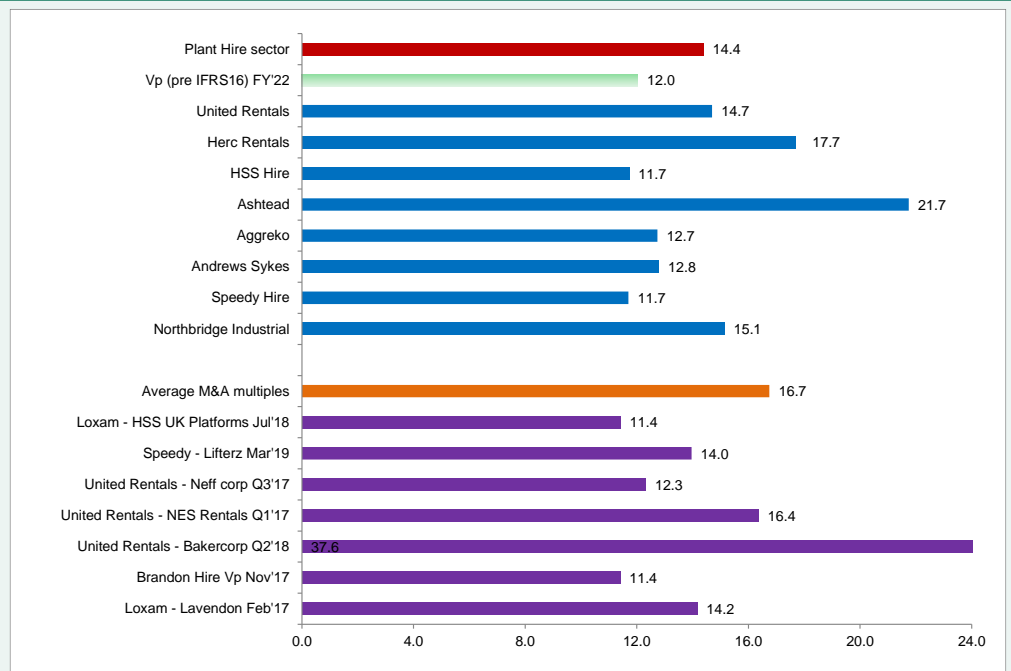
Appendices - sector valuation metrics and KPIs

Current Year (CY) EV / EBITDA vs peers

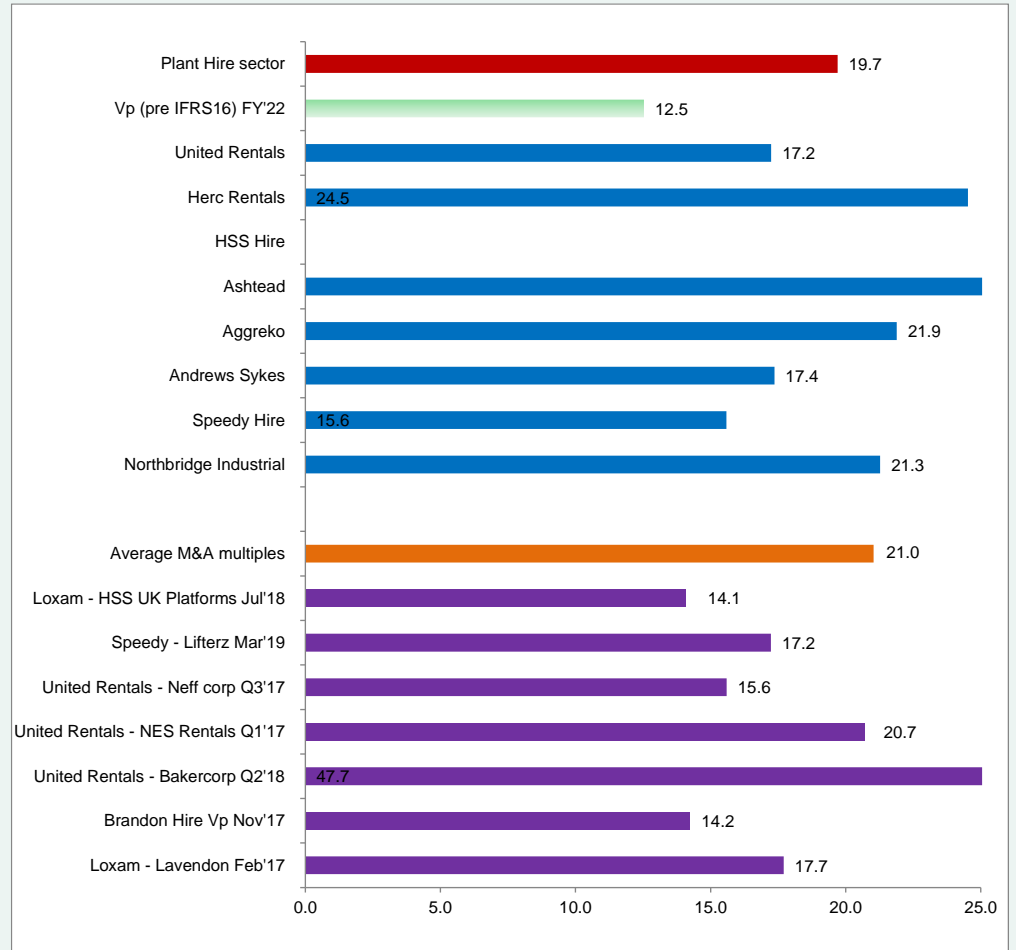


Source: Equity Development

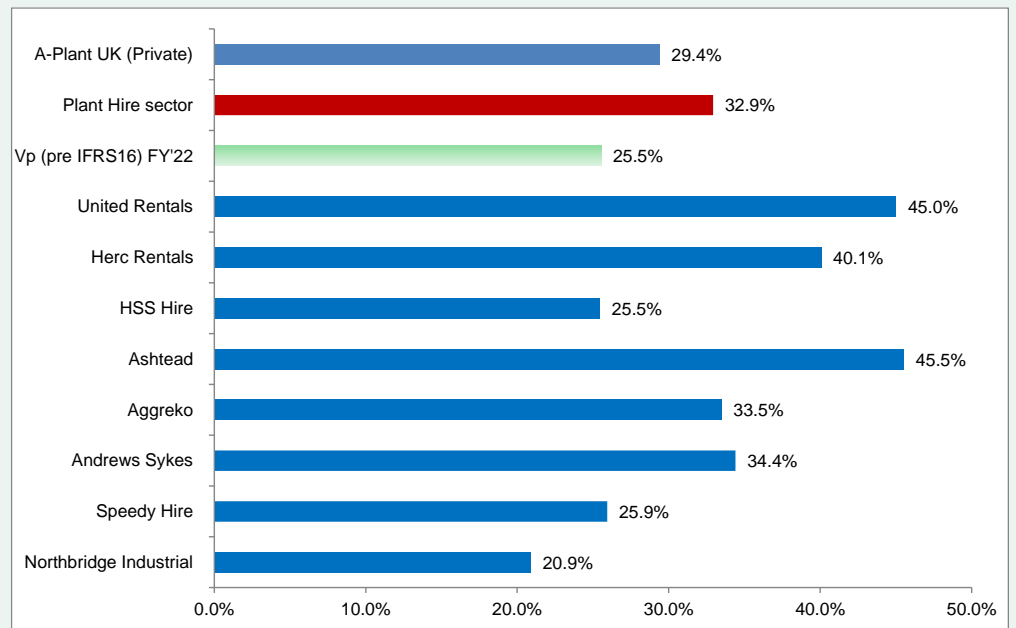
Current Year (CY) EV / EBIT vs peers



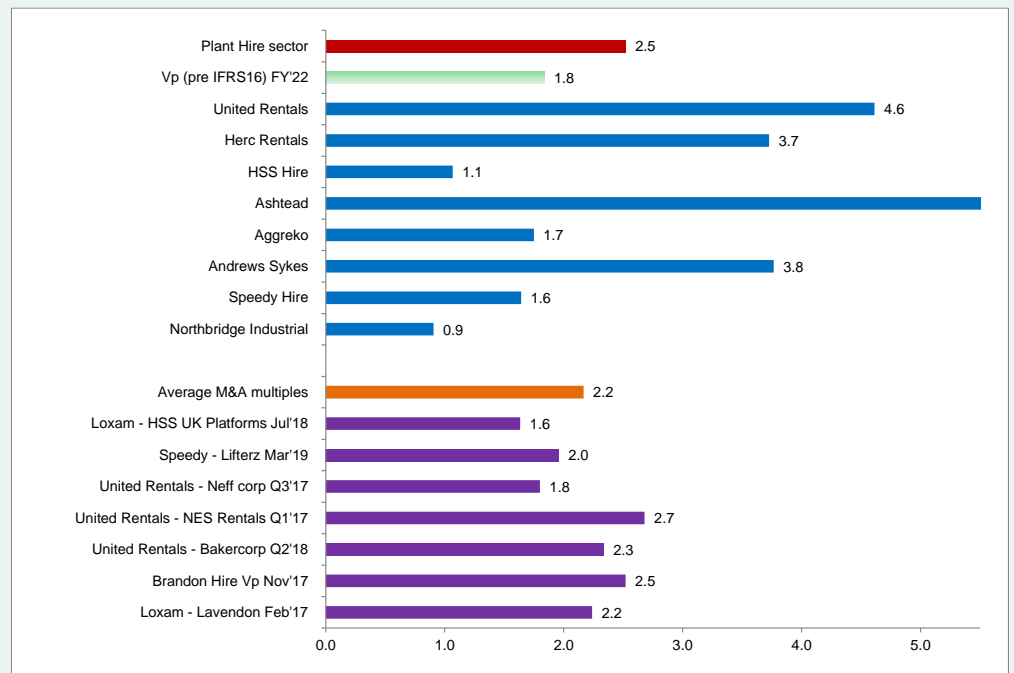
Source: Equity Development

CY PERs vs peers


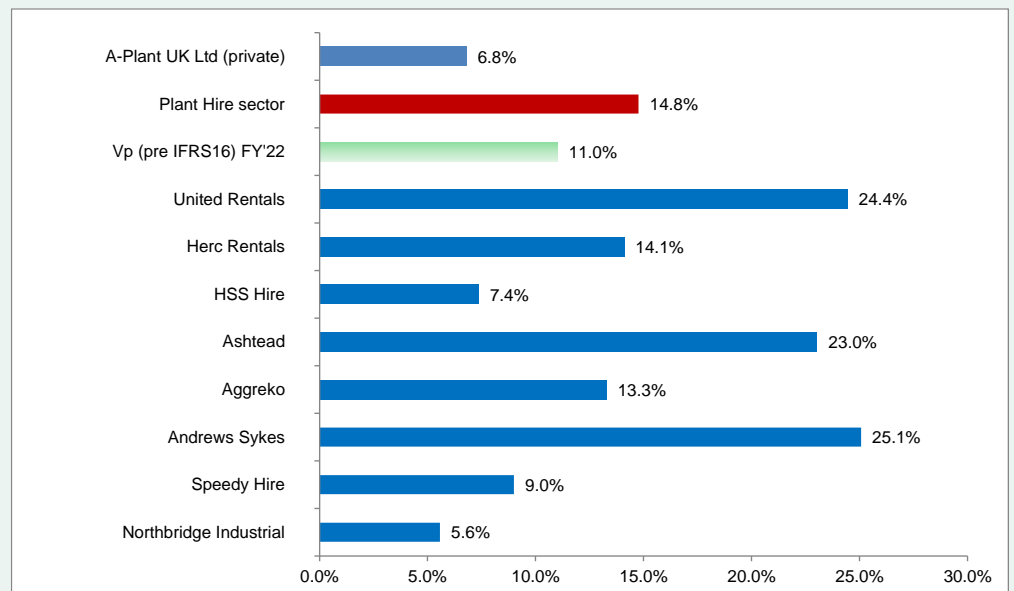
Source: Equity Development

CY % EBITDA margins vs peers


Source: Equity Development

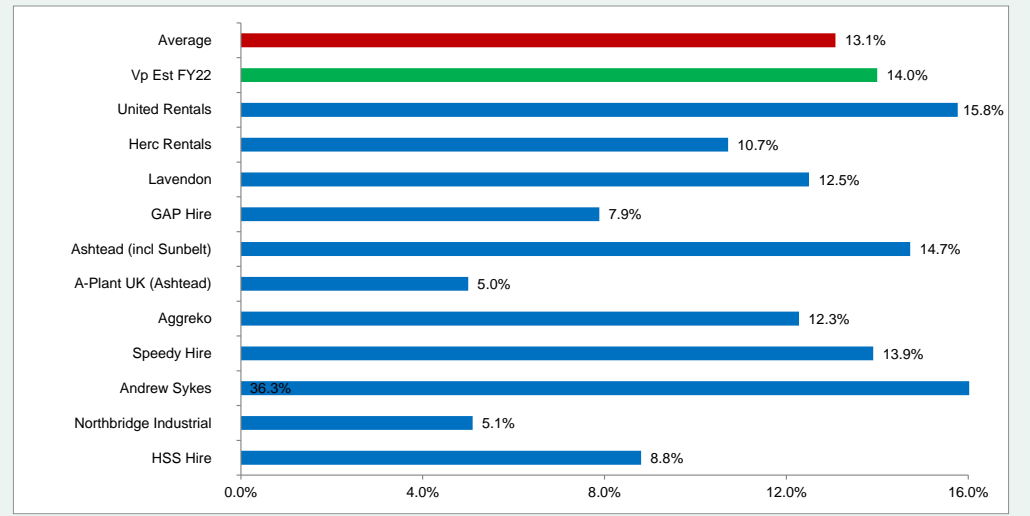
CY Price: Book


Source: Equity Development

CY % EBIT margins vs peers


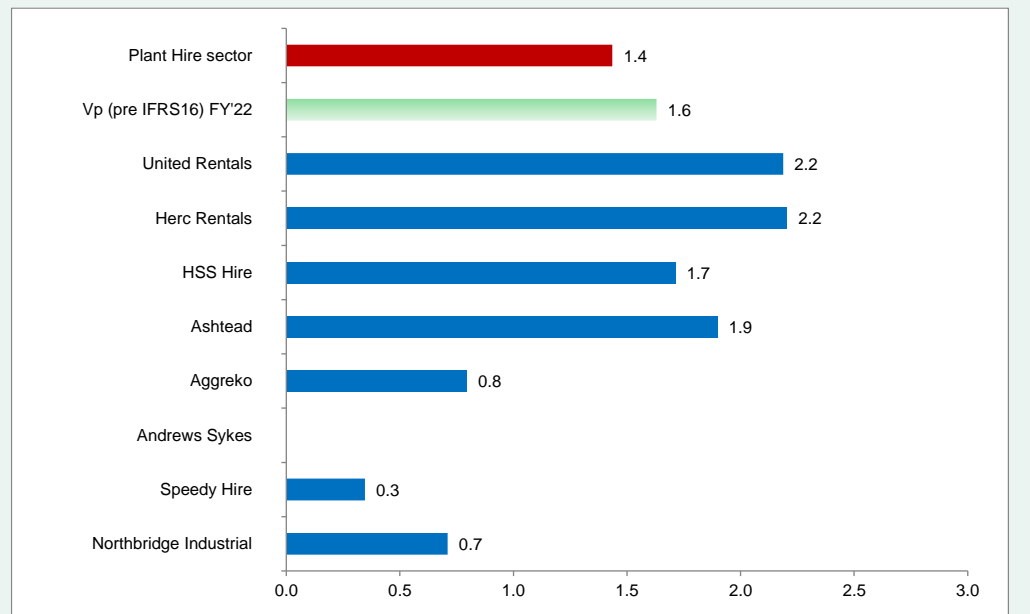
Source: Equity Development

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 Industrial	100.0p	£27.9	£5.4	£33.3
Speedy Hire	67.0p	£356	£33	£390
Andrews Sykes	625p	£264	£17	£247
Aggreko	880p	£2,244	£419	£2,663
Ashtead	4,445p	£20,314	£4,234	£24,548
HSS Hire	19.0p	£132.3	£135.0	£267.3
Herc Rentals	\$103.0	\$3,008	\$1,647	\$4,655
United Rentals	\$330.0	\$23,100	\$8,722	\$31,822
Vp	830p	£333	£124	£457

Source: Equity Development



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