Vp plc

Positioned for growth under new leadership

5th June 2024

Vp's FY'24 results confirm a solid performance and an impressively resilient outturn on all key financial metrics. Revenue and adjusted profits are a shade below the prior year, whilst return on average capital employed, the final dividend and year-end net debt all show a year-on-year improvement. The results are in line with our expectations and are, once again, sector-leading.

We nudge our Fair Value estimate up from 1090p to 1110p. We see attractions in a 5.6% dividend yield and significant scope for earnings growth over the medium term as management initiatives take effect and, ultimately, market recovery takes hold.

Resilient performance despite market challenges

Vp again benefited from the diversity of its services and end markets. The UK division reported a very modest decline in operating profit overall (-c.2%), whilst International recorded very impressive growth of c.50%. The Group has made a solid start to the new financial year, with trading said to be in line with expectations.

Strategic progress under new leadership team

The results highlight the steps that have already been taken in terms of progression of Group strategy under the new management team. In particular, there is a renewed focus on cross-divisional collaboration and operational excellence, as well as a clearer articulation of the digital roadmap. Other developments include new HR leadership and a continued focus on ESG, particularly in terms of investment in low-emission fleet, as well as an important reorganisation at Brandon Hire Station.

Valuation remains attractive despite recent bounce

Vp's shares have performed well in recent months (+c.30%) alongside improving sentiment towards UK-focused shares. Despite this, the shares remain attractively valued and trade at a discount to the immediate peer group. In our view, Vp's consistent outperformance of sector peers and long-term track record of earnings and dividend growth warrant a premium rating.

Key Financials and Valuation metrics

Year end March, £m	2021A	2022A	2023A	2024A	2025E	2026E
Sales	308.0	350.9	371.5	368.7	384.0	397.0
EBITDA	96.7	108.4	111.9	111.0	114.3	117.3
Adjusted PBT	23.2	38.9	40.2	39.9	41.8	45.0
FD EPS (p)	45.8	71.2	78.4	73.2	75.9	81.7
DPS (p)	25.0	36.0	37.5	39.0	40.0	41.5
Net Cash/(Debt)*	-121.9	-130.6	-134.4	-125.2	-120.9	-112.6
Net Cash/(Debt)**	-178.7	-188.3	-192.9	-187.2	-180.8	-172.6
Net Debt**/EBITDA	1.8x	1.7x	1.7x	1.7x	1.6x	1.5x
P/E	15.3x	9.9x	9.0x	9.6x	9.2x	8.6x
EV/EBITDA	4.8x	4.3x	4.2x	4.2x	4.0x	3.9x
Price/ TNAV	3.2x	2.7x	2.4x	2.2x	2.0x	1.8x
Dividend yield	3.6%	5.1%	5.3%	5.6%	5.7%	5.9%
FCF yield	19.5%	3.3%	4.1%	9.1%	7.8%	9.3%

*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)	695p
52 weeks Hi/Lo	700p/485p
Market cap	£279m
ED Fair Value/share	1110p
Proforma net cash/ (net debt)	(£120.9m)
Avg. daily volume	28,000

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: AGM Update – July '24

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A resilient performance despite market challenges

Vp's FY'24 results confirm a solid performance and an impressively resilient outturn on all key financial metrics. Revenue and adjusted profits are a shade below the prior year, whilst return on average capital employed, the final dividend and year-end net debt all show a year-on-year improvement. The results are in line with our expectations and are, once again, sector-leading.

The period was notable for the change in leadership as Anna Bielby stepped up from CFO to CEO and, more recently, Keith Winstanley joined the Group in January '24.

The results highlight the considerable progress that has already been made in terms of progression of Group strategy under the new management team. In particular, there is a renewed focus on cross-divisional collaboration and operational excellence, as well as a clearer articulation of the digital roadmap. Other developments include new HR leadership and a continued focus on ESG, particularly in terms of investment in low-emission fleet.

Financial highlights

- Revenue of £368.7m, a very slight decline on the prior year (0.8%), representing a resilient performance in challenging markets.
- Operating margin strengthened to 13.4% from 13.1%, an impressive performance driven by a significant increase in profitability in the International division.
- Adjusted PBT similar to prior year level (£39.9m for FY24 versus £40.2m in FY23) despite a £1m increase in Group finance costs
- The Group has recognised a non-cash impairment of £27.7m in relation to Brandon Hire Station. The business has faced particularly challenging conditions within the General Construction market. The division now has a new management team. Improvement initiatives, including a review of the branch network, are starting to have a positive impact.
- Return on Average Capital Employed increased to 14.5% (from 14.4%), slightly below management's through-cycle target for this key metric.
- Net debt (pre IFRS) of £125.2m, 6.8% lower than prior year, despite increased investment in the rental fleet (£63m invested with a focus on environmentally friendly solutions)
- Refinancing of £90m RCF successfully completed during the year, complementing existing £93m private placement
- Final dividend increased by 3.8% to 27.5p per share, taking the proposed full year dividend to 39.0p (representing an attractive 5.6% dividend yield).

Outlook highlights solid start to the new year

The Group has made a solid start to the new financial year, with trading said to be in line with expectations. We have updated our model for FY'25 but make no meaningful changes. The Board remains confident in the Group's future prospects and in Vp's ability to grow the business and drive value.

Group resilience underpinned by divisional diversity

The performance of the individual businesses was varied and Vp again benefited from the diversity of its services and market segments, underpinning a resilient Group performance. The UK division reported modest decline in operating profit overall, whilst International reported operating profit growth of c.50%.

Divisional overview

	H123(A)	H223(A)	2023(A)	H124(A)	H224(A)	2024(A)	2025(E)	2026(E)
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
UK	166.9	166.5	333.5	171.3	158.8	330.1	344.0	355.0
International	19.6	18.5	38.1	19.6	19.0	38.6	40.0	42.0
Group	**186.5**	**185.0**	**371.5**	**190.9**	**177.8**	**368.7**	**384.0**	**397.0**
Growth Rate	*5.9%*	*5.8%*	*5.9%*	*2.4%*	*-3.9%*	*-0.8%*	*4.2%*	*3.4%*
Adjusted Operating Profit								
UK	23.8	21.7	45.6	24.2	20.5	44.7	46.4	49.0
International	1.6	1.7	3.2	2.4	2.4	4.8	4.9	5.3
Group	**25.4**	**23.4**	**48.8**	**26.6**	**22.9**	**49.5**	**51.3**	**54.3**
Adjusted Operating Margin								
UK	*14.3%*	*13.1%*	*13.7%*	*14.1%*	12.9%	13.5%	*13.5%*	*13.8%*
International	*8.0%*	*8.9%*	*8.4%*	*12.2%*	12.7%	12.5%	*12.3%*	*12.6%*
Group	*13.6%*	*12.6%*	*13.1%*	*13.9%*	12.9%	13.4%	*13.4%*	*13.7%*
Interest	-4.0	-4.6	-8.6	-4.9	-4.7	-9.6	-9.5	-9.3
Adjusted PBT (IFRS 16)	**21.4**	**18.8**	**40.2**	**21.7**	**18.2**	**39.9**	**41.8**	**45.0**

Source: Company actuals, Equity Development forecasts

Groundforce delivered a market leading performance and strong year on year growth. In particular, within rail, Groundforce supported HS2 on >30 sites across London and the Midlands, including involvement in larger projects relating to sewer and utility diversions across London and the Midlands. Utilities demand remained consistent, with AMP7 running to March '25, before transitioning to AMP8, where a significant uplift in spending in planned, given the well-publicised need for investment upgrades to the water industry.

TPA delivered year on year growth, driven by activity in the portable roadways sector. Market conditions remained stable in power transmission and utilities but there was a slowdown in the final quarter of the year. A new Southern depot has recently been opened and there are growth opportunities arising from the transition from CP6 to CP7 (regulated Rail investment), as well as strong pipeline in the events sector.

Torrent Trackside also delivered growth despite disruption caused by UK-wide industrial action and a slight slowdown in activity towards the end of CP6. The new financial year should benefit from investment under CP7. This business continues to invest in environmentally friendly fleet with 70% of the fleet purchased this year being zero carbon at point of use.

Brandon Hire Station had a difficult year, with challenging trading conditions leading to a disappointing performance and lower activity levels that last year. This is indicative of the current malaise in the General Construction industry. As a result of the year's financial performance, intangible assets including goodwill of £27.7m have been written off during the year.

The **MEP** business recorded a strong year, having secured a number of large contracts in London, providing a significant opportunity for growth. **ESS** faced challenging conditions overall but saw positive momentum in the fourth quarter of the year with a number of projects providing optimism for the year ahead.

UK Forks has responded well to challenging market conditions, maintaining its relationships with its core customers in the housebuilding industry, as they have reduced their build programmes. The business is well placed to capitalise on any upturn in the market.

The **International** businesses performed very well, delivering a 50% increase in operating profit during the year. Airpac's performance in the Energy markets delivered strong year on year growth. Asia performed particularly well, benefiting from various LNG shutdowns and projects. The division has invested in electric compressors aligning with customers' green initiatives. Tech Rentals delivered a strong performance despite a backdrop of challenging markets and subdued business confidence in Australia.

Full year outturn slightly better than forecast

Vp's results contained no surprises in terms of the headline numbers. Group revenue was a shade lower than forecast, but stronger margins meant that PBT came in slightly better than expected (summarised in table below). The proposed dividend and net debt position were also slightly better than forecast.

We have updated our model for FY25, leaving PBT and EPS unchanged, representing c.5% growth year on year. We introduce FY26 forecasts for the first time, anticipating c.8% growth in that year.

Changes to forecasts

Year End March	2024(A)	2024(E)	2024(E)	2025(E)	2025(E)	2025(E)	2026(E)
	Actual	Forecast	Variance	Revised	Old	Change	New
Revenue £m	368.7	378.0	-2.5%	384.0	390.0	-1.5%	397.0
EBITDA £m	111.0	111.5	-0.5%	114.3	113.8	0.4%	117.3
PBT (underlying) £m	39.9	39.0	2.2%	41.8	41.8	0.0%	45.0
EPS fully diluted p	73.2	70.7	3.6%	75.9	75.9	0.0%	81.7
Dividend	39.0	38.5	1.3%	40.0	40.0	0.0%	41.5
Net cash/ (debt) ex. leases £m	-125.2	-126.2	-0.8%	-120.9	-115.7	4.5%	-112.6
Net cash/ (debt) inc. leases £m	-187.2	-184.7	1.3%	-180.8	-174.2	3.8%	-172.6

Source: Equity Development

We would expect FY26 to benefit from the initiatives that have been introduced by the new leadership team. We also note signs of improvement in certain industry indicators (see following page), which could provide a welcome tailwind as market conditions improve.

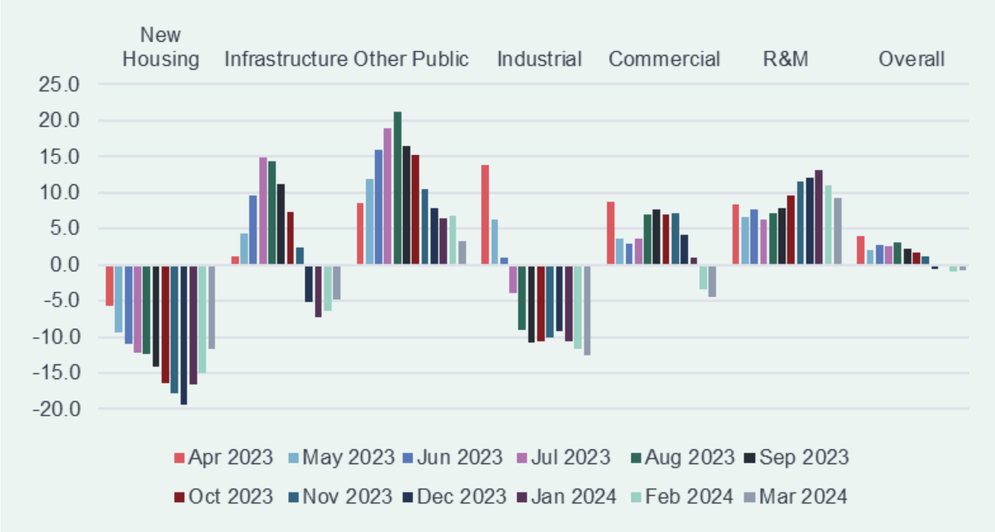
It is probably too early to predict the timing of recovery in General Construction and Housebuilding, but it is worth noting that operational gearing can be a powerful positive influence in a rising market (as well as creating challenges in recent challenging markets).

We have increased our net capex forecast by c.£5m in FY'25 to £45m to bring it in line with net capex in FY'24, reflecting management's confidence in medium term prospects and fleet investment plans.

Key market indicators showing signs of improvement

Vp's results have been delivered against a backdrop of a subdued construction market. Infrastructure has been a relative bright spot and Vp has good exposure to this segment of the market through its Groundforce, Torrent and TPA businesses in particular. These businesses are underpinned by regulated spending commitments in rail and water, for instance. General construction has been weaker, which is reflected in the challenges faced by Vp's Brandon Hire Station business. The chart below shows UK construction output over recent periods, with notable weakness in new housing, which Vp supplies through UK Forks.

ONS construction output (volume % change versus prior year)



Source: ONS

Encouragingly, the UK Construction PMI has given cause for cautious optimism recently

More encouragingly, the S&P Global UK Construction Purchasing Managers' Index (PMI) has given cause for cautious optimism recently. The PMI is a seasonally adjusted index tracking changes in industry activity, derived from a monthly survey of 170 construction companies.

The PMI registered **53.0 in April, up from 50.2 in March** (>50 represents expansion). This is the strongest pace of expansion since February 2023. Commercial building was the fastest-growing area of activity, whilst civil engineering activity expanded at its strongest pace for nine months.

UK Construction PMI (latest data to Apr '24)

Source: S&P/ CIPS Construction PMI

Attractive valuation relative to peers

Vp's shares have performed well in recent months (+c.30%) alongside improving sentiment towards UK-focused shares. Despite this, the shares remain attractively valued, in our view, relative to the immediate peer group (table below). In our view, Vp's consistent outperformance of sector peers and long-term track record of earnings and dividend growth warrant a premium rating.

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	24,822.4	56.88	18.5x	17.5x	8.6x	8.0x	1.5%
HSS Hire	67.0	0.10	10.6x	9.4x	3.0x	2.9x	6.1%
Speedy Hire	127.0	0.28	10.8x	7.7x	3.2x	2.9x	6.7%
Vp	274.8	6.95	9.5x	9.1x	4.2x	4.1x	5.6%
Peer average			12.4x	10.9x	4.8x	4.5x	5.0%
Average ex Vp			13.3x	11.5x	4.9x	4.6x	4.8%
Vp			9.5x	9.1x	4.2x	4.1x	5.6%

Source: Equity Development, Koyfin 31st May '24

We nudge our Fair Value estimate up from 1090p to 1110p, representing 13.6x our new FY'26 earnings forecast. At the current share price, the dividend yield remains attractive at 5.6% and we see significant scope for earnings growth over the medium term as management initiatives take effect and, ultimately, market recovery takes hold.

Summary Financials

Income statement (March year-end)	2021A	2022A	2023A	2024A	2025E	2026E
	£m	£m	£m	£m	£m	£m
Revenue						
UK	281.3	320.2	333.5	330.1	344.0	355.0
International	26.7	30.7	38.1	38.6	40.0	42.0
Group	**308.0**	**350.9**	**371.5**	**368.7**	**384.0**	**397.0**
Revenue growth						
UK	*-15%*	*14%*	*4%*	*-1%*	*4%*	*3%*
International	*-16%*	*15%*	*24%*	*1%*	*4%*	*5%*
Group	*-15%*	*14%*	*6%*	*-1%*	*4%*	*3%*
Adjusted operating profit						
UK	30.3	44.7	45.6	44.7	46.4	49.0
International	0.7	1.6	3.2	4.8	4.9	5.3
Group Operating Profit	**30.9**	**46.3**	**48.8**	**49.5**	**51.3**	**54.3**
Net Interest	-7.8	-7.4	-8.6	-9.6	-9.5	-9.3
Adjusted PBT	**23.2**	**38.9**	**40.2**	**39.9**	**41.8**	**45.0**
Exceptional	-15.1	0.0	-5.0	-5.8	0.0	0.0
Amortisation of acquired intangibles	-10.4	-3.3	-4.5	-31.2	-2.0	-2.0
Reported PBT	**-2.3**	**35.6**	**30.7**	**2.8**	**39.8**	**43.0**
EPS (adjusted)	46.5p	71.9p	78.8p	73.6p	76.9p	82.7p
EPS (adjusted fully diluted)	45.8p	71.2p	78.4p	73.2p	75.9p	81.7p

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

Cashflow statement (March year-end)	2021A	2022A	2023A	2024A	2025E	2026E
	£m	£m	£m	£m	£m	£m
Operating profit	**30.9**	**46.3**	**48.8**	**49.5**	**51.3**	**54.3**
Depreciation	45.0	45.5	46.9	45.0	47.0	47.0
Profit on Disposals	-4.3	-7.0	-9.2	-7.5	-8.0	-8.0
Exceptionals	-15.1	0.0	-5.0	-5.8	-2.0	0.0
Working Capital	33.9	-12.5	-18.4	9.8	-1.5	-1.5
Other	1.3	1.6	0.9	0.4	1.0	1.0
Operating cashflow	**91.8**	**73.8**	**63.9**	**91.4**	**87.8**	**92.8**
Interest	-4.8	-7.4	-8.4	-9.8	-9.5	-9.3
Tax	-2.9	-6.3	-5.5	-9.2	-11.3	-12.2
Cashflow from operations	**84.2**	**60.1**	**50.0**	**72.4**	**67.0**	**71.4**
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**	**22.0**	**26.4**
Acquisitions	0.0	-2.7	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares	-5.1	-0.5	-1.1	-0.7	-2.0	-2.0
Dividends	-8.7	-14.1	-14.5	-15.0	-15.7	-16.1
Other	0.0	0.0	0.0	0.0	0.0	0.0
Underlying cashflow	**41.4**	**-8.0**	**-4.0**	**9.6**	**4.3**	**8.3**
Other/FX	-3.4	-0.8	0.2	-0.4	0.0	0.0
Overall cashflow	**38.0**	**-8.8**	**-3.8**	**9.2**	**4.3**	**8.3**
Net Cash/(Debt) pre IFRS16	**-121.9**	**-130.6**	**-134.4**	**-125.2**	**-120.9**	**-112.6**
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**	**-180.8**	**-172.6**

Source: Company actuals, Equity Development forecasts

Balance sheet (to 31st 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	262.9	268.9
Goodwill	43.8	44.9	44.6	17.5	15.5	13.5
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**	**346.9**	**350.4**	**354.4**
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	76.3	77.8
Cash and cash equivalents	15.9	13.6	11.1	6.1	10.4	18.7
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**	**99.8**	**109.5**
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**	**153.9**	**166.7**	**181.8**
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	**153.1**	**166.6**	**174.9**	**153.9**	**166.7**	**181.8**

Source: Company actuals, Equity Development forecasts

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