Vp plc

Sustainable growth & offering 65% potential upside

7th June 2023

Successful investing is all about consistently applying a winning formula. It is not dissimilar either for corporates; that is building sustainable 'economic moats' by focusing on the customer, external environment and financial returns, whilst equally investing in future secular growth.

We think these themes run through Vp's DNA. A specialist equipment rental business, who today released '**in line' final FY'23 results & a positive outlook** - despite experiencing softer conditions in some of its end markets (e.g. commercial real estate, HS2, rail strikes and new build housing).

Indeed impressively, FY'23 (see overleaf) revenues, adjusted PBTA, EPS & ROCE came in at £371.5m (+6% vs LY), £40.5m (+4%), 79p (+11%) & 14.4% respectively. Reflecting solid performances in UK infrastructure (e.g. energy, rail & water) and RMI, augmented by a bounce back in International (AirPac & TR), where EBIT margins expanded to 8.1% (+4.9%) on sales up 23.9% to £38.1m.

This puts the stock (at 650p) on **attractive trailing EV/EBITDA, EV/EBIT & PE multiples of 4.3x, 8.6x and 8.2x** – whilst similarly paying a **generous 4.2% dividend yield**. We believe this is simply **too cheap for a best-in-class, GDP resilient business with a proven track record**.

Smart mix of highly resilient businesses

In fact, rather than being priced for contraction, Vp reiterated it remains "***well positioned to deliver further growth***" in the year ahead. Benefitting from ongoing **strength in civil engineering** (eg highways) **and infrastructure** (eg water, rail & energy). Alongside enjoying the continued overseas recovery at AirPac (O&G and mining) & TR Ltd (Australia), Vp has also demonstrated **durable pricing power** to offset any further input cost inflation and rightsized (£3.3m exceptionals) to improve long term operating efficiency (eg depot consolidation).

Elsewhere, residential property has stabilised too albeit at lower levels, where millions of properties need modernisation. We also expect the UK's 300,000 pa (vs 200k currently) 'New Build' homes target will become a political 'hot potato' heading into the 2024 general election, perhaps even providing a mini boost to the sector as government policies try to stimulate activity levels.

On track to grow profitably in FY'24

Let's not forget either, there's still a mountain of other work coming down the track (eg fibre-to-the-home, Transmission, offshore wind, Hinkley Point & the Lower Thames crossing), which should more than compensate for any possible 'air-pocket' in demand caused by a wider macro slowdown.

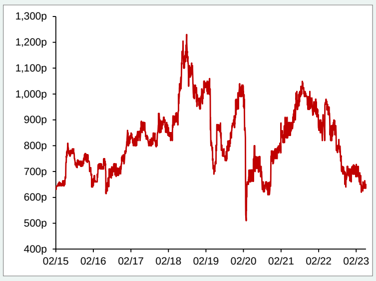
Management have recently introduced a host of new 'digital apps' to help customers perform their jobs more efficiently, safely and at higher quality.

In terms of **our FY'24 projections,** we've prudently nudged down the adjusted PBTA and stock valuation by 4% to £42.8m & £10.90/share based on the higher interest rate environment (re borrowing costs). Nonetheless in our opinion, the group's **through-cycle resilience** justifies a premium rating thanks to its consistent returns, adoption of all-things digital and exposure to systemically important verticals such as water, power, renewables, telecoms & rail.

Company Data

EPIC	LSE: VP.
Price (last close)	£6.50
52 week Hi/Lo	£9.60/£6.25
Market cap	£261m
Mar23 net debt (ex IFRS16)	£134.4m
Share count	40.154m
ED valuation	1,090p/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 (83%), but also overseas.

In terms of sector split: 38% sales is derived from infrastructure, 41% construction, 8% housing building, 6% Energy and 7% other.

Member of FTSE SmallCap Index.

Next news: AGM 20th July

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Resilient FY23 performance

£'000s March yearend	Act H1'23	Act H1'22	%	Act H2'23	Act H2'22	%	Act FY23	Act FY22
UK sales	166,932	160,761	*3.8%*	166,521	159,442	*4.4%*	333,453	320,203
International	19,555	15,342	*27.5%*	18,511	15,370	*20.4%*	38,066	30,712
Group revenues	**186,487**	**176,103**	***5.9%***	**185,032**	**174,812**	***5.8%***	**371,519**	**350,915**
Group EBITDA pre IFRS16	**47,791**	**44,546**	***7.3%***	**45,093**	**47,791**	***-5.6%***	**92,884**	**88,868**
EBITDA % margin	*25.6%*	*25.3%*		*24.4%*	*27.3%*		*25.0%*	*25.3%*
UK	22,457	21,810	*3.0%*	20,485	20,022	*2.3%*	42,942	41,832
International	1,503	700	*114.7%*	1,586	804	*97.3%*	3,089	1,504
Group EBITA	**23,960**	**22,510**	***6.4%***	**22,071**	**20,826**	***6.0%***	**46,031**	**43,336**
UK	*13.5%*	*13.6%*		*12.3%*	*12.6%*		*12.9%*	*13.1%*
International	*7.7%*	*4.6%*		*8.6%*	*5.2%*		*8.1%*	*4.9%*
EBIT % margin	***12.8%***	***12.8%***		***11.9%***	***11.9%***		***12.4%***	***12.3%***
Interest	-2,503	-2,298	*8.9%*	-3,039	-2,133	*42.5%*	-5,542	-4,431
PBTA	**21,457**	**20,212**	***6.2%***	**19,032**	**18,693**	***1.8%***	**40,489**	**38,905**
Adj EPS - pre IFRS16	**42.3p**	**37.6p**	***12.5%***	**36.7p**	**33.6p**	***9.1%***	**79.0p**	**71.2p**
Dividend	**11.0p**	**10.5p**		**26.5p**	**25.5p**		**37.5p**	**36.0p**
Net debt (pre IFRS 16)	-148,942	-131,721	*13.1%*	-134,368	-130,604	*2.9%*	-134,368	-130,604
Net debt : EBITDA							1.4	1.5
Group ROCE	***14.4%***	***13.5%***		***14.4%***	***14.5%***		***14.4%***	***14.5%***

Source: Equity Development.

Overall the market backdrop remains positive

Lastly in relation to the balance sheet, **net bank debt** (pre IFRS 16) **ticked up slightly to £134.4m** (1.4x EBITDA) because of ongoing fleet investment (£59.9m eg to replace diesel powered engines with electric/gas) and an increase in debtor days (+4 to 59), partly offset by an acceleration of equipment disposals (£24.6m vs £17.4m LY).

Looking ahead, CEO Neil Stothard commented: "*Housebuilding which has been relatively buoyant for the last two years, is forecast to experience moderate contraction in 2023 before recovering in 2024. Infrastructure will recover to modest growth after a flat 2022 driven by Rail, AMP7 (water), Hinkley Point and Offshore Wind capital investment. The non-residential new construction segment, comprising Public, Private Industrial and Private Commercial output is expected to see modest improvement overall and the Repair and Maintenance sectors are anticipated to be stable.* ***This market backdrop remains positive for Vp****.*

Our International business is experiencing improving trading conditions and we believe that the wide range of markets to which this division is exposed, including mining, oil and gas, construction and outdoor events, will be supportive in the new financial year."

Summary projections (£'000s)

Vp (March year end)	2020 Act £'000s	2021 Act £'000s	2022 Act £'000s	2023 Act £'000s	2024 Est £'000s	2025 Est £'000s
Turnover						
UK	*331,005*	*281,309*	*320,203*	*333,453*	*341,789*	*352,043*
International	*31,922*	*26,688*	*30,712*	*38,066*	*39,969*	*41,968*
Total	**362,927**	**307,997**	**350,915**	**371,519**	**381,759**	**394,011**
% growth	***-5.2%***	***-15.1%***	***13.9%***	***5.9%***	***2.8%***	***3.2%***
UK	*-5.5%*	*-15.0%*	*13.8%*	*4.1%*	*2.5%*	*3.0%*
International	*-1.8%*	*-16.4%*	*15.1%*	*23.9%*	*5.0%*	*5.0%*
EBITDA	**98,050**	**72,701**	**88,868**	**92,884**	**96,838**	**99,983**
% Margin	*27.0%*	*23.6%*	*25.3%*	*25.0%*	*25.4%*	*25.4%*
EBITDA (post IFRS16)	*123,817*	*96,660*	*112,827*	*116,843*	*120,797*	*123,942*
Adjusted EBIT						
UK	*50,190*	*27,156*	*41,832*	*42,942*	*46,142*	*47,526*
International	*1,700*	*565*	*1,504*	*3,089*	*3,198*	*4,197*
Total	**51,890**	**27,721**	**43,336**	**46,031**	**49,339**	**51,723**
EBIT (post IFRS16)	55,480	30,928	45,604	46,714	49,914	51,298
% Margin	***14.3%***	***9.0%***	***12.3%***	***12.4%***	***12.9%***	***13.1%***
UK	*15.2%*	*9.7%*	*13.1%*	*12.9%*	*13.5%*	*13.5%*
International	*5.3%*	*2.1%*	*4.9%*	*8.1%*	*8.0%*	*10.0%*
Interest charge (pre IFRS 16)	-4,791	-4,448	-4,431	-5,542	-6,500	-6,500
Adjusted PBT (pre amortisation)	**47,099**	**23,273**	**38,905**	**40,489**	**42,839**	**45,223**
PBT (post IFRS16)	46,640	23,176	38,808	40,392	42,742	45,126
Adjusted earnings	**35,740**	**18,435**	**28,210**	**31,310**	**32,129**	**33,917**
Adjusted Basic EPS (p) - pre IFRS 16	**90.2**	**46.6**	**71.2**	**79.0**	**80.7**	**84.7**
EPS growth rate	*-5.2%*	*-48.4%*	*53.0%*	*10.9%*	*2.1%*	*5.0%*
Adjusted EPS diluted	***88.8***	***45.8***	***70.5***	***78.6***	***80.3***	***84.3***
Basic EPS (post IFRS16)	*88.9*	*46.2*	*72.5*	*78.8*	*80.5*	*84.5*
Dividend (pence)	**8.5**	**47.0**	**36.0**	**37.5**	**40.1**	**42.2**
Dividend growth	*-72.0%*	*456.2%*	*-23.4%*	*4.2%*	*7.0%*	*5.0%*
Valuation benchmarks						
P/E ratio (pre IFRS 16)	*7.2*	*14.0*	*9.1*	*8.2*	*8.1*	*7.7*
P/E ratio (post IFRS 16)	*7.3*	*14.1*	*9.0*	*8.2*	*8.1*	*7.7*
EV/Sales	*1.1*	*1.3*	*1.1*	*1.1*	*1.0*	*1.0*
EV/EBITDA (pre IFRS 16)	*4.0*	*5.4*	*4.4*	*4.3*	*4.1*	*4.0*
EV/EBITDA (post IFRS 16)	*3.7*	*4.7*	*4.0*	*3.9*	*3.7*	*3.6*
EV/EBITA (pre IFRS 16)	*7.6*	*14.3*	*9.1*	*8.6*	*8.0*	*7.6*
EV/EBITA (post IFRS 16)	*8.2*	*14.6*	*9.9*	*9.7*	*9.1*	*8.8*
PEG ratio	*-1.4*	*-0.3*	*0.2*	*0.8*	*3.8*	*1.5*
Dividend yield	*1.3%*	*7.2%*	*5.5%*	*5.8%*	*6.2%*	*6.5%*
Dividend cover	*10.7*	*1.0*	*2.0*	*2.1*	*2.0*	*2.0*
EBIT drop through rate (%)	*-1.6%*	*44.0%*	*36.4%*	*13.1%*	*32.3%*	*19.5%*
Corporate tax rate	*-20.0%*	*-21.1%*	*-26.0%*	*-22.7%*	*-25.0%*	*-25.0%*
Net debt / EBITDA (pre IFRS 16)	*1.6*	*1.7*	*1.5*	*1.4*	*1.3*	*1.1*
Return on average capital employed	*14.5%*	*9.2%*	*14.5%*	*14.4%*	*14.5%*	*14.5%*
Net cash/(debt) - pre IFRS16	**-159,806**	**-121,906**	**-130,604**	**-134,368**	**-123,873**	**-113,920**
Fleet capital expenditure (gross)	49,100	40,200	59,800	59,900	60,000	60,000
Investment as % sales	*13.5%*	*13.1%*	*17.0%*	*16.1%*	*15.7%*	*15.2%*
Reported sharecount Ks (net Treasury)	*39,618*	*39,595*	*39,597*	*39,635*	*39,833*	*40,032*
Shareprice (p)	**650**					

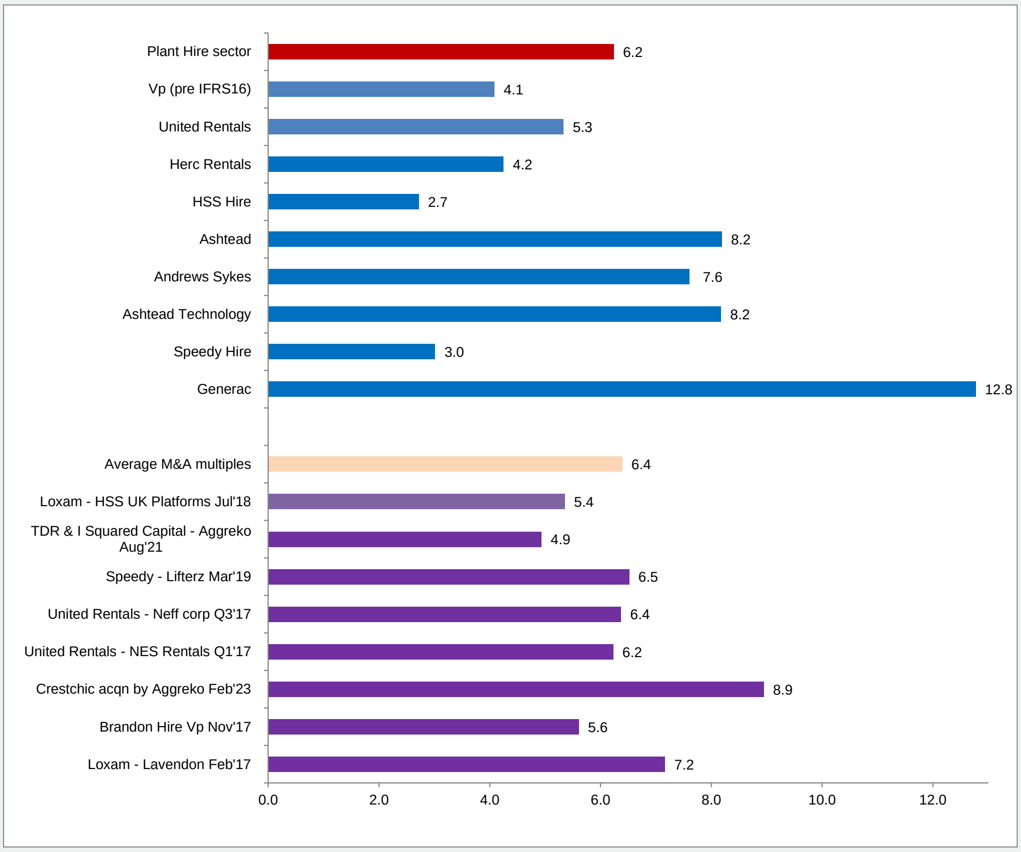
Source: Equity Development – FY21 includes special dividend of 22p/share

Key risks

- 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.
- 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.

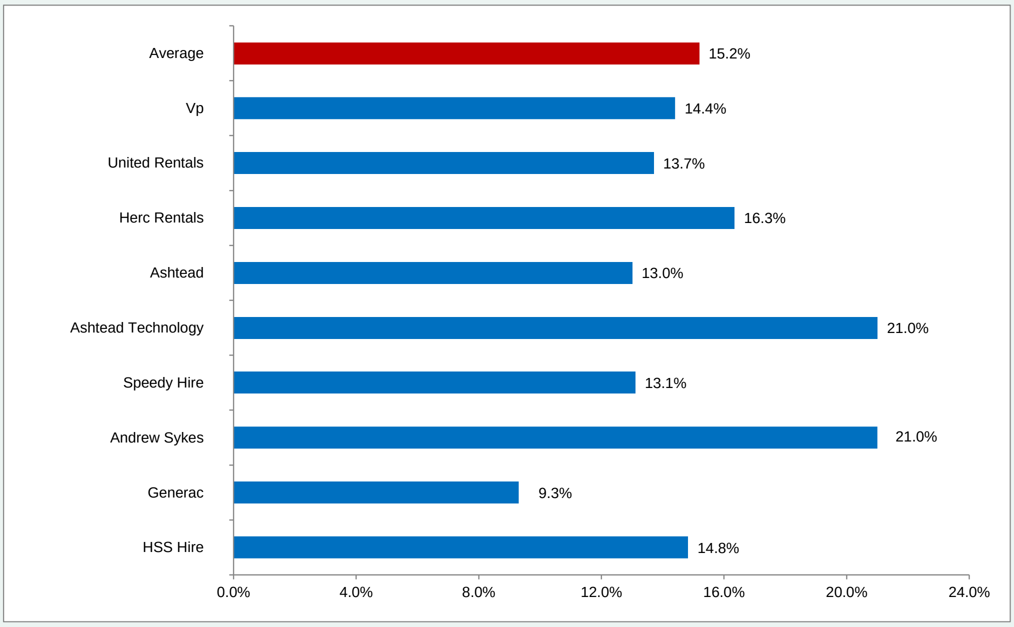
Appendices - sector valuation metrics and KPIs

Current Year (CY) EV / EBITDA multiples vs peers



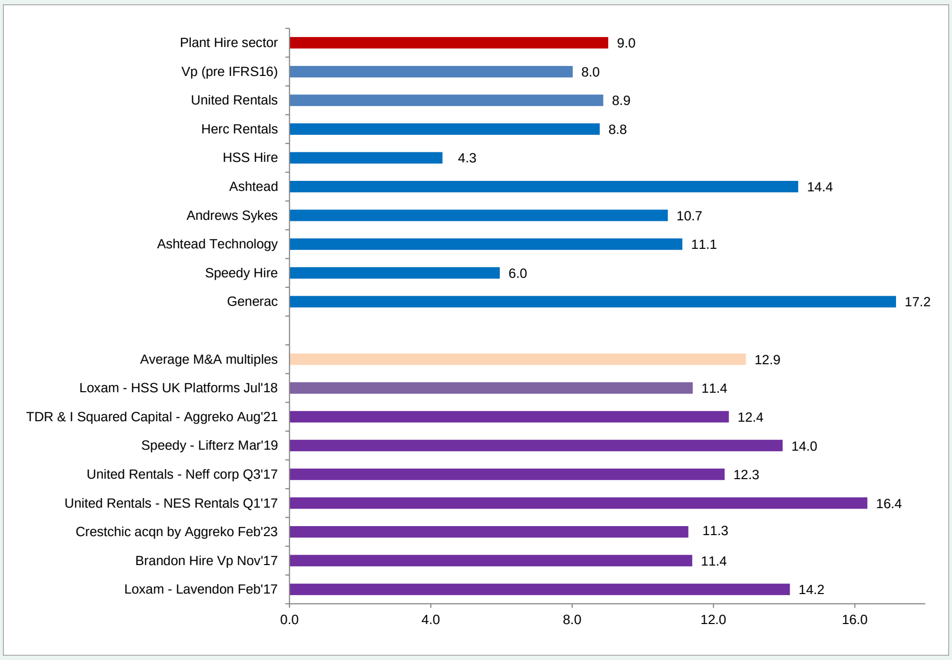
Source: Equity Development

CY % ROCE vs peers



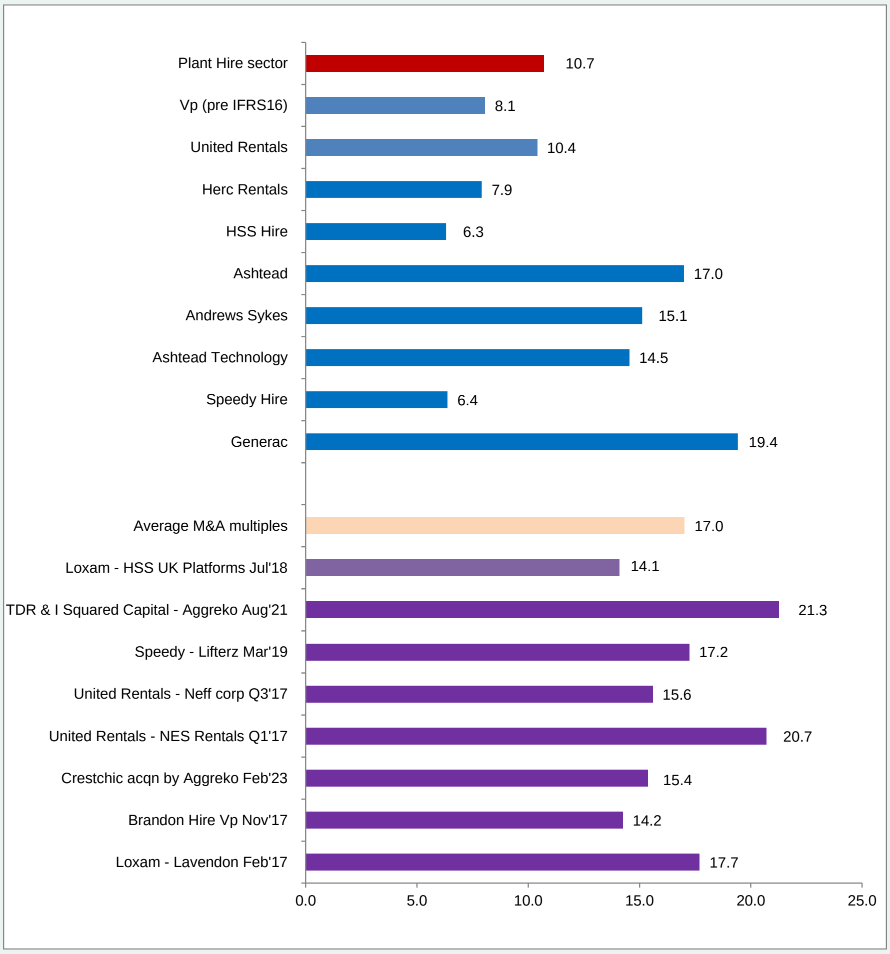
Source: Equity Development

Current Year (CY) EV / EBIT multiples vs peers



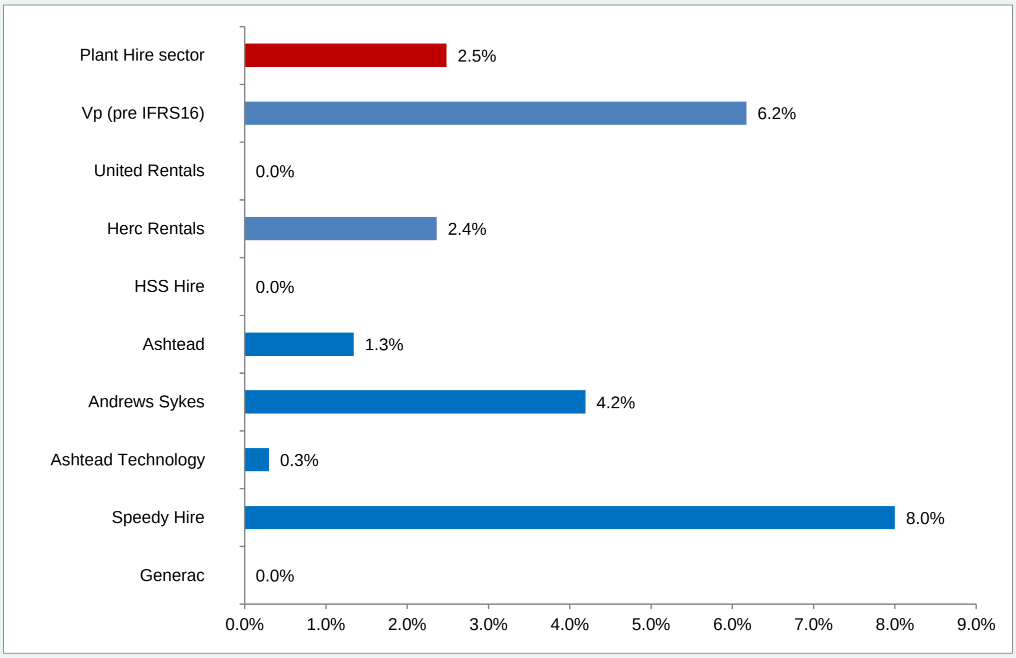
Source: Equity Development

CY PERs vs peers



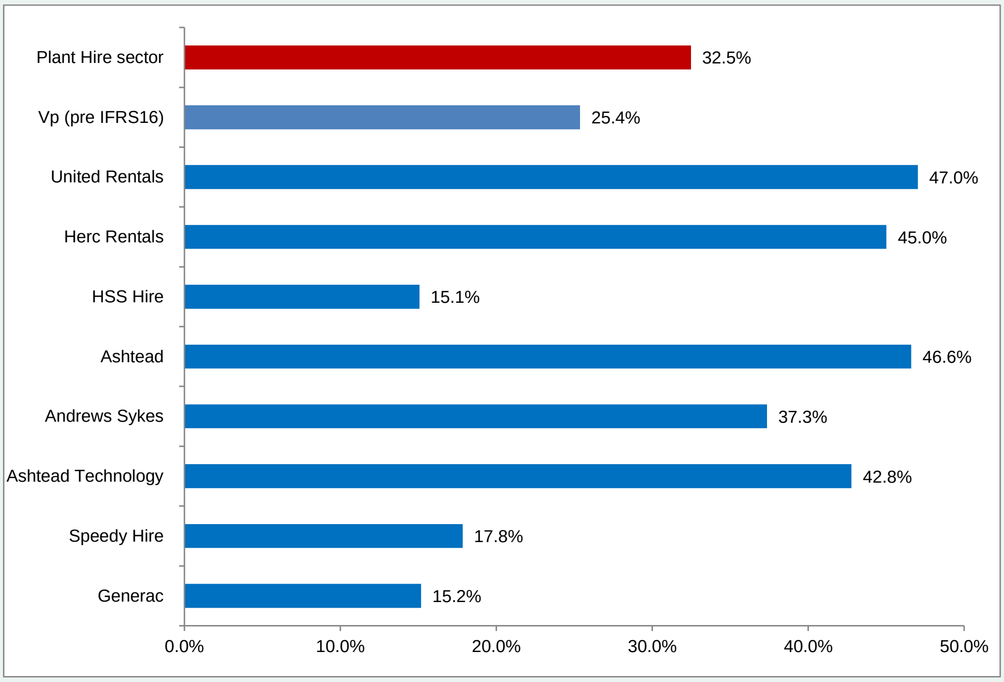
Source: Equity Development

CY dividend yield vs peers



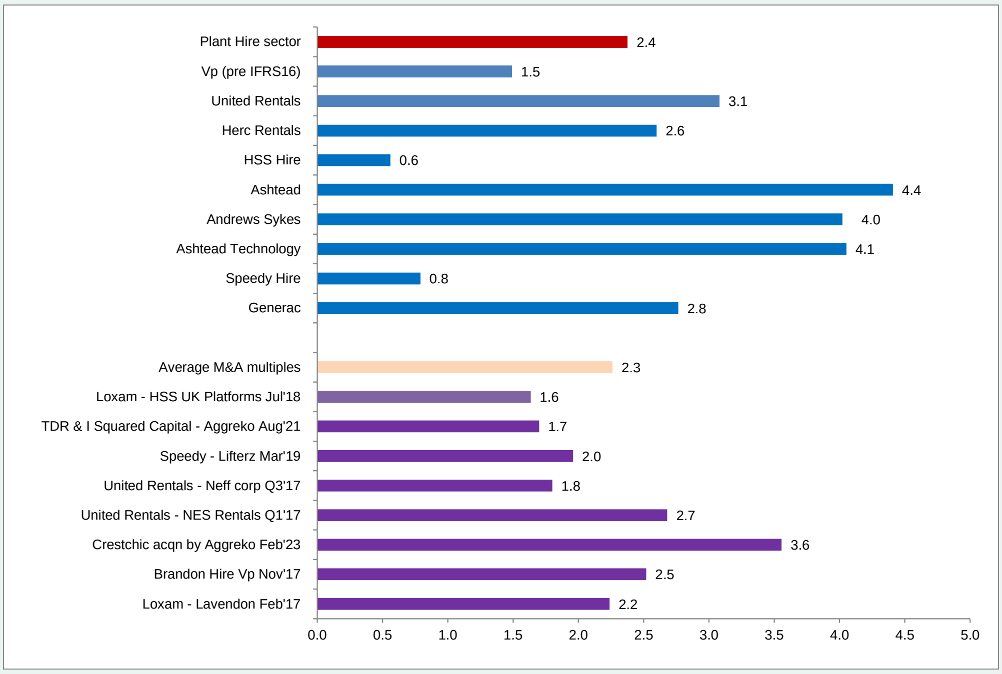
Source: Equity Development

CY % EBITDA margins vs peers



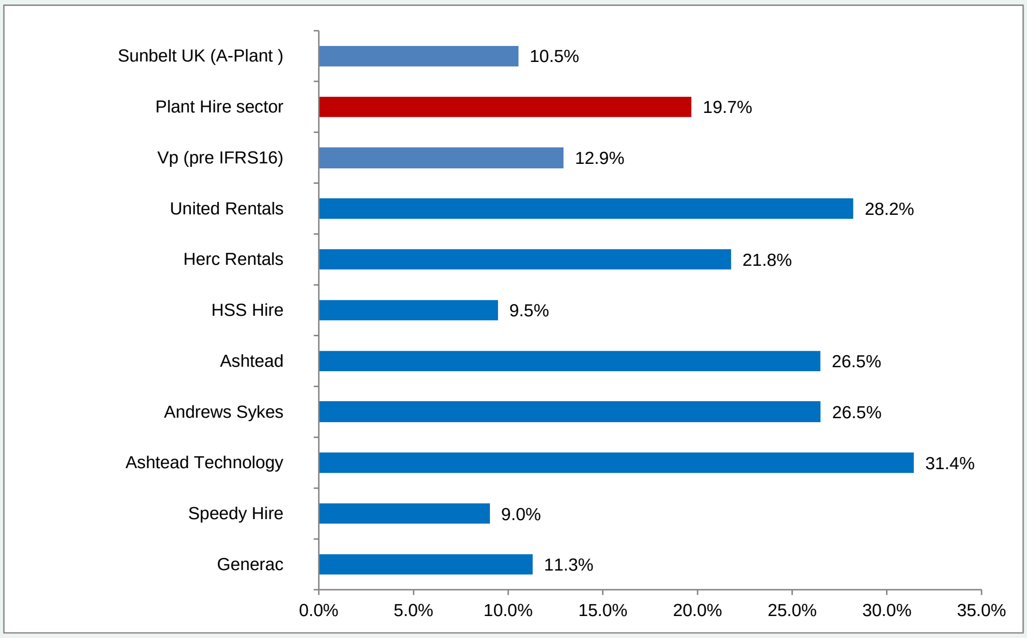
Source: Equity Development

CY Price: Book



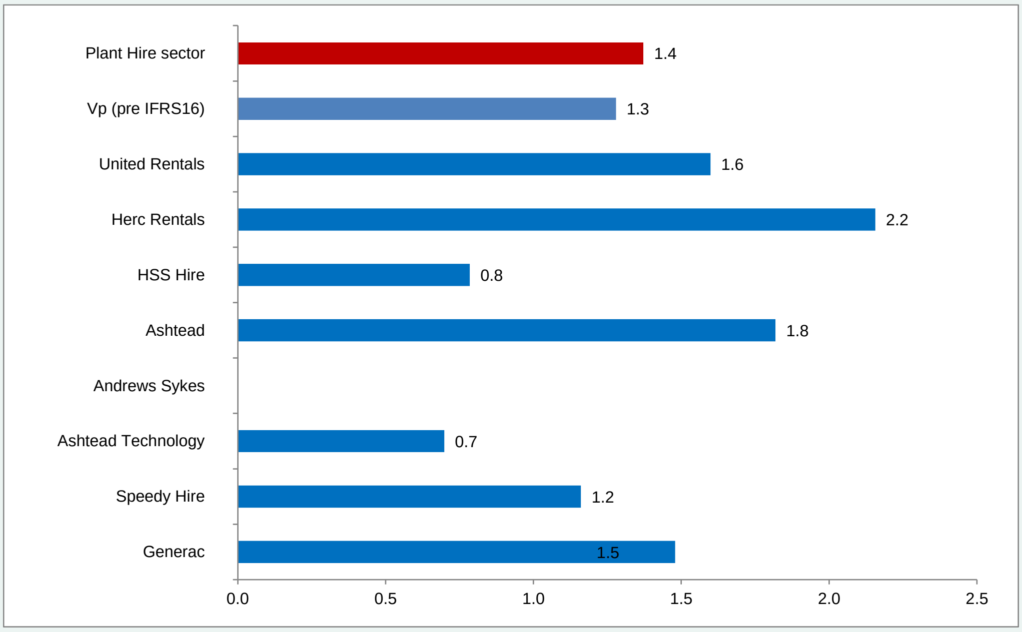
Source: Equity Development

CY % EBIT margins vs peers



Source: Equity Development

CY Net debt : EBITDA



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Generac	$113.0	$7,029	-$920	$7,949
Speedy Hire	32.5p	£150	-£94	£244
Ashtead Technology	384.0p	£307	-£29	£336
Andrews Sykes	620p	£261	£26	£236
Ashtead	$6,375.0	$28,050	-$8,011	$36,061
HSS Hire	14.5p	£102.2	-£41.5	£143.7
Herc Rentals	$110.0	$3,135	-$3,232	$6,367
United Rentals	$362.0	$24,906	-$10,670	$35,576
Vp	650p	£261	-£134	£395

Source: Equity Development

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