

Delivering growth in uncertain markets

28th November 2023

Positive interims from Vp this morning highlight another period of growth despite the mixed market backdrop. The results again illustrate the benefit of Vp's diverse mix of specialist activities, with the quality of earnings confirmed by further growth in operating margin (now 13.9%) and ROCE (14.7%). Strategic priorities include continued progress with ESG initiatives and a greater emphasis on Digital, with more on this likely to follow later in the year.

We maintain our Fair Value estimate of £10.90 per share, based on the Group's historic average trading multiples, noting the impressive track record of long-term growth, high returns and the successful navigation of previous economic cycles.

Solid interims, well positioned for full year

Vp's interims confirm another solid performance and continued growth despite the challenging backdrop. Revenue increased by 2.4% to £190.9m and adjusted PBT by 1.9% to £21.9m. This is >50% of our full year forecast (trimmed by c.4% to bring us in line with consensus).

End market diversity underpinning performance

Infrastructure demand has driven a positive H1 performance for Vp's Groundforce, Torrent and TPA businesses. Vp's experience is consistent with the latest construction industry data, which shows infrastructure demand offsetting weakness in general construction and housebuilding. Vp is well positioned to benefit when these softer markets return to growth.

Strategic progress and new leadership team

The period was notable for the change in leadership with Anna Bielby succeeding Neil Stothard as Group Chief Executive. Keith Winstanley has been appointed Group CFO and joins the Group in January 2024. We expect the refreshed management team to build on the Group's strong foundations, with Digital innovation and ESG commitment at the forefront of Group strategy.

Valuation discount remains compelling despite recent bounce

Following recent share price moves, Vp still trades at a marked discount to its immediate peers and its historic average rating. Over the long term, Vp has traded on a P/E rating of c.12x and the valuation at today's share price represents a 30% discount to this level.

Company Data

EPIC	LSE: VP.
Price (last close)	630p
52 weeks Hi/Lo	720p/485p
Market cap	£249m
ED Fair Value / share	1090p
Proforma net cash/ (net debt)	(£124.2m)
Avg. daily volume	28,000

Share Price, p



Source: ADVFN

Description

Vp plc 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: Year-end update March/ April 2024

James Tetley (Analyst)

0207 065 2690
james.tetley@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Key Financials and Valuation metrics

Year end March, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	362.9	308.0	350.9	371.5	378.0	390.0
EBITDA	123.8	96.7	108.4	111.9	113.5	115.8
Adjusted PBT	46.6	23.2	38.9	40.2	41.0	43.8
FD EPS (p)	88.7	45.8	71.2	78.4	74.3	79.5
DPS (p)	30.5	25.0	36.0	37.5	39.0	41.0
Net Cash/(Debt)*	-159.8	-121.9	-130.6	-134.4	-124.2	-112.5
Net Cash/(Debt)**	-231.7	-178.7	-188.3	-192.9	-182.8	-171.0
Net Debt**/EBITDA	1.9x	1.8x	1.7x	1.7x	1.6x	1.5x
P/E	7.1x	13.8x	8.9x	8.0x	8.5x	7.9x
EV/EBITDA	3.9x	4.4x	4.0x	3.9x	3.8x	3.6x
Price/ TNAV	2.7x	2.9x	2.4x	2.1x	2.0x	1.8x
Dividend yield	4.8%	4.0%	5.7%	6.0%	6.2%	6.5%
FCF yield	11.6%	21.8%	3.7%	4.6%	10.8%	11.6%

Source: ED analysis, IFRS 16 basis unless stated *excluding leases (pre IFRS 16) ** including leases (IFRS 16)

Solid interims, well positioned for full year

Vp's interims confirm another solid performance, and continued growth despite the challenging economic backdrop. The Group has an excellent track record of growth and sector leading returns through the cycle and the results show a further improvement in operating margin and ROCE, both key performance metrics.

The period was notable for the change in leadership as Anna Bielby succeeded Neil Stothard as Group Chief Executive. Anna joined Vp as CFO in January 2023. Keith Winstanley has been appointed Group CFO and joins the Group in January 2024. We expect the refreshed management team to build on the Group's strong foundations, with Digital innovation and ESG commitment at the forefront of Group strategy.

ESG progress in the period include targeted investment in the rental fleet (supporting customers' own ESG initiatives) and the Group's Science Based Targets were recently validated by the SBTi. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World-Wide Fund for Nature (WWF). <https://sciencebasedtargets.org/about-us#who-we-are>

Recent digital innovations include YourSolution Pro in Groundforce, a self-service design solution. Further progress on the Group's digital roadmap is expected in the remainder of the year.

Financial highlights

- Revenue increased by 2.4% to £190.9m, driven by demand from infrastructure sector
- Adjusted PBT increased by 1.9% to £21.9m despite the higher interest rate environment
- Operating margin strengthened to 13.9% from 13.6%, comparing favourably with peers
- High Return on Average Capital Employed maintained at 14.7% (from 14.4%), in line with 15% target
- Net debt (pre IFRS) of £133.4m, 10.4% lower than prior year; full year leverage expected to be c.1.5x
- Refinancing of £90m RCF successfully completed, complementing existing £93m private placement
- 70% of period end borrowings fixed at low rates
- Interim dividend increased by 4.5% to 11.5p per share, continuing the unbroken track record of growth

Divisional overview

In terms of the performance of the individual businesses, **Groundforce** is seeing a period of strong trading, supported by AMP7 (water industry investment) and other major infrastructure projects. **Torrent** had a solid first half, supported by CP6 (regulated Rail investment) and the curtailment of HS2 is not expected to have a major negative impact (possible benefit if investment is delivered elsewhere in the network). **TPA** had an excellent H1, with supportive markets.

This business supports the electricity transmission sector and we note this was an area earmarked for additional investment in the recent Autumn Statement. The **International** businesses reported stable revenues but strong profit growth with its operating margin back into double digits for the first time since H1 2016. Within this, the **TR** business saw satisfactory trading and **Airpac** benefitted from a more positive environment for the oil & gas industry.

Unsurprisingly, the positive areas have been balanced against softer conditions in **Brandon Hire Station** (general construction focus) and **UK Forks** (housebuilding activity). Brandon's performance is said to be materially below prior year levels and the business is now under a new management team targeting revenue and cost initiatives. It remains well placed to benefit from an upturn in demand. UK Forks has achieved pricing improvements and has been profitably disposing of surplus fleet. It is also well positioned to take advantage of a future upturn in demand.

Divisional overview

Year end March	2022(A)	H123(A)	H223(A)	2023(A)	H124(A)	H224(E)	2024(E)	2025(E)
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
UK	320.2	166.9	166.5	333.5	171.3	166.7	338.0	347.0
International	30.7	19.6	18.5	38.1	19.6	20.4	40.0	43.0
Group	350.9	186.5	185.0	371.5	190.9	187.1	378.0	390.0
<i>Growth Rate</i>	13.9%	5.9%	5.8%	5.9%	2.4%	1.1%	1.7%	3.2%
Adjusted Operating Profit								
UK	44.7	23.8	21.7	45.6	24.2	22.3	46.5	48.4
International	1.6	1.6	1.7	3.2	2.4	1.6	4.0	4.4
Group	46.3	25.4	23.4	48.8	26.6	23.9	50.5	52.8
Adjusted Operating Margin								
UK	14.0%	14.3%	13.1%	13.7%	14.1%	13.4%	13.8%	13.9%
International	5.2%	8.0%	8.9%	8.4%	12.2%	7.9%	10.0%	10.2%
Group	13.2%	13.6%	12.6%	13.1%	13.9%	12.8%	13.4%	13.5%
Interest	-7.4	-4.0	-4.6	-8.6	-4.9	-4.6	-9.5	-9.0
Adjusted PBT (IFRS 16)	38.9	21.4	18.8	40.2	21.7	19.3	41.0	43.8

Source: Company actuals, Equity Development forecasts

MEP suffered from a slightly slower start to the year but is now experiencing building momentum and is expected to deliver another good performance for the year as a whole. **ESS** has also faced market challenges but is positioned for the future following last year's restructuring exercise.

We note Vp generally has a slight H1 weighting of revenue and profits (revenue typically weighted c.51:49) and the interims therefore suggest the Group is on track to deliver another year of growth despite the mixed market backdrop (H1 revenue of £191m is 50.5% of our full year forecast).

Well positioned for full year (slight H1 weighting to results)


Source: Company actuals, Equity Development forecasts

Minor forecast revisions

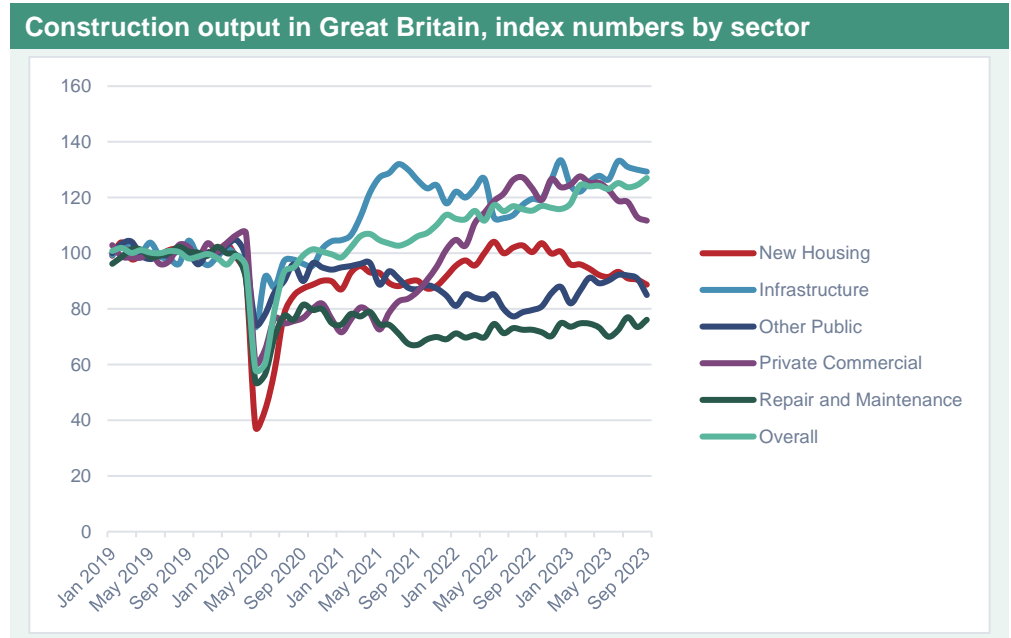
Having updated our model for the interims, we make some minor changes to our forecasts (PBT forecasts lowered by 4%/3%), which brings us in line with consensus expectations.

Minor forecast adjustments						
Year end	2024(E)	2024(E)	2024(E)	2025(E)	2025(E)	2025(E)
March	Revised	Old	Change	Revised	Old	Change
Revenue £m	378.0	381.8	-1.0%	390.0	394.0	-1.0%
EBITDA £m	113.5	114.4	-0.8%	115.8	116.1	-0.3%
PBT (underlying) £m	41.0	42.8	-4.2%	43.8	45.2	-3.1%
EPS fully diluted p	74.3	80.7	-7.9%	79.5	84.3	-5.7%
Dividend p	39.0	40.1	-2.7%	41.0	42.2	-2.8%
Net cash/ (debt) ex. leases £m	-124.2	-123.7	0.4%	-112.5	-113.9	-1.3%
Net cash/ (debt) inc. leases £m*	-182.8	-182.2	0.3%	-171.0	-172.5	-0.9%

Source: Equity Development forecasts

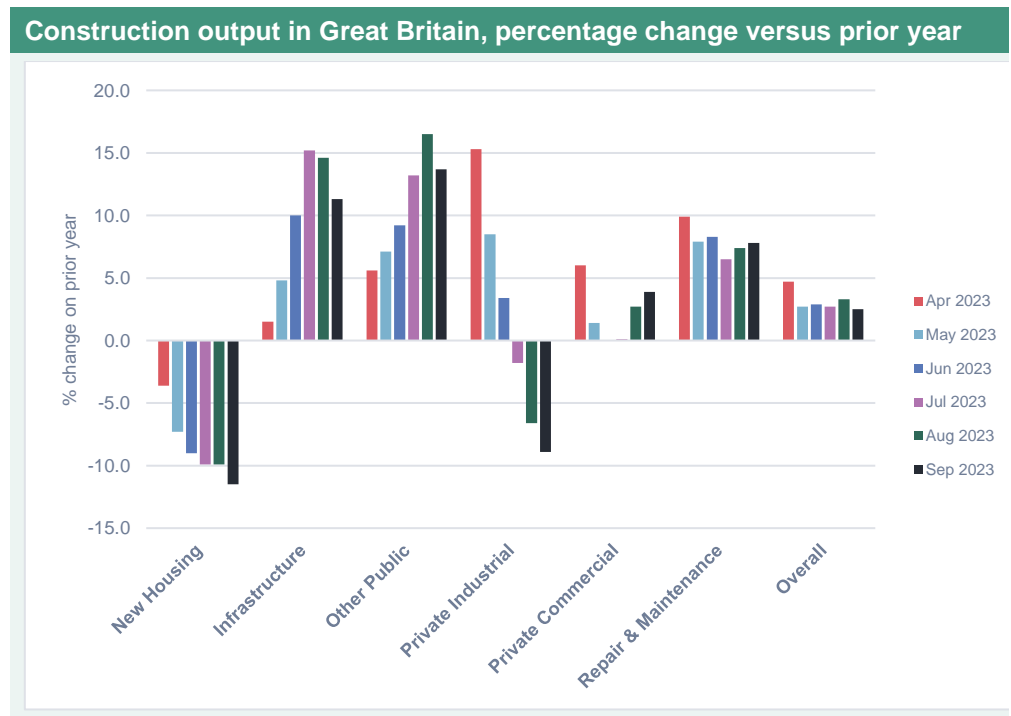
End market diversity underpinning performance

As we have written before, Vp’s impressive performance over many years has been built on its specialist focus and the diversity of end markets served. Economic conditions remain challenging, but UK construction output recorded modest growth over Vp’s H1 period (April to September) and remains well above pre-COVID levels.



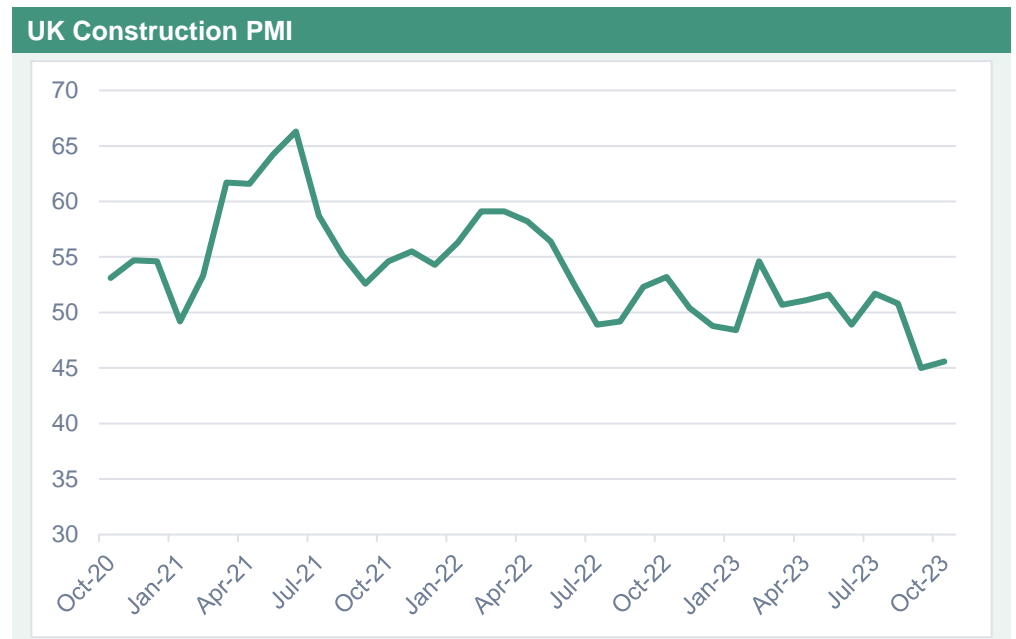
Source: ONS

Whilst new housebuilding has been particularly weak, given the high interest rate environment and cost of living pressures (see chart below), Infrastructure has continued to show good growth year on year. Infrastructure is one of Vp’s most important end markets (through Rail, Water and Transmission) and is highlighted in today’s results as a key driver of the Group’s resilient performance.



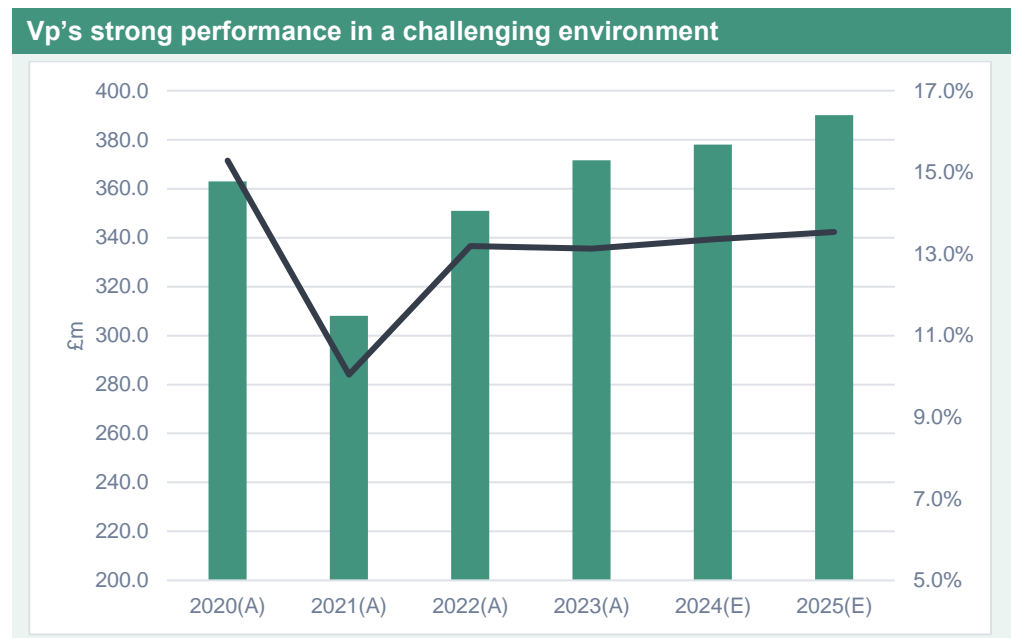
Source: ONS

The UK construction PMI paints a similar picture of subdued overall activity. The PMI data is derived from a monthly survey of 170 construction companies. Housebuilding and civil engineering continue to slow but there have been recent signs of stabilization in the commercial building segment.



Source: S&P/ CIPS Construction PMI

Whilst the market backdrop is important, the chart below highlights the Group's resilience over recent years and the Group has delivered high margins and Return on Capital through previous cycles.



Source: Company actuals, Equity Development forecasts

Relative valuation and share price performance

Along with other UK focused, small and mid-caps, Vp's shares have shown some encouraging signs of recovery in recent weeks. This follows the latest round of inflation data (lower than expected), suggesting that the period of interest rate rises may be coming to an end.

Nevertheless, the recovery has been only partial with the shares just back to the level of June '23. Vp still trades at a marked discount to its immediate peers (see table below) and its historic average rating. The share price (630p at the time of writing) remains well below the >1000p of two years ago.

Over the long term, Vp has traded on a P/E rating of c.12x and the valuation at today's share price represents a 30% discount to this level. The same discount applies on an EV/EBITDA basis, where a multiple of 6x is more typical (compared to <4x at today's share price). We note that recent sector M&A has also tended to take place at EV/EBITDA multiples of >6x, which provides further underpinning for our Fair Value analysis.

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	20,876.5	47.79	14.5x	12.5x	7.0x	6.3x	1.8%
HSS Hire	79.3	0.11	9.4x	8.7x	2.9x	2.8x	5.0%
Speedy Hire	156.1	0.34	6.9x	6.1x	3.0x	2.9x	7.7%
Vp	249.1	6.30	8.5x	7.9x	3.8x	3.6x	6.2%
Peer average			9.8x	8.8x	4.2x	3.9x	5.2%
Average ex Vp			10.3x	9.1x	4.3x	4.0x	4.8%
Vp			8.5x	7.9x	3.8x	3.6x	6.2%

Source: Equity Development, Koyfin

Valuation

We maintain our Fair Value estimate of £10.90 per share, based on the Group's historic average trading multiples, noting the impressive track record of long-term growth, high returns and the successful navigation of previous economic cycles.

Summary Financials

Income statement						
Year end March	2020A	2021A	2022A	2023A	2024E	2025E
	£m	£m	£m	£m	£m	£m
Revenue						
UK	331.0	281.3	320.2	333.5	338.0	347.0
International	31.9	26.7	30.7	38.1	40.0	43.0
Group	362.9	308.0	350.9	371.5	378.0	390.0
Revenue growth						
UK	-6%	-15%	14%	4%	1%	3%
International	-2%	-16%	15%	24%	5%	8%
Group	-5.2%	-15.1%	13.9%	5.9%	1.7%	3.2%
Adjusted operating profit						
UK	53.7	30.3	44.7	45.6	46.5	48.4
International	1.8	0.7	1.6	3.2	4.0	4.4
Group Operating Profit	55.5	30.9	46.3	48.8	50.5	52.8
Net Interest	-8.8	-7.8	-7.4	-8.6	-9.5	-9.0
Adjusted PBT	46.6	23.2	38.9	40.2	41.0	43.8
Exceptional	-1.5	-15.1	0.0	-5.0	-3.0	0.0
Amortisation	-16.8	-10.4	-3.3	-4.5	-4.0	-4.0
Reported PBT	28.4	-2.3	35.6	30.7	34.0	39.8
EPS (adjusted)	90.2p	46.5p	71.9p	78.8p	74.8p	80.5p
EPS (adjusted fully diluted)	88.7p	45.8p	71.2p	78.4p	74.3p	79.5p

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

Cashflow statement						
Year end March	2020A	2021A	2022A	2023A	2024E	2025E
	£m	£m	£m	£m	£m	£m
Operating profit	55.5	30.9	46.3	48.8	50.5	52.8
Depreciation	46.2	45.0	45.5	46.9	47.0	47.0
Profit on Disposals	-8.9	-4.3	-7.0	-9.2	-8.0	-8.0
Exceptionals	-1.5	-15.1	0.0	-5.0	-3.0	0.0
Working Capital	-14.0	33.9	-12.5	-18.4	-1.5	-1.5
Other	0.8	1.3	1.6	0.9	1.0	1.0
Operating cashflow	77.9	91.8	73.8	63.9	86.0	91.3
Interest	-4.5	-4.8	-7.4	-8.4	-9.5	-9.0
Tax	-10.7	-2.9	-6.3	-5.5	-11.4	-11.8
Cashflow from operations	62.7	84.2	60.1	50.0	65.1	70.5
Capital Expenditure	-54.7	-46.6	-68.7	-63.3	-58.0	-61.0
Sale of Fixed Assets	21.4	17.5	17.8	24.9	20.0	20.0
Free cashflow	29.4	55.1	9.3	11.5	27.1	29.5
Acquisitions	-3.3	0.0	-2.7	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares	-2.4	-5.1	-0.5	-1.1	-2.0	-2.0
Dividends	-12.1	-8.7	-14.1	-14.5	-15.1	-15.7
Other	0.0	0.0	0.0	0.0	0.0	0.0
Underlying cashflow	11.6	41.4	-8.0	-4.0	10.1	11.8
Other/FX	-3.7	-3.4	-0.8	0.2	0.1	0.0
Overall cashflow	7.9	38.0	-8.8	-3.8	10.2	11.8
Net Cash/(Debt) pre IFRS16	-159.8	-121.9	-130.6	-134.4	-124.2	-112.5
Lease adjustment	-71.9	-56.9	-57.6	-58.5	-58.5	-58.5
Net Cash/ (Debt) post IFRS 16	-231.7	-178.7	-188.3	-192.9	-182.8	-171.0

Source: Company actuals, Equity Development forecasts

Balance sheet						
To 31 March	2020A	2021A	2022A	2023A	2024E	2025E
	£m	£m	£m	£m	£m	£m
Non-current assets						
PPE	247.8	233.9	247.5	252.4	251.4	253.4
Goodwill	74.3	43.8	44.9	44.6	40.6	36.6
Intangible assets	0.0	20.6	17.5	13.1	12.0	11.5
Right of use assets	68.6	53.3	54.2	54.6	54.6	54.6
Employee benefits	3.0	2.2	2.7	2.3	2.3	2.3
Total non-current assets	393.6	353.8	366.8	367.1	361.0	358.5
Current Assets						
Inventories	9.1	7.3	8.0	8.9	8.9	8.9
Trade and other receivables	84.3	66.5	76.1	81.5	83.0	84.5
Cash and cash equivalents	20.1	15.9	13.6	11.1	21.3	33.1
Income tax receivable	1.0	0.8	0.0	0.7	0.7	0.7
Total Current Assets	114.4	90.6	97.6	102.3	114.0	127.3
Current Liabilities						
Interest bearing loans and borrowings	-6.2	-73.0	0.0	0.0	0.0	0.0
Income tax payable	0.0	0.0	-0.2	0.0	0.0	0.0
Lease liabilities	-17.7	-14.9	-14.1	-14.6	-14.6	-14.6
Trade and other payables	-75.2	-86.2	-80.7	-72.2	-72.2	-72.2
Total Current Liabilities	-99.0	-174.1	-95.0	-86.8	-86.8	-86.8
Non-Current Liabilities						
Interest bearing loans and borrowings	-173.7	-64.8	-144.2	-145.5	-145.5	-145.5
Lease liabilities	-54.2	-42.0	-43.5	-43.9	-43.9	-43.9
Provisions	0.0	0.0	-1.5	-1.6	-1.6	-1.6
Deferred tax liabilities	-11.2	-10.4	-13.7	-16.6	-16.6	-16.6
Total non-current liabilities	-239.1	-117.2	-202.9	-207.6	-207.6	-207.6
Net Assets						
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	169.9	153.1	166.6	174.9	180.5	191.3

Source: Company actuals, Equity Development forecasts



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

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

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

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