

All fine on the infrastructure front

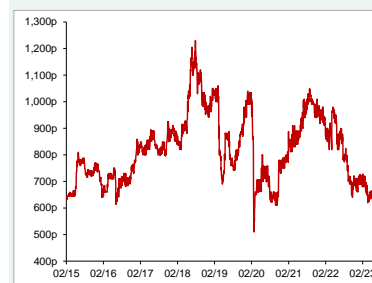
20th July 2023

Sharp eyed investors would have noticed the recent mixed messages from the UK's June Construction PMI (see below) report. Whereby positive output across infrastructure and commercial was offset by weakness in house building due to rising borrowing costs. Equally though, input cost inflation and supply chain bottlenecks were said to be reducing, which should help alleviate margin pressure.

Company Data

EPIC	LSE: VP.
Price (last close)	£5.70
52 week Hi/Lo	£9.60/£5.70
Market cap	£229m
Est Mar24 net debt (ex IFRS16)	£123.9m
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: H1'24 trading update in October.

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Resilient FY23 performance

■ Housing Activity Index ■ Civil Engineering Index

■ Commercial Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Source: S&P Global / CIPS

Similarly in today's 'on track' trading statement, Chairman Jeremy Pilkington commented that Vp had also "experienced varying levels of demand across a range of markets." With water, transmission and rail being "supportive", in contrast to housebuilding, where activity had stabilised at a level 10% below LY.

Elsewhere Vp's international divisions (re AirPac & TR Ltd) continue to make good progress. Meaning that overall the **Board expects FY'24 to be in line with consensus estimates.**

No change to forecasts or £10.90/share valuation

As such, we reiterate **our £10.90/share valuation** and **FY'24 forecasts of adjusted PBTA of £42.8m** on revenues up 2.8% to £381.7m. Alongside **net debt** (pre IFRS 16) **closing Mar'24 at £123.9m** (vs £134.4m LY), equivalent to **a comfortable 1.3x EBITDA.**

What's more, we would argue that for investors with a 2-3 year view, there seems to be **exceptional value** on offer from this specialist equipment rental group, which has previously demonstrated consistent delivery through thick & thin. In fact at 570p, **the stock trades on a PER of only 7.1x whilst paying a bumper 7.0% dividend yield.** To us, **the shares are simply mis-priced.**

Sure there has been some speculation concerning the health of Thames Water. Yet even here sector capex spend (re AMP7) is largely mandated by OFWAT in terms of improving water quality & preventing untreated discharges of raw sewage.

Let's not forget too, there's a mountain of other work coming down the pipe (eg fibre-to-the-home, Transmission, offshore wind, Hinkley Point & the Lower Thames crossing), which should more than compensate for the current slowdown in housing.

UK home builders attract institutional BTR interest

Plus literally millions of homes across the country still need modernisation and better energy efficiency. Whilst over the past month, both Barratt Developments (604 units, £168m) and MJ Gleeson (288 units, £50m) have announced significant Build-to-Rent (BTR) deals with blue chip financial institutions (re Lloyds Bank & Carlyle). Implying there is substantial long term value embedded throughout the entire supply chain.

Indeed we suspect the UK's 300,000 pa (vs 200k currently) 'New Build' target may become a political 'hot potato' heading into the next general election. Perhaps even providing a mini boost to the industry, as government policies try to stimulate activity.

Key risks

- In light of Vp's operational gearing, if the economy stalled then this could impact earnings as certain costs are 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.

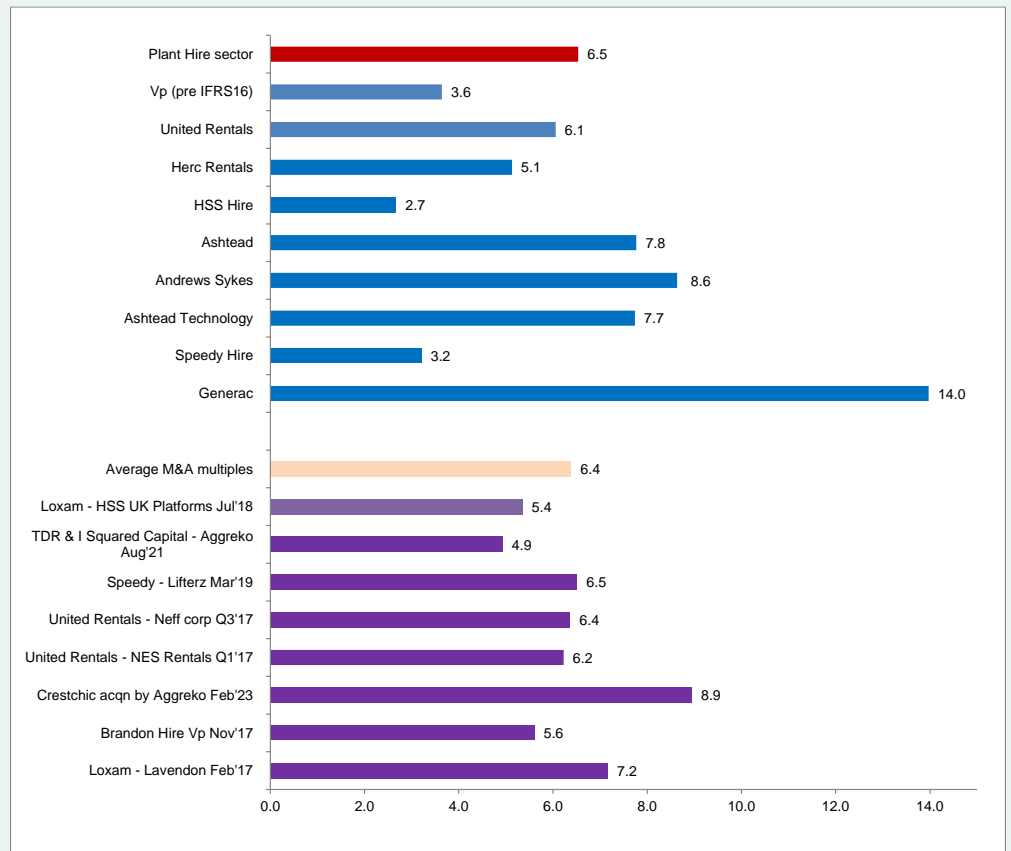
Summary projections (£'000s)

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)	6.3	12.2	8.0	7.2	7.1	6.7
P/E ratio (post IFRS 16)	6.4	12.3	7.9	7.2	7.1	6.7
EV/Sales	1.0	1.1	1.0	0.9	0.9	0.9
EV/EBITDA (pre IFRS 16)	3.6	4.9	4.0	3.8	3.6	3.5
EV/EBITDA (post IFRS 16)	3.3	4.3	3.6	3.5	3.4	3.3
EV/EBITA (pre IFRS 16)	6.8	12.7	8.1	7.7	7.1	6.8
EV/EBITA (post IFRS 16)	7.4	13.3	9.0	8.8	8.2	8.0
PEG ratio	-1.2	-0.3	0.2	0.7	3.4	1.3
Dividend yield	1.5%	8.2%	6.3%	6.6%	7.0%	7.4%
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)	570					

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

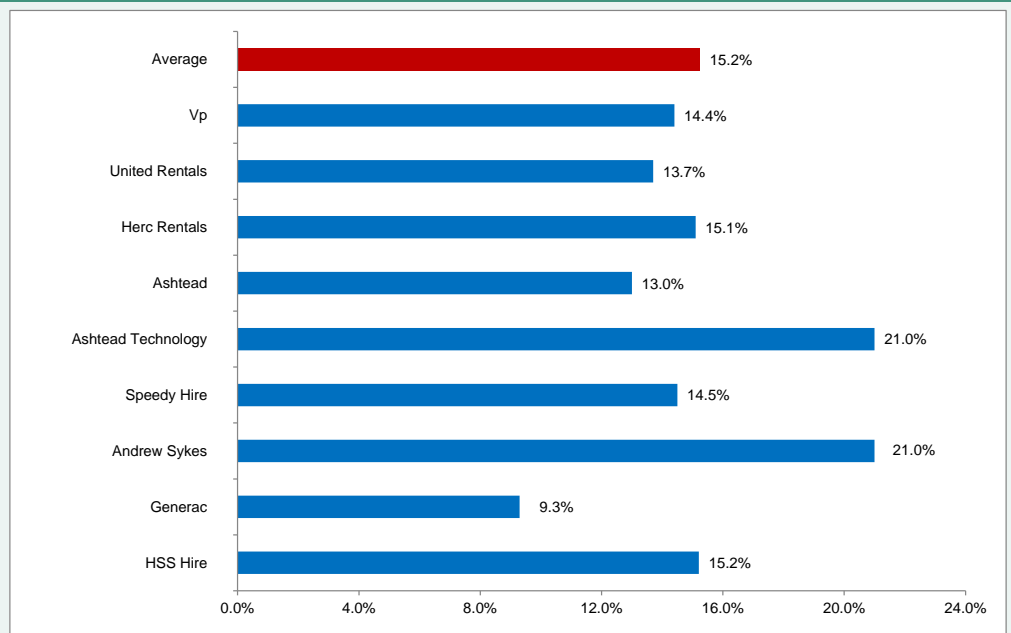
Appendices - sector valuation metrics and KPIs

Current Year (CY) EV / EBITDA multiples vs peers



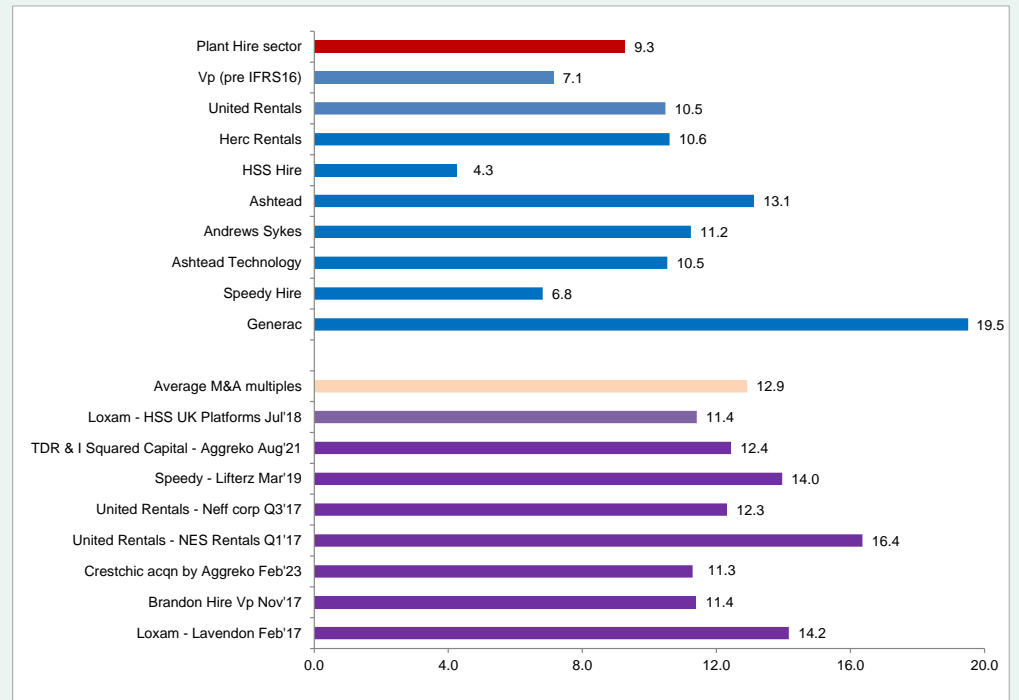
Source: Equity Development

CY % ROCE vs peers



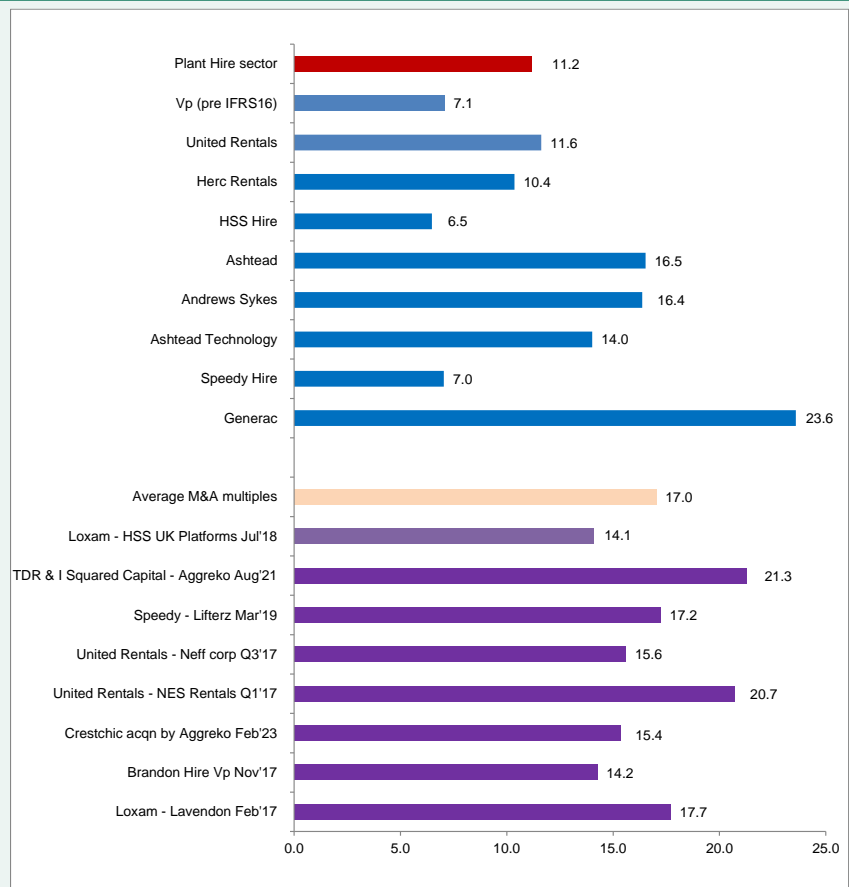
Source: Equity Development

Current Year (CY) EV / EBIT multiples vs peers

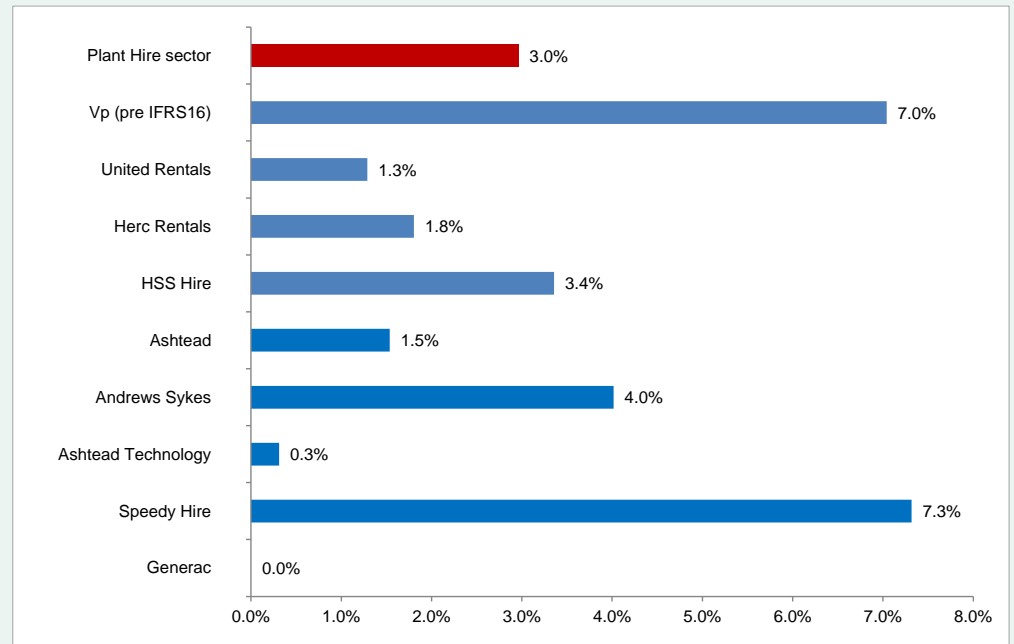


Source: Equity Development

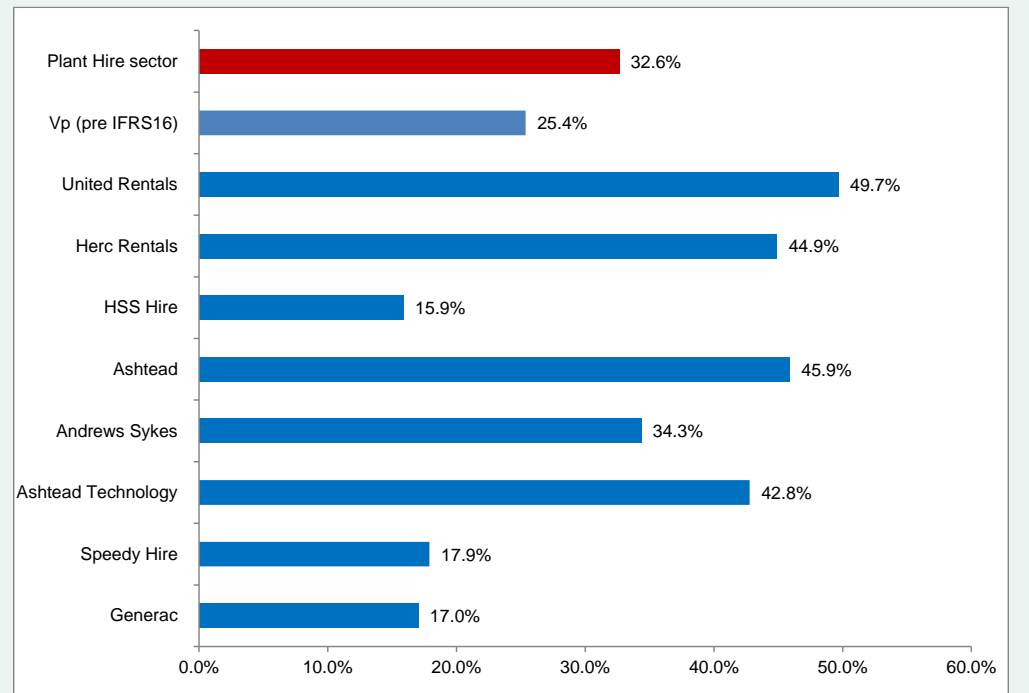
CY PERs vs peers



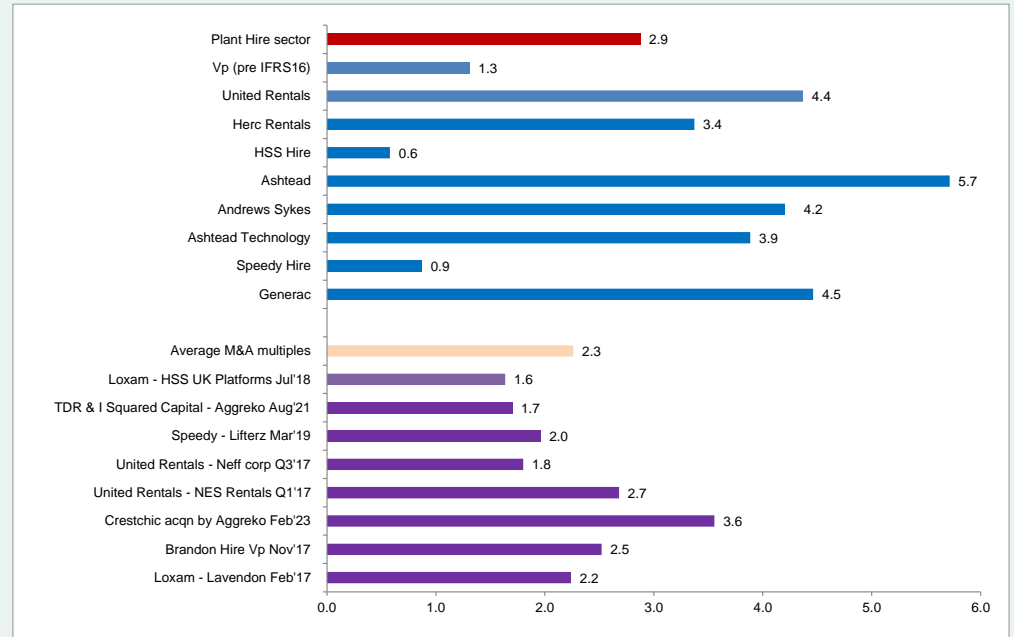
Source: Equity Development

CY dividend yield vs peers


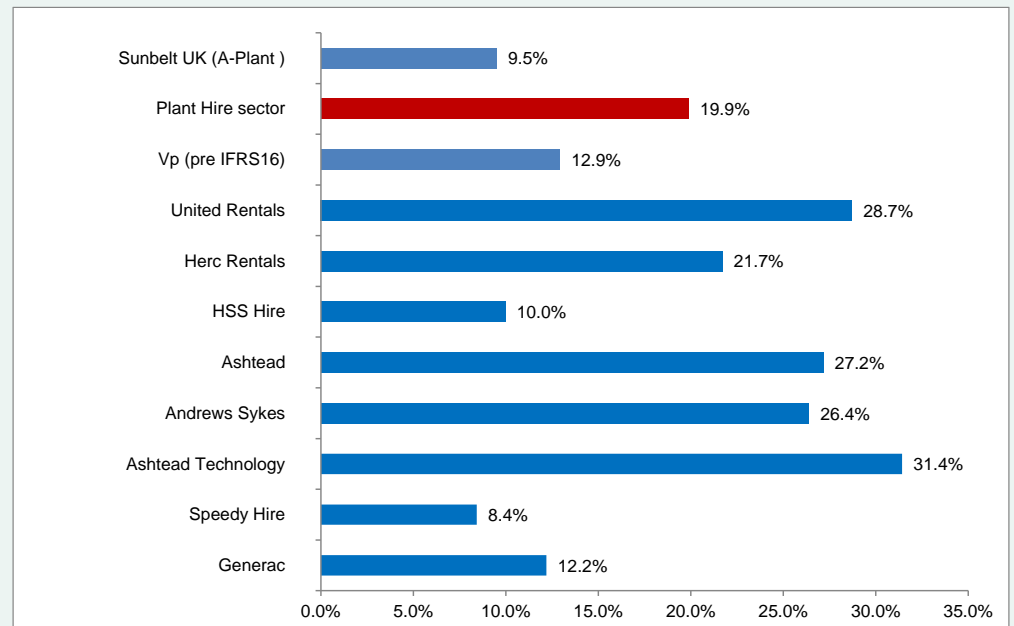
Source: Equity Development

CY % EBITDA margins vs peers


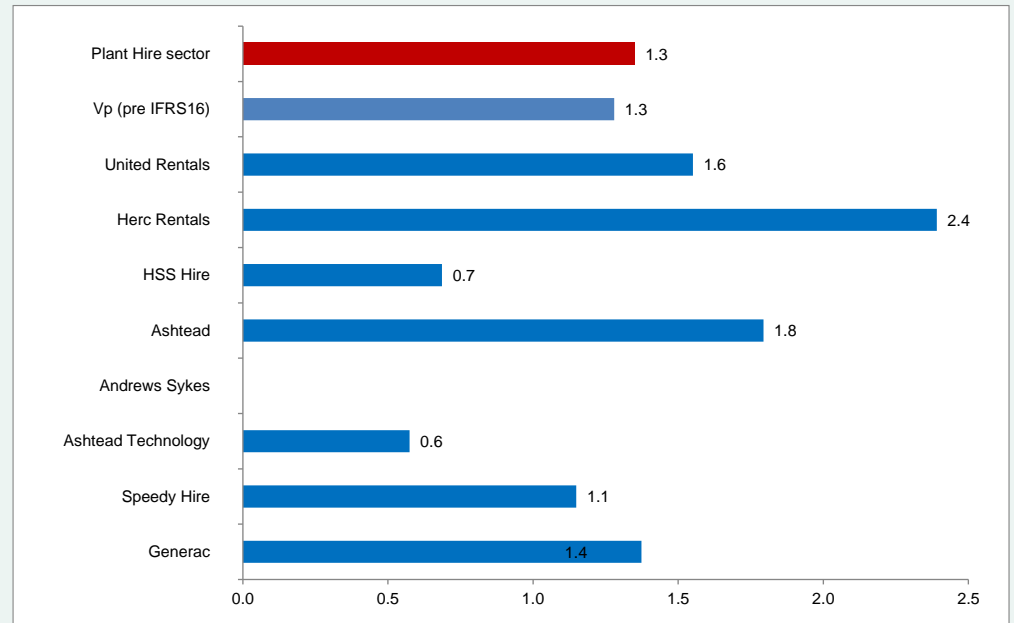
Source: Equity Development

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	\$142.0	\$8,832	-\$963	\$9,795
Speedy Hire	36.9p	£169	-£94	£263
Ashtead Technology	370.0p	£295	-£24	£318
Andrews Sykes	645p	£272	£26	£246
Ashtead	5,470p	£23,926	-£7,182	£31,108
HSS Hire	14.9p	£105.0	-£36.3	£141.3
Herc Rentals	\$144.0	\$4,104	-\$3,584	\$7,688
United Rentals	\$459.0	\$31,579	-\$10,872	\$42,451
Vp	570p	£229	-£124	£353

Source: Equity Development



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