

Record results & “well ahead of last year”

8th April 2019

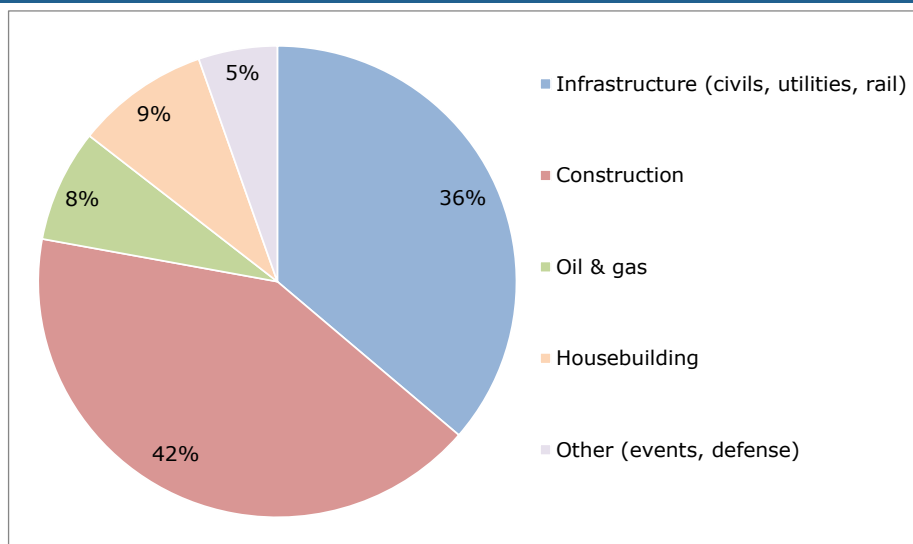
If Parliament was a football team, then it would have been relegated donkey’s years ago. Certainly not for a lack of jaw-boning about Brexit, but simply because the key players can’t work together. In turn, creating a right royal mess for the rest of the country (apologies for my frustration). Indeed, politicians could learn a lot from successful UK corporates, who are having to navigate through this self-induced chaos.

Take equipment rental specialist, Vp. Clearly the core UK tool hire operation is not totally immune to what’s happening externally. That said, at this stage the group continues to compensate for the uncertainty via experienced leadership, excellent team-work and thorough contingency planning.

Virtuoso performance despite macro headwinds

Indeed this morning in a FY19 trading update, the firm said that revenues, adjusted PBT (ED est. +15.8% to £47.0m) and EPS (+17.4% to 96p) were all “**well ahead of last year and in line with expectations**”. Driven by “**stable demand from its core infrastructure, construction and housebuilding**” sectors (see below) – further boosted by synergies from the £69.2m purchase of Brandon Hire in Nov’17. In fact once fully integrated (est Sept’19), we reckon this acquisition should achieve a 15% ROI, equating to >£4m of annualised savings.

H1’19 revenue (£193.2m) split by market



Source: Equity Development

Solid progress made internationally

Elsewhere, Airpac Bukom continued to experience “challenging” conditions in offshore oil and gas, although this was more than offset by robust results from TR, the test & measurement business in AsiaPac.

Company Data

EPIC	LSE: VP.
Price (last close)	1,000p
52 week Hi/Lo	1,230p/820p
Market cap	£402m
ED est. net debt Mar’19	£174m
Share count	40.154m
ED valuation/share	1,150p
Daily volume	6,000

Share Price, p



Source: Web Financial

Description

Vp is a specialist 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, but also from overseas.

In terms of sector split, 36% H1’19 sales came from infrastructure, 42% construction, 9% housing building, 8% oil & gas and 5% other.

Member of FTSE SmallCap Index.

Next news: Prelims 4th June 2019

Paul Hill (Analyst)

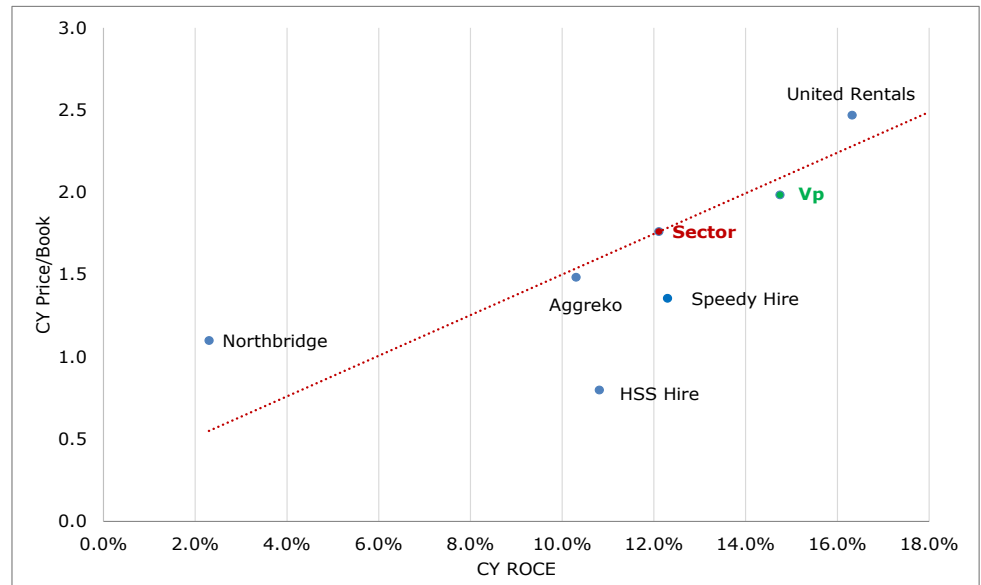
0207 065 2690

paul.hill@equitydevelopment.co.uk

Valuation nudged up to £11.50/share

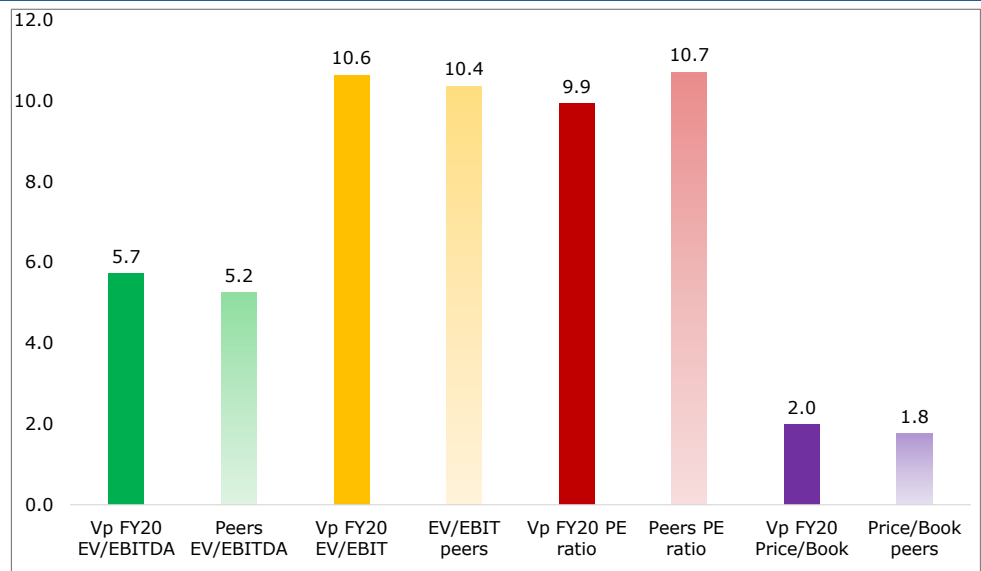
Consequently bearing all this in mind, **we make no change to our forecasts, but lift the valuation to £11.50/share** (from £11.00) based on the natural roll-forward of the discount rate. In our view, **Vp is undervalued in absolute terms**, particularly considering its superior mix of specialist assets, high ROCE, efficient operations, earnings quality and downside resilience.

Current Year ROCE vs Price: Book



Source: Equity Development

Vp FY20 multiples vs peers



Source: Equity Development

Ultimately, no one knows how Brexit will turn-out. However for long term investors, if the equity markets become increasingly choppy again over the next few months, then we think tucking away consistent high-performers like Vp on any dips, should prove to be a lucrative strategy.

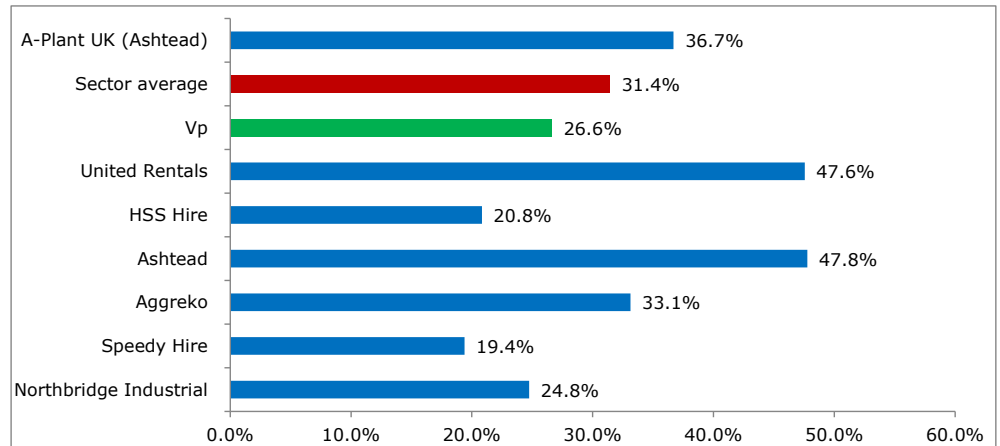
Forecasts (£'000s)

Vp (March year end)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s
Turnover									
UK	184,142	193,555	220,015	271,989	331,692	341,760	352,147	362,862	373,918
International	21,460	15,191	28,725	31,650	34,508	36,001	37,560	39,186	40,885
Total	205,602	208,746	248,740	303,639	366,200	377,761	389,706	402,049	414,803
% growth	12.3%	1.5%	19.2%	22.1%	20.6%	3.2%	3.2%	3.2%	3.2%
UK		5.1%	13.7%	23.6%	22.0%	3.0%	3.0%	3.0%	3.0%
International		-29.2%	89.1%	10.2%	9.0%	4.3%	4.3%	4.3%	4.3%
EBITDA	53,803	59,266	71,238	84,337	96,728	100,616	103,974	107,758	111,688
% Margin	26.2%	28.4%	28.6%	27.8%	26.4%	26.6%	26.7%	26.8%	26.9%
Adjusted EBIT									
UK	26,027	30,659	35,871	43,001	49,361	51,613	53,022	54,769	56,569
International	2,753	1,232	1,886	1,017	2,339	2,553	3,033	3,553	4,114
Total	28,780	31,891	37,757	44,018	51,700	54,166	56,055	58,321	60,683
% Margin	14.0%	15.3%	15.2%	14.5%	14.1%	14.3%	14.4%	14.5%	14.6%
UK	14.1%	15.8%	16.3%	15.8%	14.9%	15.1%	15.1%	15.1%	15.1%
International	12.8%	8.1%	6.6%	3.2%	6.8%	7.1%	8.1%	9.1%	10.1%
Underlying Interest charge	-2,023	-2,093	-2,906	-3,421	-4,700	-4,600	-4,400	-4,100	-3,800
Adjusted PBT (pre amortisation)	26,757	29,798	34,851	40,597	47,000	49,566	51,655	54,221	56,883
Adjusted earnings	21,201	24,226	27,262	32,290	38,070	40,149	42,874	45,004	47,213
Adjusted Basic EPS (p)	54.4	62.2	69.5	81.8	96.0	100.8	107.1	111.8	116.7
EPS growth rate	29.7%	14.3%	11.7%	17.7%	17.4%	4.9%	6.3%	4.4%	4.4%
Dividend (pence)	16.5	18.9	22.0	26.0	30.5	32.0	34.0	35.5	37.1
Valuation benchmarks									
P/E ratio	18.4	16.1	14.4	12.2	10.4	9.9	9.3	8.9	8.6
EV/Sales	2.8	2.8	2.3	1.9	1.6	1.5	1.5	1.4	1.4
EV/EBITDA	10.7	9.7	8.1	6.8	6.0	5.7	5.5	5.3	5.2
EV/EBITA	20.0	18.0	15.2	13.1	11.1	10.6	10.3	9.9	9.5
PEG ratio	0.6	1.1	1.2	0.7	0.6	2.0	1.5	2.0	2.0
Dividend yield	1.7%	1.9%	2.2%	2.6%	3.1%	3.2%	3.4%	3.6%	3.7%
Dividend cover	3.3	3.3	3.2	3.1	3.1	3.1	3.1	3.1	3.1
Corporate tax rate	-20.8%	-18.7%	-21.8%	-20.5%	-19.0%	-19.0%	-17.0%	-17.0%	-17.0%
Net debt / EBITDA (proforma)	1.2	1.5	1.4	2.0	1.8	1.6	1.5	1.3	1.2
Return on average capital employed	16.2%	16.3%	16.0%	14.8%	14.5%	14.8%	15.0%	15.3%	15.5%
Net cash/(debt)	-66,764	-86,134	-98,933	-179,172	-174,000	-163,537	-152,620	-140,682	-128,617
Fleet capital expenditure (gross)	49,300	45,900	57,600	64,900	70,000	65,000	68,000	70,000	73,000
Investment as % sales	24.0%	22.0%	23.2%	21.4%	19.1%	17.2%	17.4%	17.4%	17.6%
Reported sharecount Ks (net Treasury)	38,940	38,942	39,215	39,476	39,649	39,847	40,046	40,246	40,448
Shareprice (p)	1,000								

Source: Company historic data, ED estimates

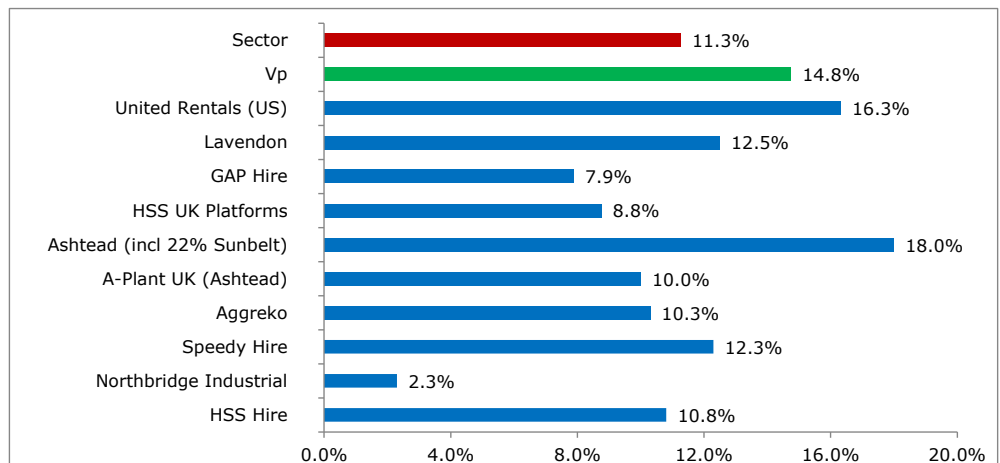
Appendix - Sector valuation metrics and KPIs

Current Year (FY20 for Vp) EBITDA margins vs peers



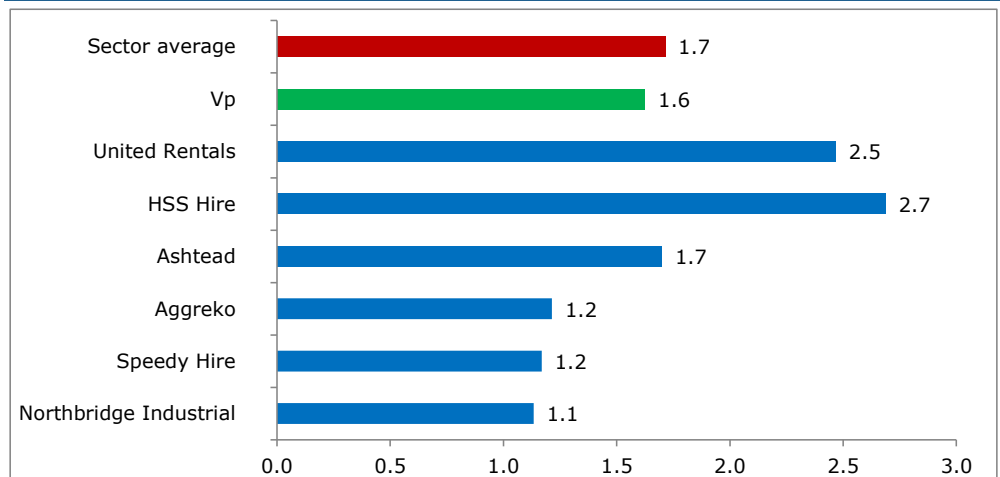
Source: Equity Development : arithmetic average for sector

CY ROCE



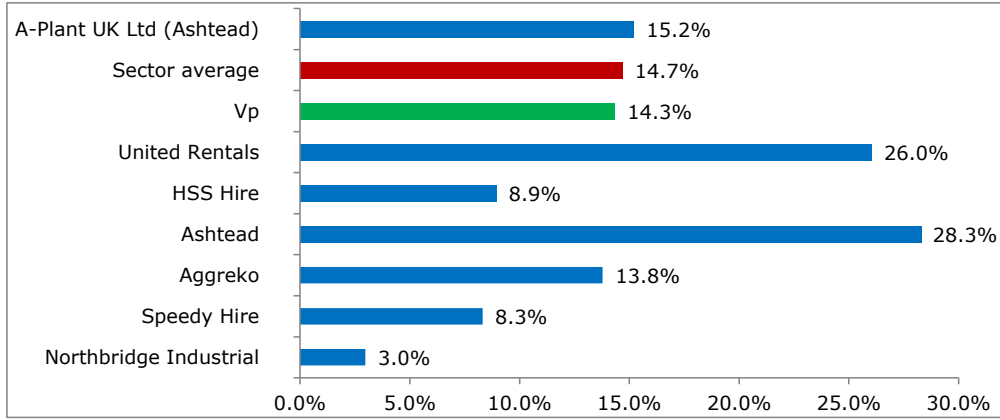
Source: Equity Development, arithmetic average for sector

CY Net debt : EBITDA ratios



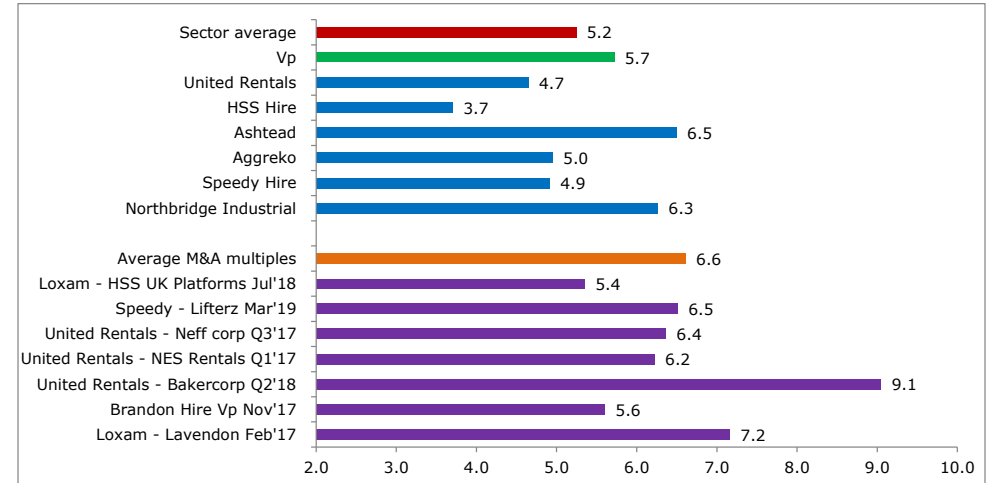
Source: Equity Development : arithmetic average for sector

CY EBIT Margins %



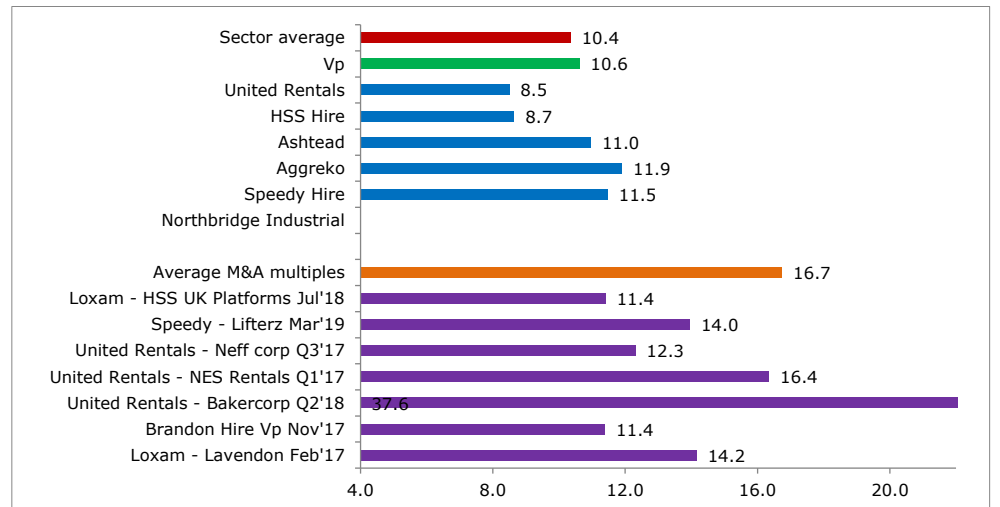
Source: Equity Development, arithmetic average for sector

CY EV / EBITDA



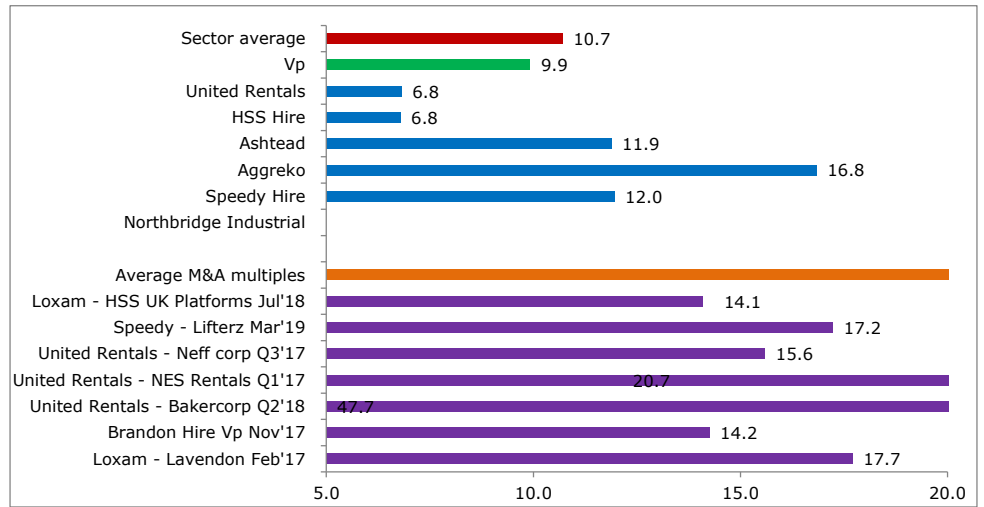
Source: Equity Development, arithmetic average for sector

CY EV / EBIT



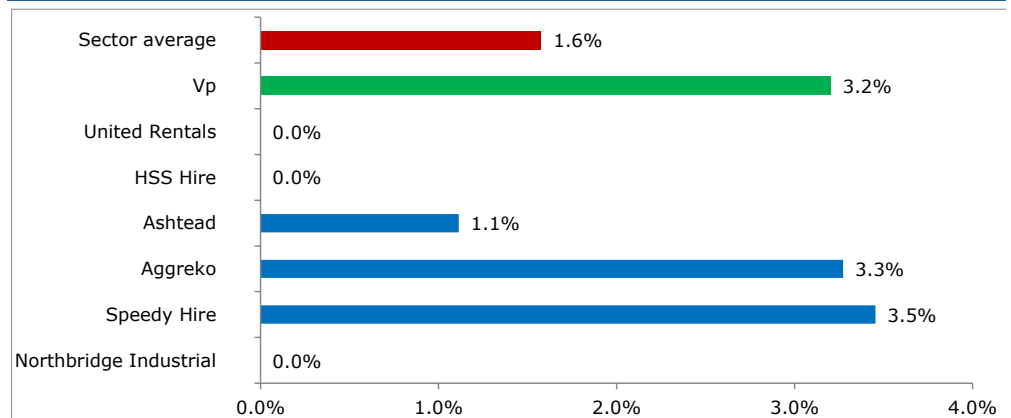
Source: Equity Development, arithmetic average for sector

CY PER



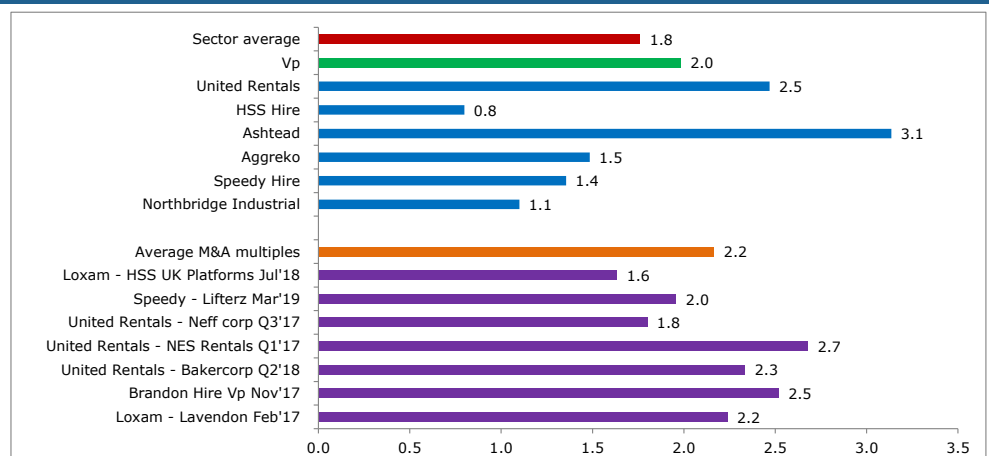
Source: Equity Development : arithmetic average for sector

CY dividend yield



Source: Equity Development : arithmetic average for sector

CY Price : Book



Source: Equity Development : arithmetic average for sector

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, albeit 40% of gross debt is fixed.
- 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.



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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