

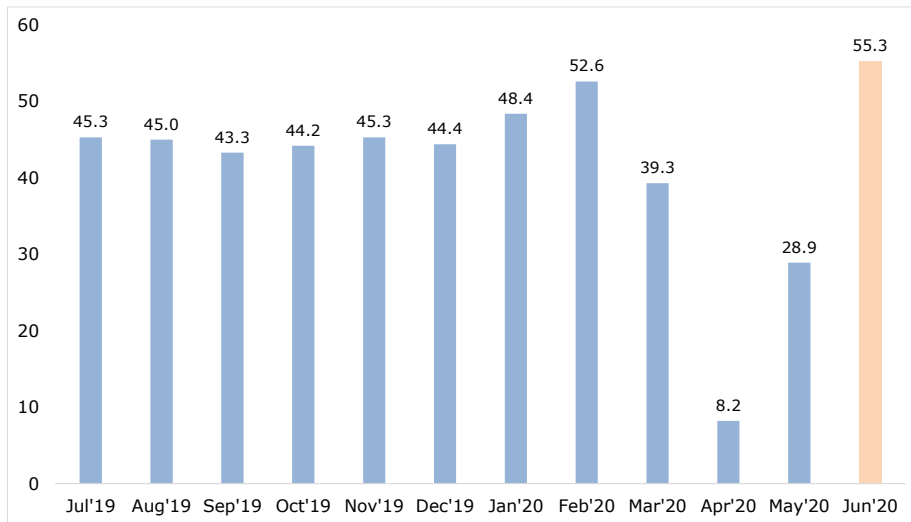
## Improving conditions with more to come

23rd July 2020

For investors, the rate of change (or Delta) is often more important than the absolute number, since it signifies where things are heading. Take the UK Construction PMI (see below), which literally dropped off a cliff at the start of the Covid lockdowns.

Since then, there has been a gradual recovery, with June's 55.3 reading (vs 28.9 May) being above expectations (47.0), and the highest for 2 years. Reflecting a rebound in residential property (re home buyer enquiries), increased 'stay-at-home' DIY (re Kingfisher/B&Q Q2 sales >20% LFL) & a general desire to get back to work.

### UK Construction Purchasing Managers Index



Source: Equity Development. IHS Markit/Cips

Moreover, this survey was published before the recent cut in stamp duty to 0% (Re for sales upto £500k until Mar'21), which should further pull forward demand for new build houses.

### Net debt reduces by £22m to £138m last quarter

Ok, so how is Vp performing? Well after enduring a sharp -45% decline in April, trading has significantly improved, with revenues "**now running at >80% of prior year levels**", driven by increased homebuilding, construction & infrastructure activity. An upwards trajectory that is anticipated to remain, as existing projects are completed & new ones brought on stream.

Encouragingly too, **the group has generated £22m of positive cashflow over the past 3 months** (>£12m in June alone) thanks to tight working capital management, deferral of VAT/rent/rates, staff furloughing and a material reduction in costs, salaries & fleet capex. With **net debt closing June at £138m vs £159.8m in Mar'20**.

Don't get me wrong, things are not back to pre-pandemic volumes yet. The uptick in civil engineering has been slower - albeit even here, there are early 'green shoots' (re AMP 7, HS2 & Hinkley Point). Plus essential maintenance within systemically important verticals (water, electricity, gas, telecommunications & rail) should continue regardless.

#### Company Data

EPIC	LSE: VP.
Price (last close)	700p
52 weeks Hi/Lo	1,040p/510p
Market cap	£281m
Mar'20 net debt	£138m
Share count	40.154m
ED valuation	Temporarily withdrawn
Daily volume	25,000

#### Share Price, p



Source: ShareCast

#### 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 (91% H1'20 turnover), but also from overseas.

In terms of sector split: 38.4% FY'20 sales came from infrastructure, 39.7% construction, 9.4% housing building, 6.9% oil & gas and 5.6% other.

Member of FTSE SmallCap Index.

**Next news:** H1 trading update Sept'20

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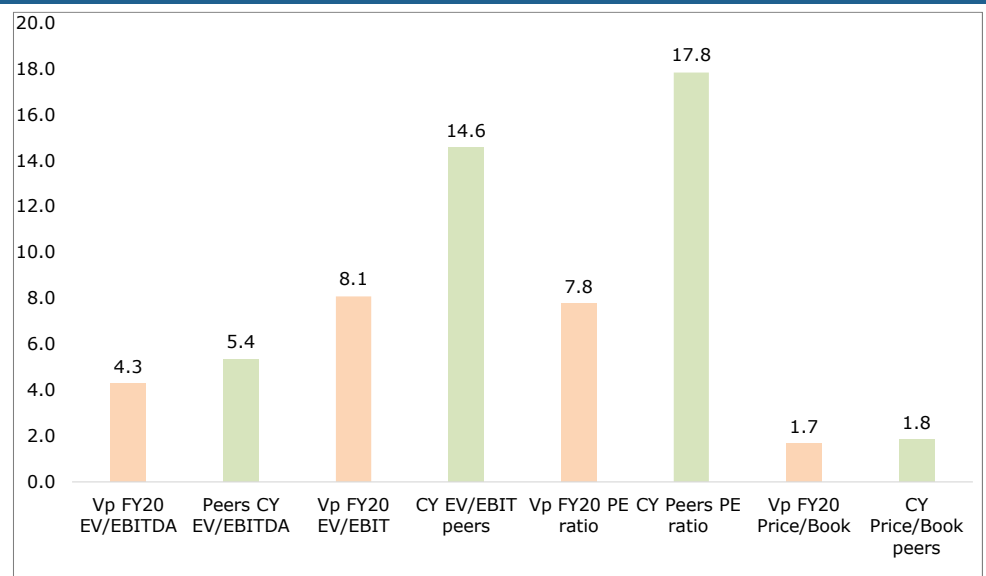
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## Shares are far too cheap

Meaning that all told, >2/3rds of Vp's furloughed employees have returned to work with many previously mothballed sites also now open. Going forward, **we reckon trading should fully recover sometime in 2021**. And over a 2-3 year timeframe, there is a chance that **profit margins and ROCE might even be able to climb** further, on the back of a leaner organisational structure.

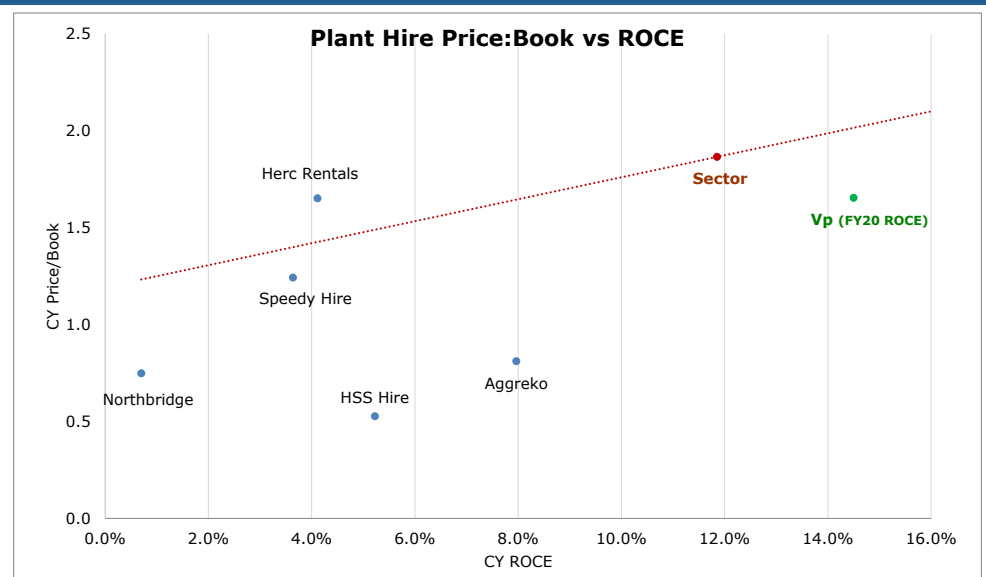
Elsewhere with regards to valuation, **the shares at 700p appear attractively priced** - equivalent to trailing FY20 multiples of 7.8x PER, 1.7x Price:Book and 4.3x EV/EBITDA. Separately we hope to reinstate our forecasts and valuation later this year.

### Current year summary multiples vs peers (pre IFRS16)



Source: Equity Development. FY20 figures used for Vp. CY = current year

### Current Year ROCE vs Price:Book



Source: Equity Development. FY20 figures used for Vp.

## Onwards & upwards

Executive Chairman Jeremy Pilkington commenting: "*Whilst many challenges remain, **we are positive about the longer term outlook for the business and we look forward to returning towards historic levels of trading during 2021.***"

## Key risks

- COVID-19 related impacts to demand, customers and building investment.
- 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. Mitigated by c.70% of gross debt being fixed, although falling over the next 3 years (Re £65m fixed rate private placement).
- 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.
- Ongoing Competition and Markets Authority (CMA) investigation into suspected anti-competitive behaviour at 3 businesses, one being Vp's Groundforce subsidiary. An exceptional provision of £4.5m was taken within the FY19 accounts. Calculated using the arithmetic midpoint of a range of possible outcomes (£0m to £9.0m), previous cases and CMA published guidance – without any admission of blame.

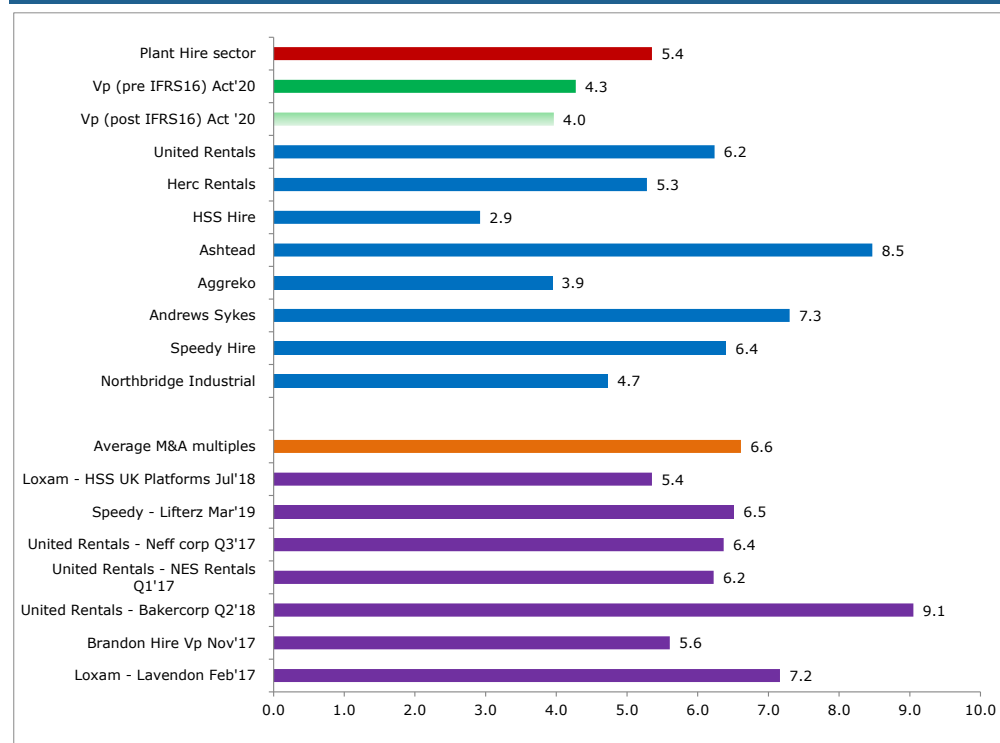
## Summary financials (£'000s)

Vp (March year end)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s
<b>Turnover</b>						
UK	184,142	193,555	220,015	271,989	350,330	331,005
International	21,460	15,191	28,725	31,650	32,500	31,922
<b>Total</b>	<b>205,602</b>	<b>208,746</b>	<b>248,740</b>	<b>303,639</b>	<b>382,830</b>	<b>362,927</b>
<b>% growth</b>	<b>12.3%</b>	<b>1.5%</b>	<b>19.2%</b>	<b>22.1%</b>	<b>26.1%</b>	<b>-5.2%</b>
UK		5.1%	13.7%	23.6%	28.8%	-5.5%
International		-29.2%	89.1%	10.2%	2.7%	-1.8%
<b>EBITDA</b>	<b>53,803</b>	<b>59,266</b>	<b>71,238</b>	<b>84,337</b>	<b>101,339</b>	<b>98,050</b>
% Margin	26.2%	28.4%	28.6%	27.8%	26.5%	27.0%
EBITDA (post IFRS16)						123,817
<b>Adjusted EBIT</b>						
UK	26,027	30,659	35,871	43,001	49,838	50,190
International	2,753	1,232	1,886	1,017	1,733	1,700
<b>Total</b>	<b>28,780</b>	<b>31,891</b>	<b>37,757</b>	<b>44,018</b>	<b>51,571</b>	<b>51,890</b>
EBIT (post IFRS16)						55,480
<b>% Margin</b>	<b>14.0%</b>	<b>15.3%</b>	<b>15.2%</b>	<b>14.5%</b>	<b>13.5%</b>	<b>14.3%</b>
UK	14.1%	15.8%	16.3%	15.8%	14.2%	15.2%
International	12.8%	8.1%	6.6%	3.2%	5.3%	5.3%
Interest charge (pre IFRS 16)	-2,023	-2,093	-2,906	-3,421	-4,742	-4,791
<b>Adjusted PBT (pre amortisation)</b>	<b>26,757</b>	<b>29,798</b>	<b>34,851</b>	<b>40,597</b>	<b>46,829</b>	<b>47,099</b>
PBT (post IFRS16)						46,640
<b>Adjusted earnings</b>	<b>21,201</b>	<b>24,226</b>	<b>27,262</b>	<b>33,520</b>	<b>37,677</b>	<b>35,740</b>
<b>Adjusted Basic EPS (p) - pre IFRS 16</b>	<b>54.4</b>	<b>62.2</b>	<b>69.5</b>	<b>84.9</b>	<b>95.1</b>	<b>90.2</b>
EPS growth rate	29.7%	14.3%	11.7%	22.1%	12.0%	-5.2%
<b>Adjusted EPS diluted</b>	<b>50.2</b>	<b>59.0</b>	<b>67.6</b>	<b>83.9</b>	<b>92.9</b>	<b>88.8</b>
Basic EPS (post IFRS16)						88.9
<b>Dividend (pence)</b>	<b>16.5</b>	<b>18.9</b>	<b>22.0</b>	<b>26.0</b>	<b>30.2</b>	<b>8.5</b>
Dividend growth	17.9%	14.2%	16.7%	18.2%	16.2%	-72.0%
<b>Valuation benchmarks</b>						
P/E ratio (pre IFRS 16)	12.9	11.3	10.1	8.2	7.4	7.8
P/E ratio (post IFRS 16)						7.9
EV/Sales	2.0	2.0	1.7	1.4	1.1	1.2
EV/EBITDA (pre IFRS 16)	7.8	7.1	5.9	5.0	4.1	4.3
EV/EBITDA (post IFRS 16)						4.0
EV/EBITA (pre IFRS 16)	14.6	13.1	11.1	9.5	8.1	8.1
EV/EBITA (post IFRS 16)						9.0
PEG ratio	0.4	0.8	0.9	0.4	0.6	-1.5
Dividend yield	2.4%	2.7%	3.1%	3.7%	4.3%	1.2%
Dividend cover	3.3	3.3	3.2	3.3	3.2	10.7
Corporate tax rate	-20.8%	-18.7%	-21.8%	-17.4%	-19.5%	-20.0%
Net debt / EBITDA (pre IFRS 16)	1.2	1.5	1.4	2.0	1.7	1.6
Return on average capital employed	16.2%	16.3%	16.0%	14.8%	14.5%	14.5%
<b>Net cash/(debt) - pre IFRS16</b>	<b>-66,764</b>	<b>-86,134</b>	<b>-98,933</b>	<b>-179,172</b>	<b>-168,100</b>	<b>-159,806</b>
Fleet capital expenditure (gross)	49,300	45,900	57,600	64,900	63,800	49,100
Investment as % sales	24.0%	22.0%	23.2%	21.4%	16.7%	13.5%
Reported sharecount Ks (net Treasury)	38,940	38,942	39,215	39,476	39,603	39,618
<b>Shareprice (p)</b>	<b>700p</b>					

Source: Equity Development

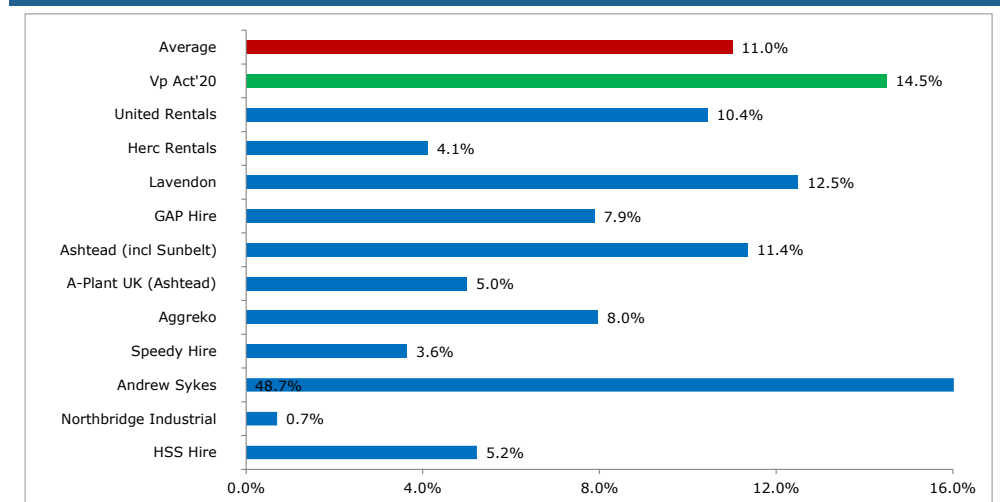
## Appendix - Sector valuation metrics and KPIs

### Current Year (CY) EV / EBITDA vs peers



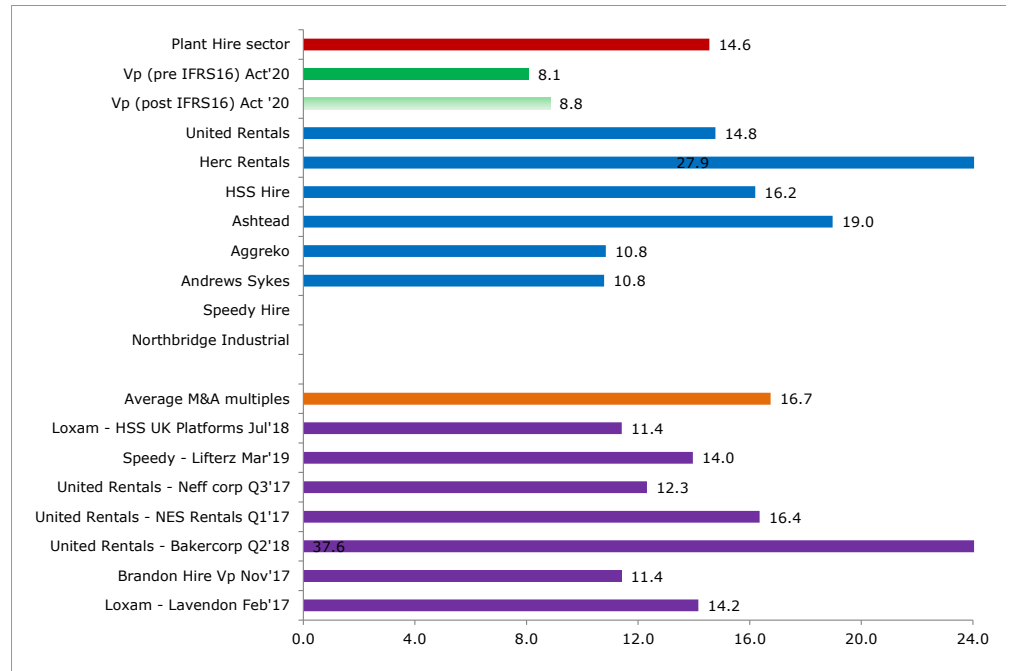
Source: Equity Development. FY20 figures used for Vp

### CY ROCE across sector



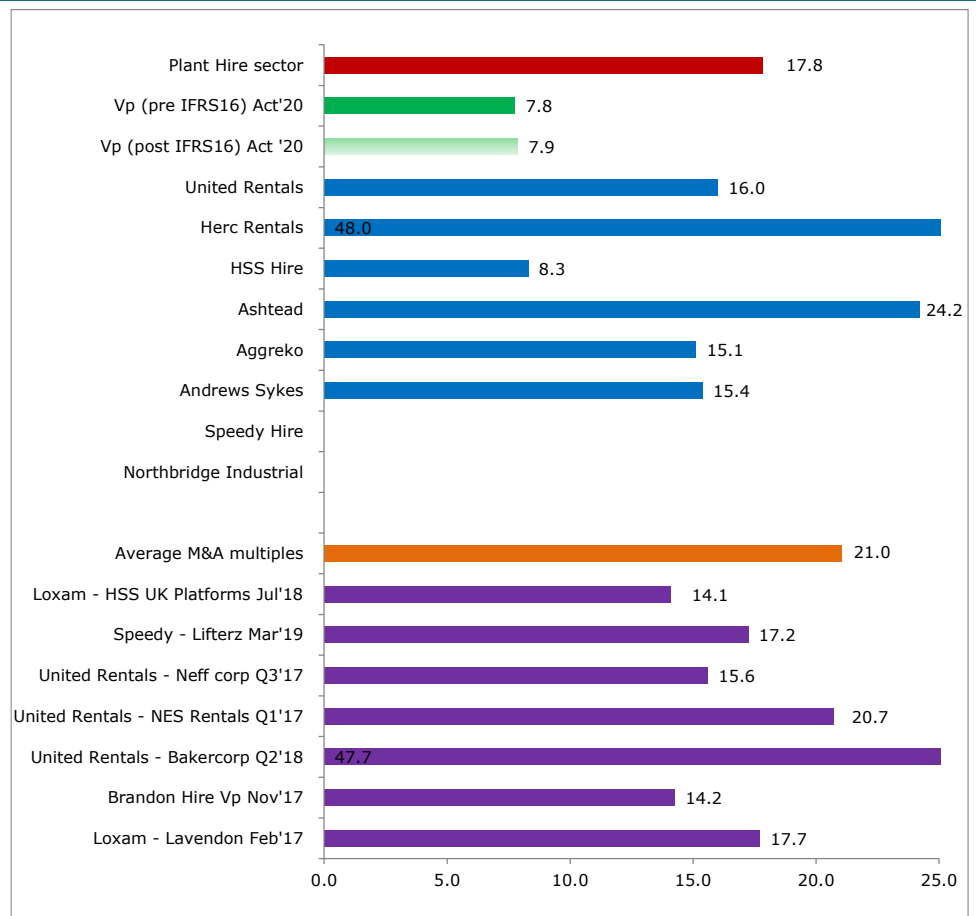
Source: Equity Development. FY20 figures used for Vp

### CY EV / EBIT vs peers



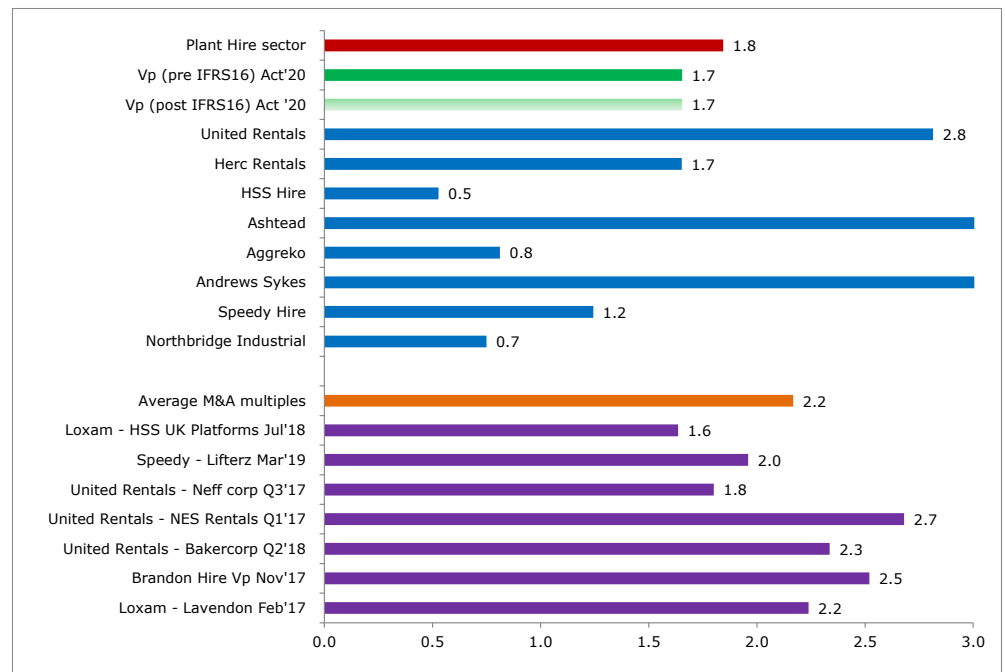
Source: Equity Development. FY20 figures used for Vp

### CY PER vs peers



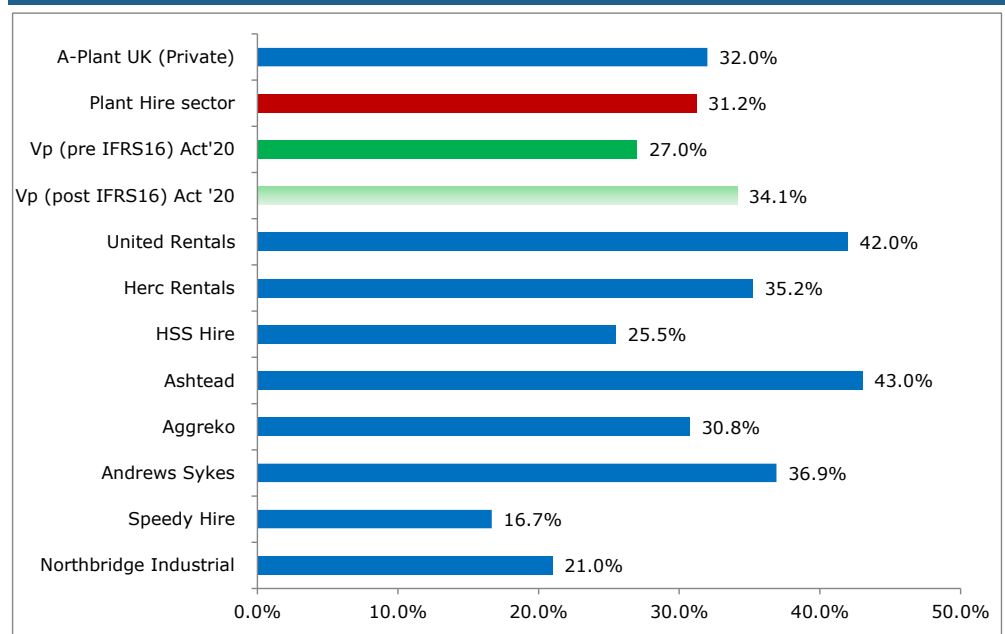
Source: Equity Development. FY20 figures used for Vp

**CY Price: Book**



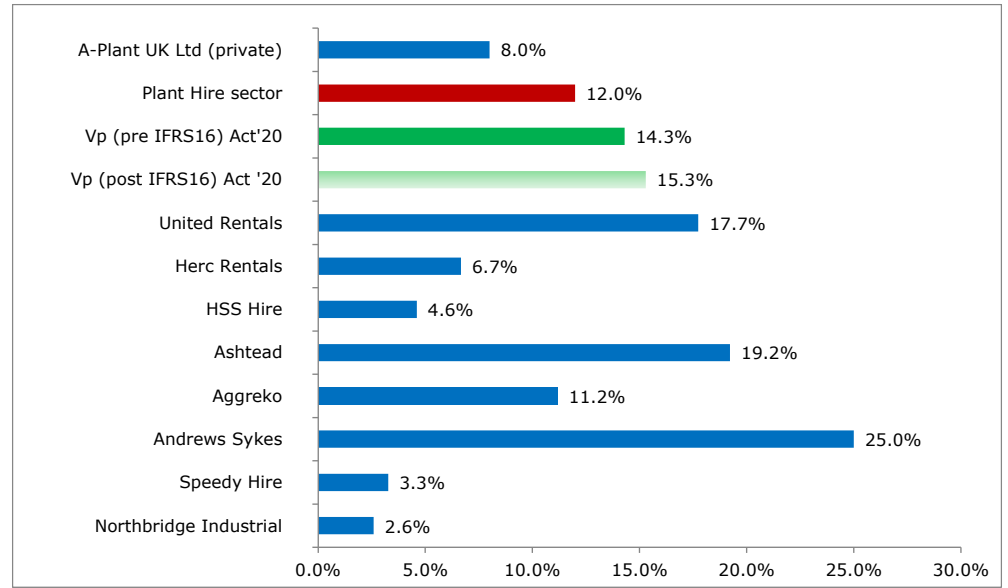
Source: Equity Development. FY20 figures used for Vp

**CY % EBITDA margins vs peers**



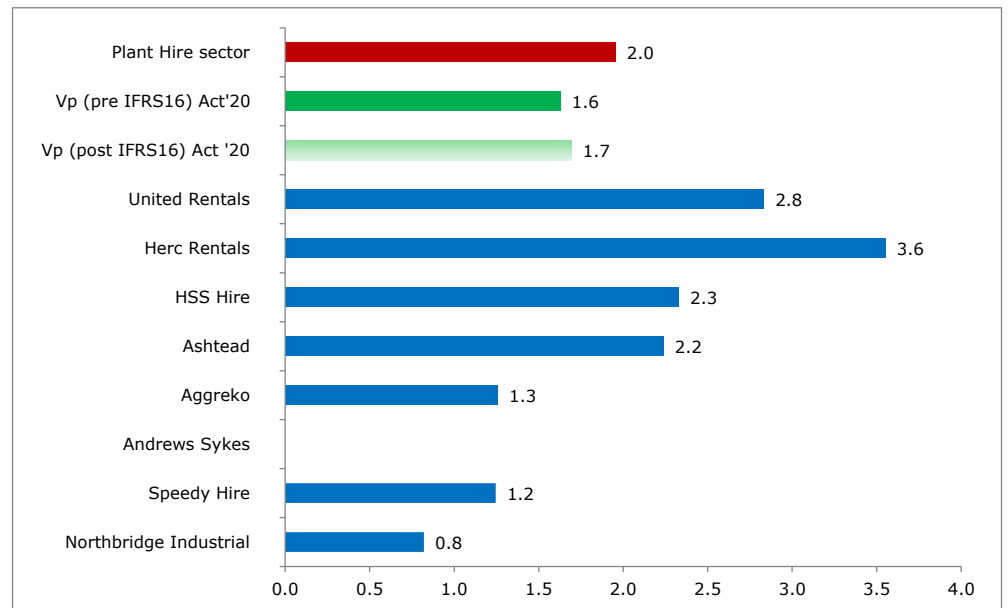
Source: Equity Development. FY20 figures used for Vp

### CY EBIT margins vs peers



Source: Equity Development. FY20 figures used for Vp

### CY Net debt : EBITDA



Source: Equity Development. FY20 EBITDA & Jun'20 net debt used for Vp



### Market capitalisation of sector

	Shareprice	Mrk Cap (Ms)	CY net cash / (debt) Ms	Enterprise Value (Ms)
Northbridge Industrial	93.0p	£26.2	-£5.5	£31.7
Speedy Hire	53.0p	£278	-£67	£346
Andrews Sykes	550p	£232	£24	£208
Aggreko	440p	£1,122	-£526	£1,648
Ashtead	2,650p	£12,111	-£4,354	£16,465
HSS Hire	24.5p	£41.7	-£164.0	£205.7
Herc Rentals	\$35.2	\$1,024	-\$2,103	\$3,127
United Rentals	\$160.0	\$11,680	-\$9,723	\$21,403
Vp	700p	£281	-£138	£419

Source: Equity Development



## Investor Access

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