

## Chance to emerge from CV-19 even stronger

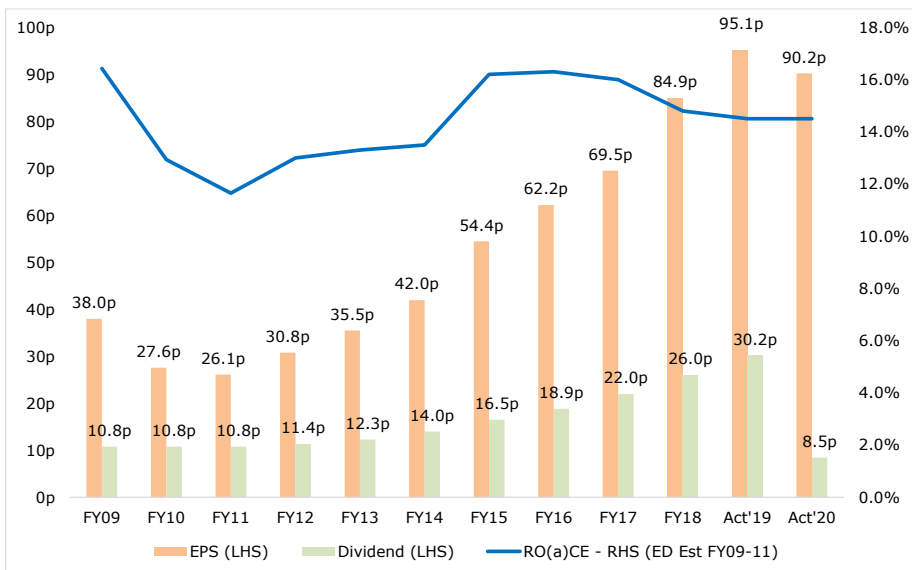
10th June 2020

Never has stock selection been as important perhaps as it is today, reflecting the wide range of possible outcomes caused by the pandemic. Some sectors (airlines, restaurants) have been brought to their knees, whereas others (Saas, medical testing & cloud) have received a major lift.

The trick for investors is to find those opportunities, which are able to comfortably ride out the transitory storm, yet have been indiscriminately sold-off. We think Vp, a UK (91% sales) & International (9%) plant hire specialist, fits the bill.

Today it posted **in line results for the year ending March 2020**. Adding that although demand slowed sharply in April across some parts of the group (revenues down 20%-70%). **Conditions have since improved**, as more construction sites reopen under social distancing rules.

### Adjusted EPS has risen 14.7% CAGR FY11-20



Source: Equity Development

## Cashflow positive during eye of the storm

Moreover, even under the bleakest of scenarios - assuming a hypothetical 40% contraction in turnover (vs pre-CV19 budget levels) for the whole of FY21 - there would still be sufficient liquidity (headroom £57.3m as at 31<sup>st</sup> May'20 vs £47.7m y/e) to meet all agreed banking covenants (see below). Besides, **Vp generated +£9.6m of cashflow anyway** during April & May.

### Revised banking covenants

| Quarter Ended        | June 20 | Sept 20 | Dec 20 | Mar 21 | June 21 |
|----------------------|---------|---------|--------|--------|---------|
| Net debt to EBITDA < | 2.50    | 3.25    | 3.50   | 3.75   | 2.50    |
| Interest cover >     | 3.00    | 2.25    | 0.50   | (1.00) | 3.00    |

Source: Equity Development

### Company Data

|                    |                       |
|--------------------|-----------------------|
| EPIC               | LSE: VP.              |
| Price (last close) | 800p                  |
| 52 week Hi/Lo      | 1,040p/510p           |
| Market cap         | £321m                 |
| Mar'20 net debt    | £159.8m               |
| 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| ED valuation       | Temporarily withdrawn |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.

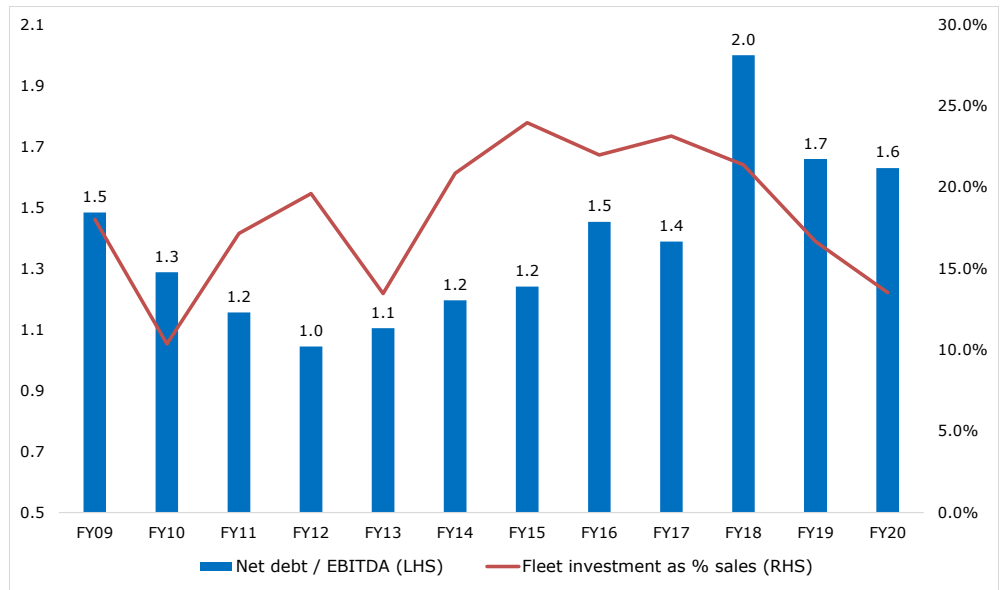
Member of FTSE SmallCap Index.

**Next news:** AGM July 2020

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**£57.3m of financial headroom as at 31<sup>st</sup> May 2020**



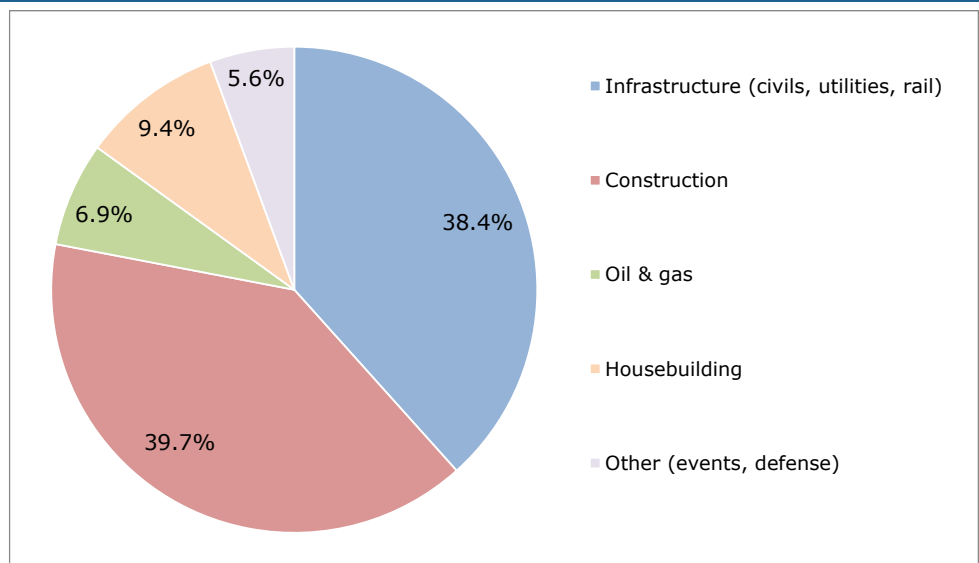
Source: Equity Development

**UK construction getting back on its feet**

More realistically, we believe UK building activity will gradually recover over the next 12-18 months. With the large national housebuilders finishing existing developments first over the summer, and breaking ground on fresh projects later in the year.

On top, the FT recently speculated that the Government is planning to announce a substantial new stimulus package in July - which alongside £100bn+ schemes like HS2 - should help the firm’s core construction, infrastructure & housebuilding operations. Whilst essential maintenance within systemically important verticals (eg water, electricity, gas, telecommunications and rail) should continue regardless.

**FY'20 revenue (£362.9m) split by market**

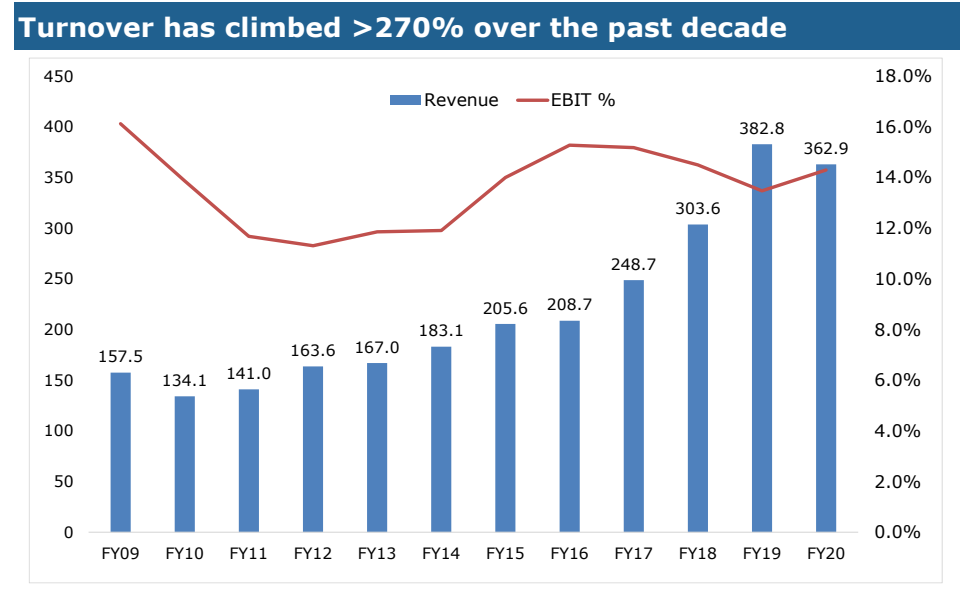


Source: Equity Development

## £257m contract win with Network Rail

Thus enabling **Vp to bounce back strongly in FY22 and beyond**, as it did after the 2008-10 Great Finance Crisis (see below). Plus new work is still coming through the door. In February, Network Rail awarded it a £257m 6 year contract for the rental, supply and maintenance of portable plant, with options to extend to March 2028.

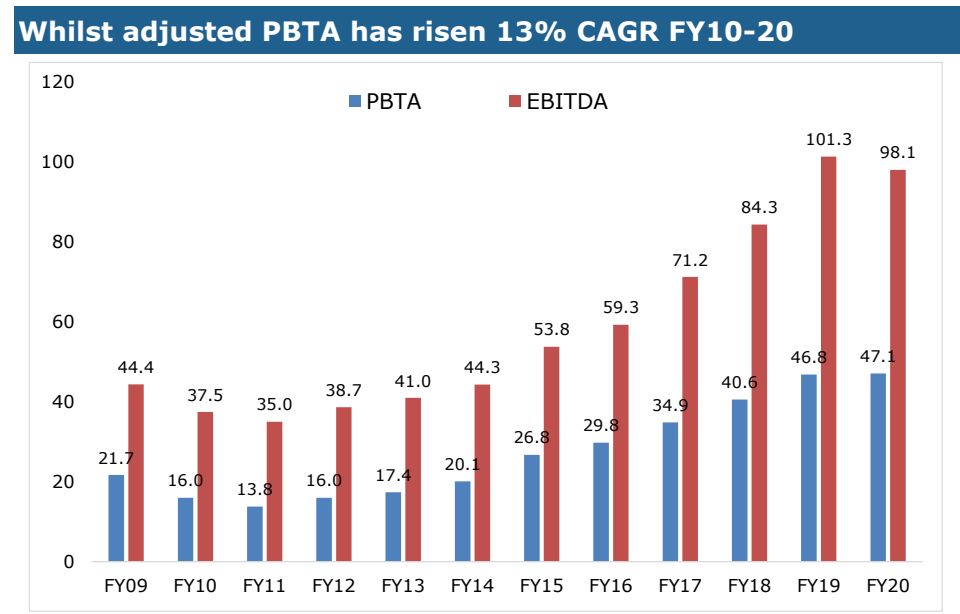
## Significant long term value creation



Source: Equity Development

## Vp is ahead of the curve

Reassuringly too, the key message from this morning’s statement is that **Vp is well prepared, resilient and ahead of the curve** in terms of dealing with the disruption.



Source: Equity Development

Here albeit mindful not to harm long term capability, discretionary spend has already been cut. Including *“the deferral of annual pay reviews in April, payroll cost reductions as employees entered the Government’s furlough scheme, freezing of all non-essential capital expenditure and recruitment, rent payment holidays and utilisation of available rates and tax relief amongst other initiatives.”*

Moreover, all senior management (50 in total) including the Board have taken a voluntary 20% salary reduction to the end of June, with many employees also working a 4 day week until capacity requirements change.

Meaning that over a 2 year time horizon, there is a decent chance that **profit margins and ROCE might even be able to improve** on the back of a re-sized cost base.

## Temporary delay of dividend

Separately, the **final dividend has been deferred**, and forward guidance prudently removed. Similarly we’ve retracted our forecasts & valuation, until there’s greater clarity surrounding the coronavirus.

Elsewhere, **new products are being introduced to assist clients through the difficulties** – such as the below portable Hand Sanitiser Station for on site sanitisation.

### New COVID-19 products being introduced to assist clients



Source: Company (above)

So what about the detailed FY20 numbers?

Adjusted EBITDA, PBT and EPS (see below, pre IFRS 16) came in at £98.1m (£101.3m LY), £47.1m (£46.8m) and 90.2p (-5.2% vs 95.1p LY) respectively, on turnover -5.2% lower to £362.9m. The latter thanks to **softer conditions in commercial construction & civil engineering** (Brexit, General Election) - exacerbated by completion of the 5-year Water (AMP 6) & Rail (CP5) programs. Yet compensated for **by higher EBIT margins** (14.3% vs 13.5%) thanks to payroll, depreciation and other overhead savings.

In relation to the balance sheet, **net bank debt fell by £7.9m to £159.8m** (1.6x EBITDA) - reflecting reduced fleet capex (£49.1m vs £83.8m), partially offset by higher debtor days (62 vs 58) and exceptionals. Meanwhile **ROCE remained strong at 14.5%** (14.5%).

### Record FY20 PBTA of £47.1m (vs £46.8m LY)

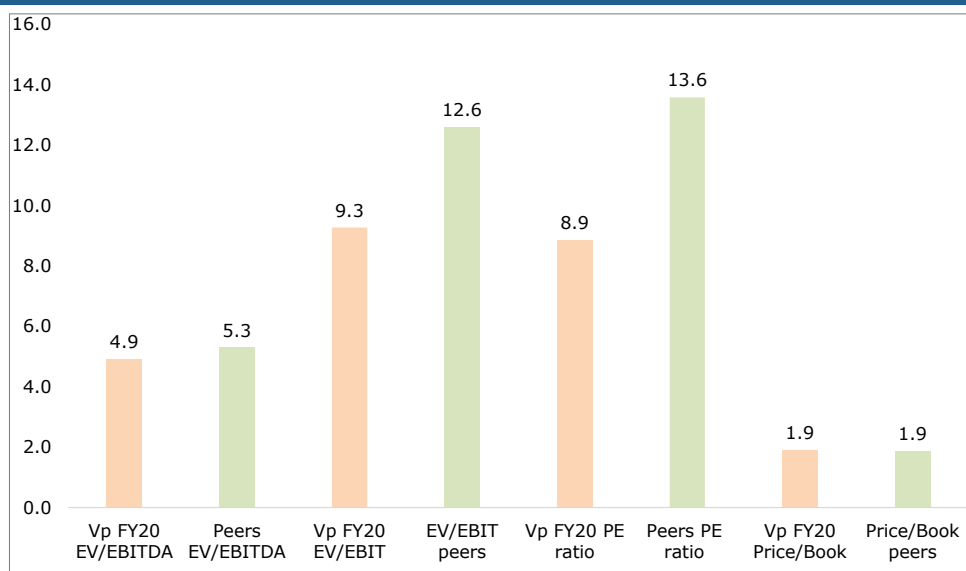
| £'000s                      | Act H1'19      | Act H1'20      | %            | Act H2'19      | Act H2'20      | %             | Act FY19       | Act FY20       | %            |
|-----------------------------|----------------|----------------|--------------|----------------|----------------|---------------|----------------|----------------|--------------|
| March yearend               |                |                |              |                |                |               |                |                |              |
| UK sales                    | 175,338        | 170,016        | -3.0%        | 174,992        | 160,989        | -8.0%         | 350,330        | 331,005        | -5.5%        |
| International               | 17,873         | 16,569         | -7.3%        | 14,627         | 15,353         | 5.0%          | 32,500         | 31,922         | -1.8%        |
| <b>Group revenues</b>       | <b>193,211</b> | <b>186,585</b> | <b>-3.4%</b> | <b>189,619</b> | <b>176,342</b> | <b>-7.0%</b>  | <b>382,830</b> | <b>362,927</b> | <b>-5.2%</b> |
| <b>Group EBITDA</b>         | <b>51,629</b>  | <b>51,840</b>  | <b>0.4%</b>  | <b>49,710</b>  | <b>51,629</b>  | <b>3.9%</b>   | <b>101,339</b> | <b>98,050</b>  | <b>-3.2%</b> |
| EBIT % margin               | 26.7%          | 27.8%          |              | 26.2%          | 29.3%          |               | 26.5%          | 27.0%          |              |
| EBITDA (post IFRS 16)       |                | 64,782         |              |                | 59,035         |               |                | 123,817        |              |
| UK                          | 26,912         | 27,245         | 1.2%         | 22,926         | 22,945         | 0.1%          | 49,838         | 50,190         | 0.7%         |
| International               | 1,266          | 1,070          | -15.5%       | 467            | 630            | 34.9%         | 1,733          | 1,700          | -1.9%        |
| <b>Group EBITA</b>          | <b>28,178</b>  | <b>28,315</b>  | <b>0.5%</b>  | <b>23,393</b>  | <b>23,575</b>  | <b>0.8%</b>   | <b>51,571</b>  | <b>51,890</b>  | <b>0.6%</b>  |
| EBITA (post IFRS 16)        |                | 30,250         |              |                | 25,230         |               |                | 55,480         |              |
| UK                          | 15.3%          | 16.0%          |              | 13.1%          | 14.3%          |               | 14.2%          | 15.2%          |              |
| International               | 7.1%           | 6.5%           |              | 3.2%           | 4.1%           |               | 5.3%           | 5.3%           |              |
| <b>EBIT % margin</b>        | <b>14.6%</b>   | <b>15.2%</b>   |              | <b>12.3%</b>   | <b>13.4%</b>   |               | <b>13.5%</b>   | <b>14.3%</b>   |              |
| Interest                    | -2,325         | -2,383         | 2.5%         | -2,417         | -2,408         | -0.4%         | -4,742         | -4,791         | 1.0%         |
| <b>PBTA</b>                 | <b>25,853</b>  | <b>25,932</b>  | <b>0.3%</b>  | <b>20,976</b>  | <b>21,167</b>  | <b>0.9%</b>   | <b>46,829</b>  | <b>47,099</b>  | <b>0.6%</b>  |
| PBTA (post IFRS16)          |                | 25,772         |              |                | 20,868         |               |                | 46,640         |              |
| <b>Adj EPS - pre IFRS16</b> | <b>52.3p</b>   | <b>52.5p</b>   | <b>0.2%</b>  | <b>42.8p</b>   | <b>37.8p</b>   | <b>-11.8%</b> | <b>95.1p</b>   | <b>90.2p</b>   | <b>-5.2%</b> |
| Adj EPS - post IFRS16       |                | 52.1p          |              |                | 42.1p          |               |                | 94.2p          |              |
| <b>Dividend</b>             | <b>8.2p</b>    | <b>8.45p</b>   | <b>3.0%</b>  | <b>22.0p</b>   | <b>0.0p</b>    |               | <b>30.2p</b>   | <b>8.5p</b>    |              |
| Net debt (pre IFRS 16)      | -188,236       | -183,746       | -2.4%        | -168,100       | -159,806       | -4.9%         | -168,100       | -159,806       | -4.9%        |
| Net debt : EBITDA           |                |                |              |                |                |               | 1.7            | 1.6            |              |
| <b>Group ROCE</b>           | <b>15.6%</b>   | <b>14.5%</b>   |              | <b>13.4%</b>   | <b>14.5%</b>   |               | <b>14.5%</b>   | <b>14.5%</b>   |              |

Source: Equity Development

## Shares attractively priced

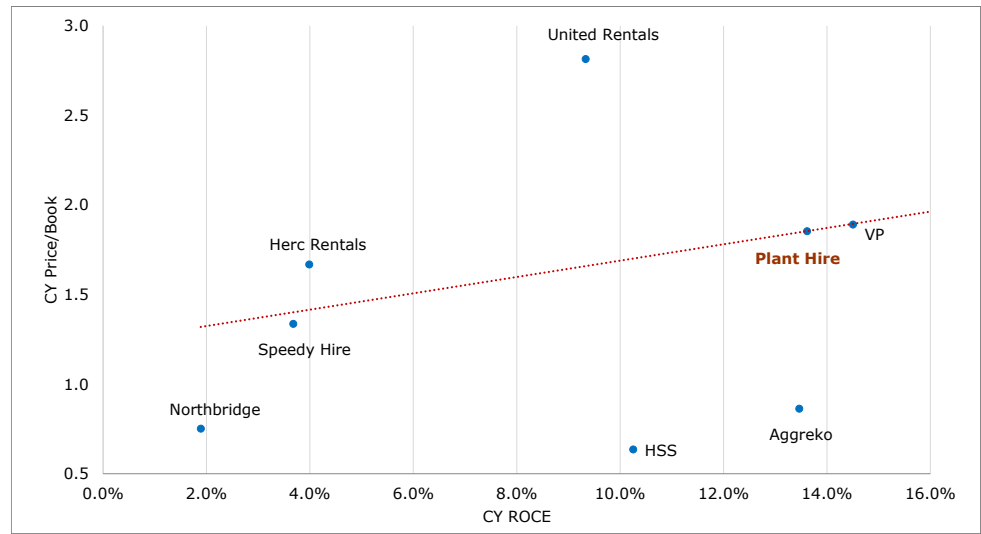
With regards to valuation, **the shares at 800p appear attractively priced**, trading on trailing 8.9x PER, 1.9x Price:Book and 4.9x EV/EBITDA multiples - offering upside potential for patient investors vs peer group averages.

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



Source: Equity Development. FY20 figures used for Vp.

**Current Year ROCE vs Price: Book**



Source: Equity Development. FY20 figures used for Vp.

**£4.5m one-off retained for CMA investigation**

Finally, it is worth mentioning the ongoing Competition and Markets Authority (CMA) investigation. Here, the CMA has provisionally concluded that 3 major suppliers of groundwork products – including Vp’s Groundforce unit - were involved in suspected anti-competitive behaviour.

The findings are however provisional at this stage, and do not mean that any company breached competition law. As such, it is impossible to accurately assess the likely costs associated with this enquiry. Nonetheless, in line with accounting standard IAS 37, Vp included an exceptional charge of £4.5m within its FY19 accounts.

The figure is in the arithmetic midpoint of a range of possible outcomes (£0m to £9.0m) that the Board have calculated based upon previous cases and CMA published guidance – importantly though without any admission of blame.

Consequently, whilst the case is undoubtedly something to watch, **we suspect it won’t ultimately end up being material in the context of the group’s £321m marketcap.**

**Time to be patient**

CEO Neil Stothard, commenting: **“We entered this economic crisis with an excellent business and, as best as we can manage, we plan to exit with an equally excellent business. The recovery may be slower than we would want, but we are confident that we will see material recovery during the remainder of 2020 and into 2021, as activity levels return towards historic levels.**

**Trading in April was very weak, May has improved and we anticipate there will be a slow, incremental recovery over the coming months.**

*The Group took decisive action to control costs at the start of the pandemic including stopping all but essential recruitment and capital expenditure. **We kept many of our operating locations open for business throughout, in support of those critical sectors requiring***

***our services, we initially mothballed some sites and participated in the Government's job retention scheme, furloughing approximately half of our UK employees at the peak in April. We have since re-opened branches and taken employees out of furlough as demand has slowly recovered. The International division has also been impacted with different countries feeling different effects of the pandemic.***

***"We have strengthened further our financial position by conserving cash; reducing costs and delaying the dividend. We believe that this will help ensure the long-term resilience of the business as well as its capability to respond quickly as markets recover."***

## 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.

## Summary financials (£'000s)

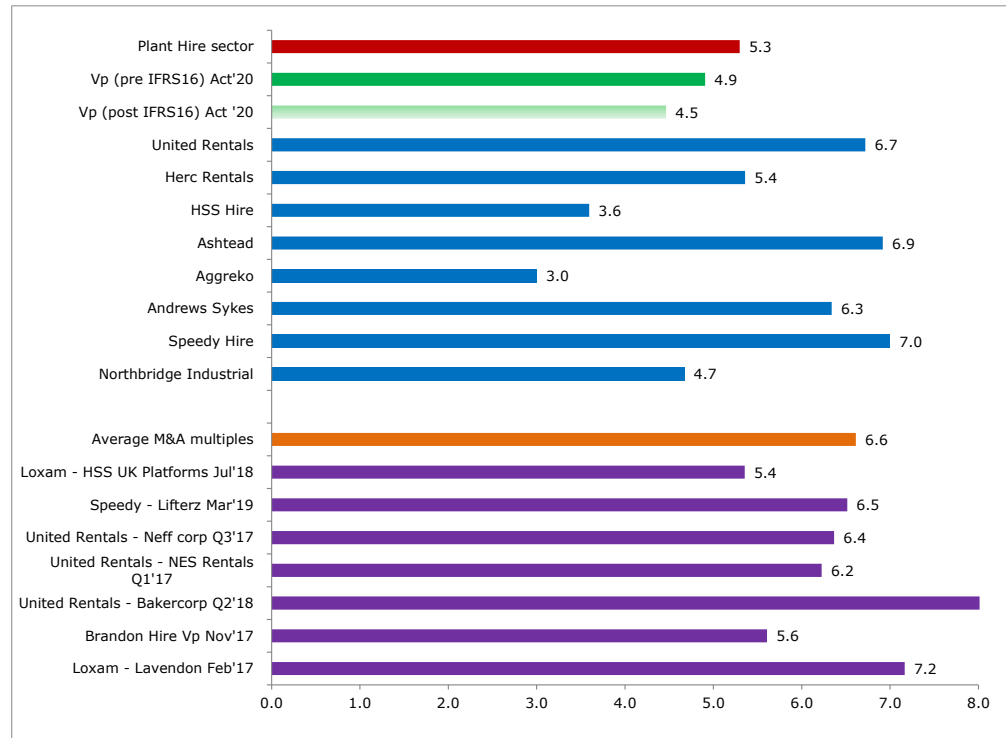
| Vp<br>(March year end)                      | 2015 Act<br>£'000s | 2016 Act<br>£'000s | 2017 Act<br>£'000s | 2018 Act<br>£'000s | 2019 Act<br>£'000s | 2020 Act<br>£'000s |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <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)                     |                    |                    |                    |                    |                    | 94.2               |
| <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)                     | 14.7               | 12.9               | 11.5               | 9.4                | 8.4                | 8.9                |
| P/E ratio (post IFRS 16)                    |                    |                    |                    |                    |                    | 8.5                |
| EV/Sales                                    | 2.3                | 2.3                | 1.9                | 1.6                | 1.3                | 1.3                |
| EV/EBITDA (pre IFRS 16)                     | 8.9                | 8.1                | 6.8                | 5.7                | 4.7                | 4.9                |
| EV/EBITDA (post IFRS 16)                    |                    |                    |                    |                    |                    | 4.5                |
| EV/EBITA (pre IFRS 16)                      | 16.7               | 15.1               | 12.7               | 10.9               | 9.3                | 9.3                |
| EV/EBITA (post IFRS 16)                     |                    |                    |                    |                    |                    | 10.1               |
| PEG ratio                                   | 0.5                | 0.9                | 1.0                | 0.4                | 0.7                | -1.7               |
| Dividend yield                              | 2.1%               | 2.4%               | 2.8%               | 3.3%               | 3.8%               | 1.1%               |
| 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>800p</b>        |                    |                    |                    |                    |                    |

Source: Equity Development



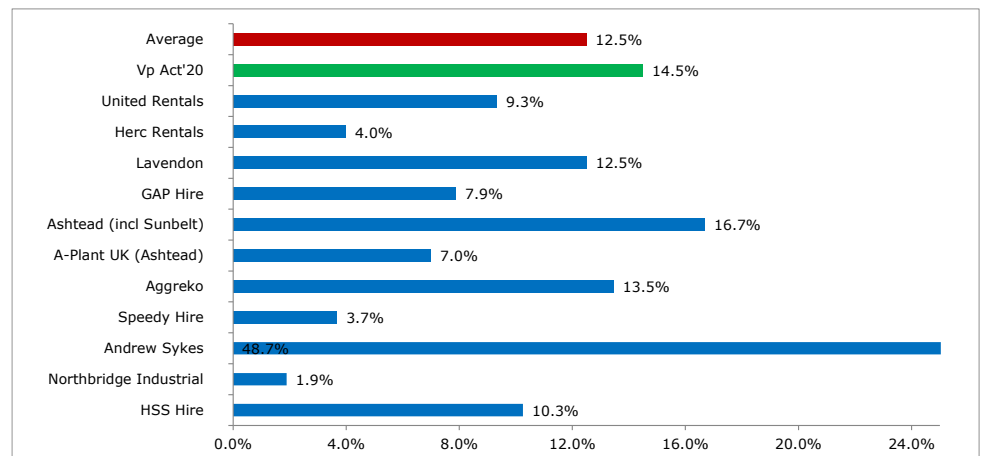
## Appendix - Sector valuation metrics and KPIs

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



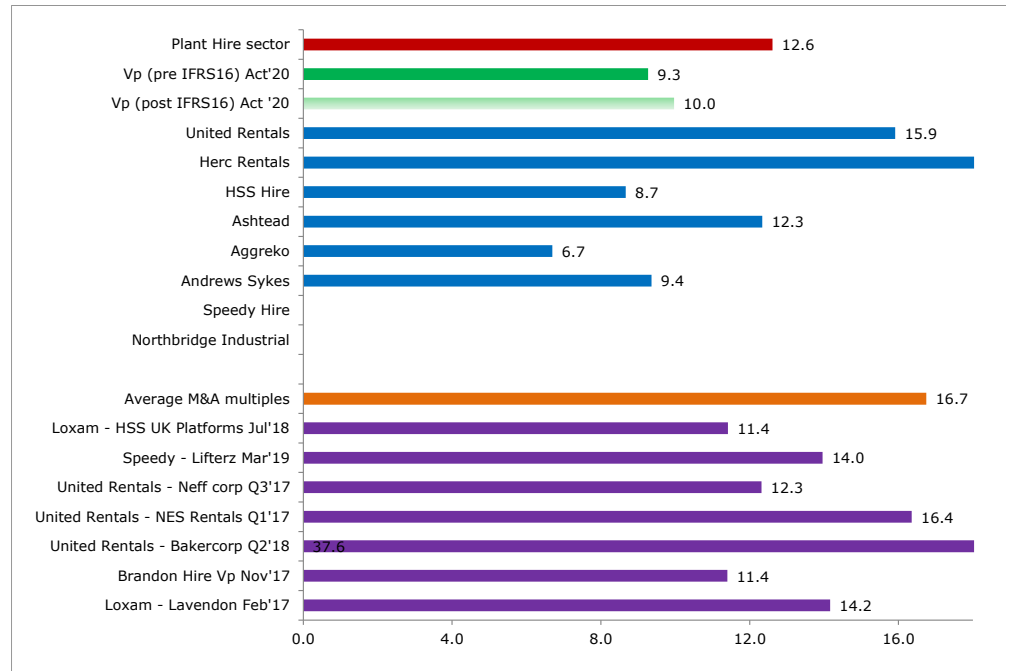
Source: Equity Development. FY20 figures used for Vp

### CY ROCE across sector



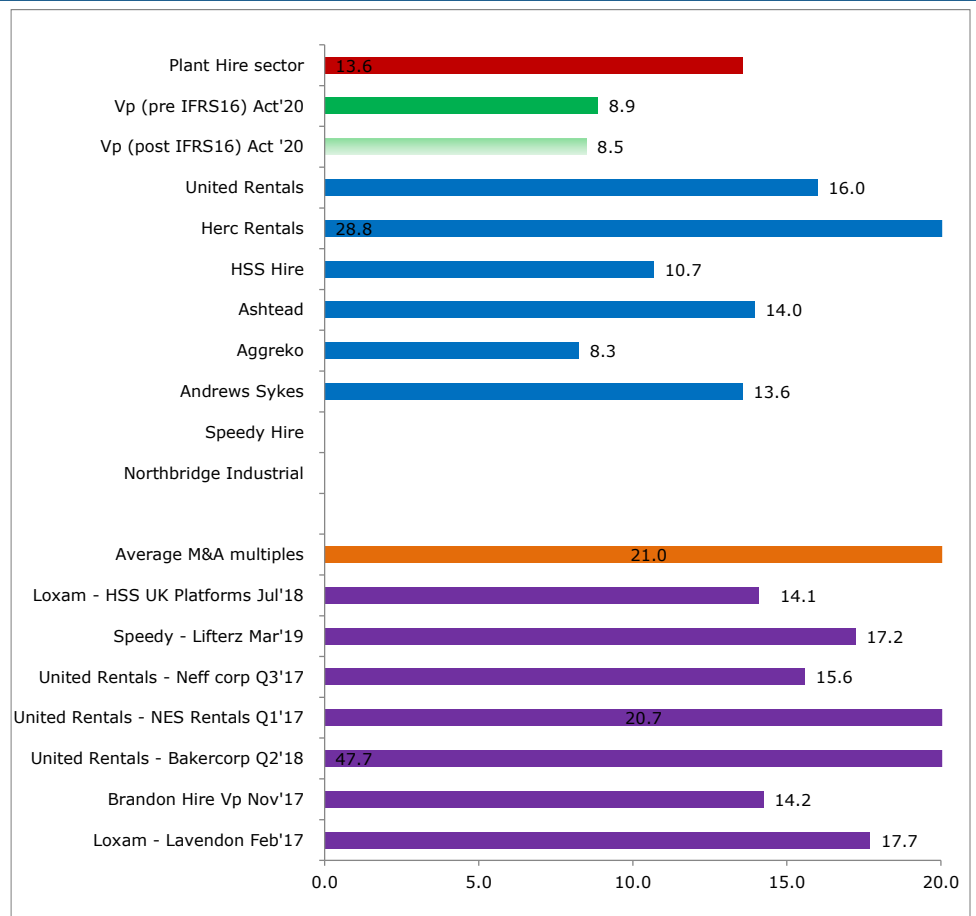
Source: Equity Development. FY20 figures used for Vp

### CY EV / EBIT vs peers



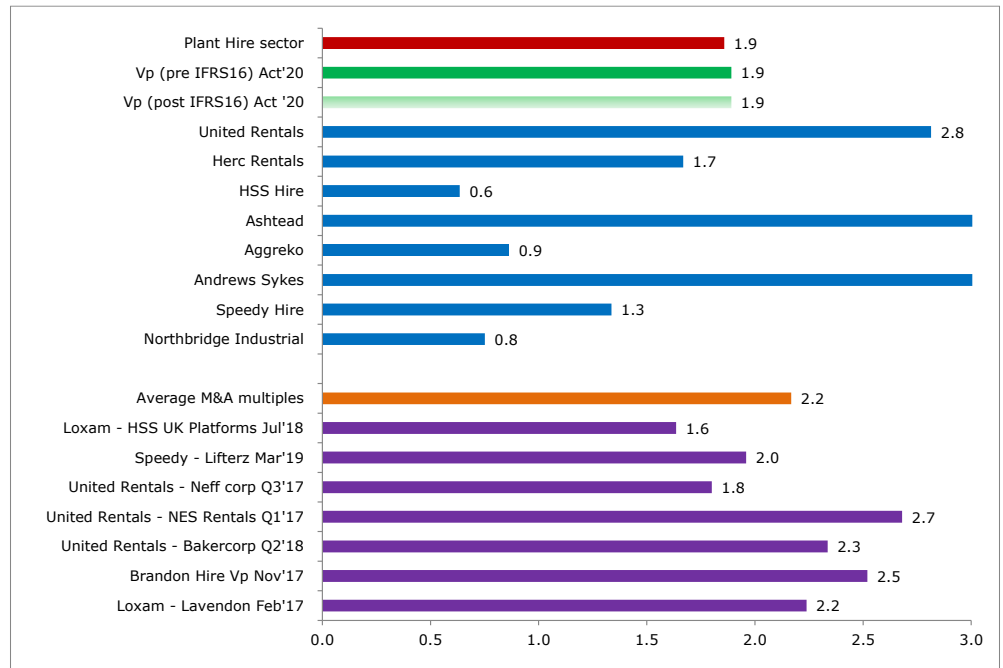
Source: Equity Development. FY20 figures used for Vp

### CY PER vs peers



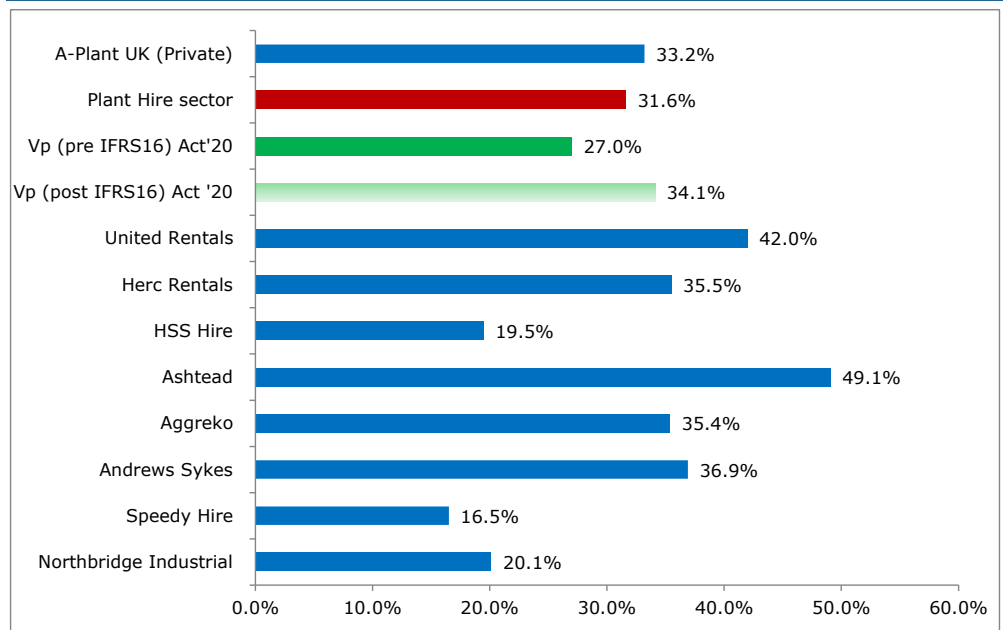
Source: Equity Development. FY20 figures used for Vp

**CY Price: Book**



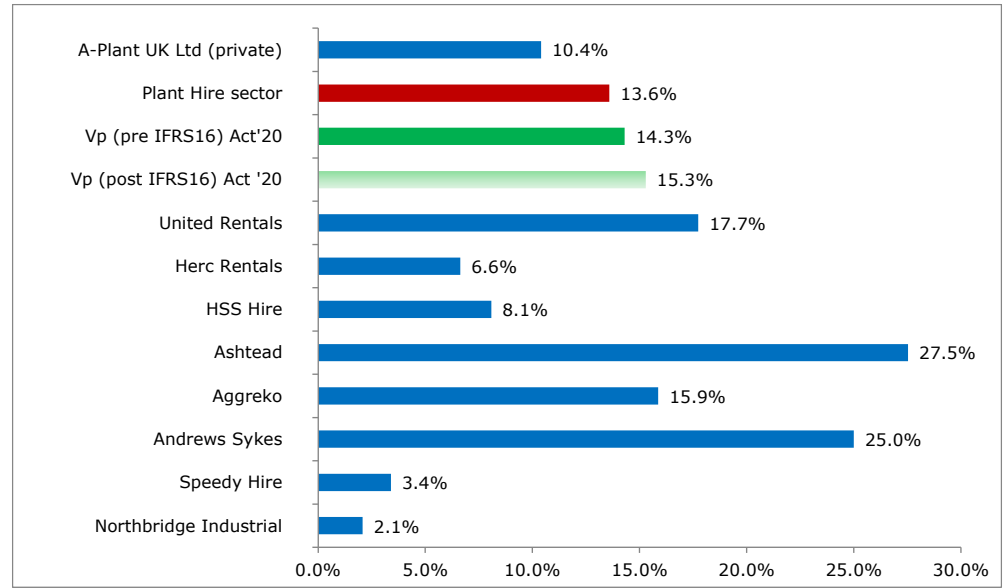
Source: Equity Development. FY20 figures used for Vp

**CY % EBITDA margins vs peers**



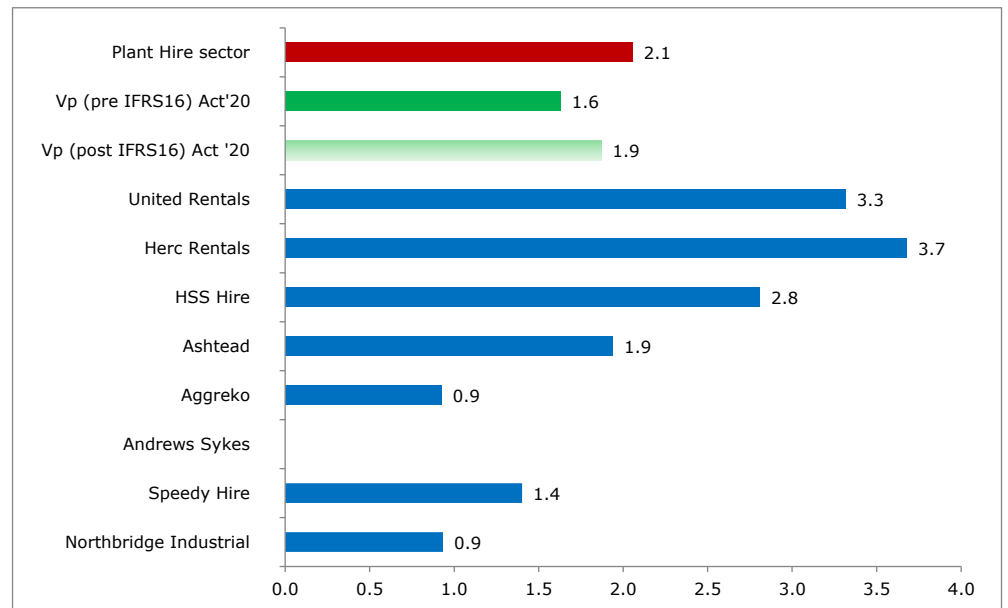
Source: Equity Development. FY20 figures used for Vp

### CY EBIT margins vs peers



Source: Equity Development. FY20 figures used for Vp

### CY Net debt : EBITDA



Source: Equity Development. FY20 figures used for Vp

### Market capitalisation of sector

|                        | Shareprice | Mrk Cap (Ms) | CY net cash /<br>(debt) Ms | Enterprise<br>Value (Ms) |
|------------------------|------------|--------------|----------------------------|--------------------------|
| Northbridge Industrial | 91.0p      | £25.7        | -£6.4                      | £32.1                    |
| Speedy Hire            | 57.0p      | £299         | -£75                       | £374                     |
| Andrews Sykes          | 485p       | £205         | £24                        | £181                     |
| Aggreko                | 514p       | £1,311       | -£584                      | £1,895                   |
| Ashtead                | 2,550p     | £12,240      | -£4,770                    | £17,010                  |
| HSS Hire               | 29.5p      | £50.2        | -£179.5                    | £229.7                   |
| Herc Rentals           | \$34.0     | £989         | -£2,167                    | £3,156                   |
| United Rentals         | \$160.0    | £11,680      | -£11,376                   | £23,056                  |
| Vp                     | 800p       | £321         | -£160                      | £481                     |

Source: Equity Development



## Investor Access

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