

## Trading in-line and delivering strategic progress

25th July 2024

Today's AGM update confirms that Vp continues to perform well, reiterating full year expectations despite challenges in certain markets (notably construction). Meanwhile, the new management team is progressing the refreshed strategic priorities set out in June.

Vp has an excellent track record of earnings and dividend growth over the long term, underpinned by the specialist focus of its activities and the diversity of its services and end markets. In our view, this track record warrants a premium rating. We therefore consider the current valuation (a P/E of 9x and a 25% discount to peers) an anomaly and an attractive entry point for this high-quality business. We make no changes to our forecasts and maintain our 1110p Fair Value estimate.

### AGM update – performing well despite mixed market backdrop

Today's brief trading update confirms that Vp continues to perform well despite challenges in certain end markets. Broad market trends are consistent with those reported in recent periods. Infrastructure remains supportive, with good momentum and strong demand in transmission, water and civil engineering, although rail has seen a slower start to the year at the beginning of Control Period 7 (UK's regulated five-year rail programme). The energy market is positive in the UK and internationally, whilst construction remains mixed (non-residential challenging, housebuilding subdued). We note a recent improvement in construction sector sentiment (PMI reading over 50 for past four months), which may suggest an improving outlook for this important market.

### Refreshed strategic focus under new management team

The new management team remains focused on the strategic priorities set out in June: cross divisional collaboration, simplifying the Group's operating model, and developing the digital roadmap.

### Attractive valuation, impressive track record and growth potential

Vp's shares are trading at c.25% discount to peers, on a single digit earnings multiple (9.1x) with dividend yield approaching 6%. In our view, this presents an attractive entry point for a high-quality business with an excellent track record and scope for significant growth over the medium term.

#### Key Financials and Valuation metrics

Year end March, £m	2021A	2022A	2023A	2024A	2025E	2026E
Sales	308.0	350.9	371.5	368.7	384.0	397.0
EBITDA	96.7	108.4	111.9	111.0	114.3	117.3
Adjusted PBT	23.2	38.9	40.2	39.9	41.8	45.0
FD EPS (p)	45.8	71.2	78.4	73.2	75.9	81.7
DPS (p)	25.0	36.0	37.5	39.0	40.0	41.5
Net Cash/(Debt)*	-121.9	-130.6	-134.4	-125.2	-120.9	-112.6
Net Cash/(Debt)**	-178.7	-188.3	-192.9	-187.2	-180.8	-172.6
Net Debt**/EBITDA	1.8x	1.7x	1.7x	1.7x	1.6x	1.5x
P/E	15.1x	9.7x	8.8x	9.4x	9.1x	8.4x
EV/EBITDA	4.7x	4.3x	4.2x	4.2x	4.0x	3.8x
Price/ TNAV	3.1x	2.7x	2.3x	2.2x	2.0x	1.8x
Dividend yield	3.6%	5.2%	5.4%	5.7%	5.8%	6.0%
FCF yield	19.9%	3.4%	4.2%	9.2%	7.9%	9.5%

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

#### Company Data

EPIC	LSE: VP.
Price (last close)	685p
52 weeks Hi/Lo	720p/485p
Market cap	£270m
ED Fair Value/share	1110p
Proforma net cash/ (net debt)	(£120.9m)
Avg. daily volume	28,000

#### Share Price, p



Source: ADVFN

#### Description

Vp 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: Half-year trading update  
– Sep/Oct '24 (est)

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## Valuation - an unwarranted 25% discount to peers

Vp's shares are little changed since the Group's FY23 results were reported at the beginning of June. As a result, the shares continue to trade at a marked discount to the peer group despite Vp's track record of delivering sector leading returns through the economic cycle.

On a P/E basis for FY1 (first forecast year), the shares are trading at a 25% discount to peers and on a single digit earnings multiple (9.0x). Vp's long term average trading multiple is c.12x P/E and, again, the current rating represents a 25% discount. In our view, this is unwarranted and presents an attractive entry point for a long-established, high-quality business with an impressive track record.

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	23,118	52.98	17.3x	15.0x	7.7x	7.1x	1.6%
HSS Hire	52	0.07	8.7x	9.0x	2.8x	2.8x	7.9%
Speedy Hire	176	0.38	10.4x	7.9x	3.6x	3.3x	6.8%
Vp	272	6.90	9.0x	8.4x	4.0x	3.9x	5.8%
Peer average			11.4x	10.1x	4.5x	4.3x	5.5%
Average ex Vp			12.1x	10.6x	4.7x	4.4x	5.4%
Vp			9.1x	8.4x	4.0x	3.8x	5.8%
Vp discount to peers			-25.0%	-21.0%	-14.9%	-13.6%	7.1%

Source: Equity Development, Koyfin 24<sup>th</sup> July '24

We make no changes to our 1110p Fair Value estimate, which represents a P/E rating of 13.6x FY'26. At the current share price, the dividend yield remains attractive at 5.8% well supported by a free cash flow yield approaching 10%. We see significant scope for earnings growth over the medium term as management initiatives take effect and, ultimately, market recovery takes hold.

## Summary Financials

Income statement (March year-end)						
	2021A	2022A	2023A	2024A	2025E	2026E
	£m	£m	£m	£m	£m	£m
<b>Revenue</b>						
UK	281.3	320.2	333.5	330.1	344.0	355.0
International	26.7	30.7	38.1	38.6	40.0	42.0
<b>Group</b>	<b>308.0</b>	<b>350.9</b>	<b>371.5</b>	<b>368.7</b>	<b>384.0</b>	<b>397.0</b>
<b>Revenue growth</b>						
UK	-15%	14%	4%	-1%	4%	3%
International	-16%	15%	24%	1%	4%	5%
Group	-15%	14%	6%	-1%	4%	3%
<b>Adjusted operating profit</b>						
UK	30.3	44.7	45.6	44.7	46.4	49.0
International	0.7	1.6	3.2	4.8	4.9	5.3
<b>Group Operating Profit</b>	<b>30.9</b>	<b>46.3</b>	<b>48.8</b>	<b>49.5</b>	<b>51.3</b>	<b>54.3</b>
Net Interest	-7.8	-7.4	-8.6	-9.6	-9.5	-9.3
<b>Adjusted PBT</b>	<b>23.2</b>	<b>38.9</b>	<b>40.2</b>	<b>39.9</b>	<b>41.8</b>	<b>45.0</b>
Exceptional	-15.1	0.0	-5.0	-5.8	0.0	0.0
Amortisation of acquired intangibles	-10.4	-3.3	-4.5	-31.2	-2.0	-2.0
<b>Reported PBT</b>	<b>-2.3</b>	<b>35.6</b>	<b>30.7</b>	<b>2.8</b>	<b>39.8</b>	<b>43.0</b>
EPS (adjusted)	46.5p	71.9p	78.8p	73.6p	76.9p	82.7p
EPS (adjusted fully diluted)	45.8p	71.2p	78.4p	73.2p	75.9p	81.7p

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

<b>Cashflow statement (March year-end)</b>						
	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Operating profit</b>	<b>30.9</b>	<b>46.3</b>	<b>48.8</b>	<b>49.5</b>	<b>51.3</b>	<b>54.3</b>
Depreciation	45.0	45.5	46.9	45.0	47.0	47.0
Profit on Disposals	-4.3	-7.0	-9.2	-7.5	-8.0	-8.0
Exceptionals	-15.1	0.0	-5.0	-5.8	-2.0	0.0
Working Capital	33.9	-12.5	-18.4	9.8	-1.5	-1.5
Other	1.3	1.6	0.9	0.4	1.0	1.0
<b>Operating cashflow</b>	<b>91.8</b>	<b>73.8</b>	<b>63.9</b>	<b>91.4</b>	<b>87.8</b>	<b>92.8</b>
Interest	-4.8	-7.4	-8.4	-9.8	-9.5	-9.3
Tax	-2.9	-6.3	-5.5	-9.2	-11.3	-12.2
<b>Cashflow from operations</b>	<b>84.2</b>	<b>60.1</b>	<b>50.0</b>	<b>72.4</b>	<b>67.0</b>	<b>71.4</b>
Capital Expenditure	-46.6	-68.7	-63.3	-72.3	-65.0	-65.0
Sale of Fixed Assets	17.5	17.8	24.9	25.3	20.0	20.0
<b>Free cashflow</b>	<b>55.1</b>	<b>9.3</b>	<b>11.5</b>	<b>25.3</b>	<b>22.0</b>	<b>26.4</b>
Acquisitions	0.0	-2.7	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares	-5.1	-0.5	-1.1	-0.7	-2.0	-2.0
Dividends	-8.7	-14.1	-14.5	-15.0	-15.7	-16.1
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Underlying cashflow</b>	<b>41.4</b>	<b>-8.0</b>	<b>-4.0</b>	<b>9.6</b>	<b>4.3</b>	<b>8.3</b>
Other/FX	-3.4	-0.8	0.2	-0.4	0.0	0.0
<b>Overall cashflow</b>	<b>38.0</b>	<b>-8.8</b>	<b>-3.8</b>	<b>9.2</b>	<b>4.3</b>	<b>8.3</b>
<b>Net Cash/(Debt) pre IFRS16</b>	<b>-121.9</b>	<b>-130.6</b>	<b>-134.4</b>	<b>-125.2</b>	<b>-120.9</b>	<b>-112.6</b>
Lease adjustment	-56.9	-57.6	-58.5	-62.0	-60.0	-60.0
<b>Net Cash/ (Debt) post IFRS 16</b>	<b>-178.7</b>	<b>-188.3</b>	<b>-192.9</b>	<b>-187.2</b>	<b>-180.8</b>	<b>-172.6</b>

Source: Company actuals, Equity Development forecasts

<b>Balance sheet (to 31<sup>st</sup> March)</b>						
	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Non-current assets</b>						
PPE	233.9	247.5	252.4	256.9	262.9	268.9
Goodwill	43.8	44.9	44.6	17.5	15.5	13.5
Intangible assets	20.6	17.5	13.1	12.0	11.5	11.5
Right of use assets	53.3	54.2	54.6	58.6	58.6	58.6
Employee benefits	2.2	2.7	2.3	1.9	1.9	1.9
<b>Total non-current assets</b>	<b>353.8</b>	<b>366.8</b>	<b>367.1</b>	<b>346.9</b>	<b>350.4</b>	<b>354.4</b>
<b>Current Assets</b>						
Inventories	7.3	8.0	8.9	9.5	9.5	9.5
Trade and other receivables	66.5	76.1	81.5	74.8	76.3	77.8
Cash and cash equivalents	15.9	13.6	11.1	6.1	10.4	18.7
Income tax receivable	0.8	0.0	0.7	3.6	3.6	3.6
<b>Total Current Assets</b>	<b>90.6</b>	<b>97.6</b>	<b>102.3</b>	<b>93.9</b>	<b>99.8</b>	<b>109.5</b>
<b>Current Liabilities</b>						
Interest bearing loans and borrowings	-73.0	0.0	0.0	0.0	0.0	0.0
Income tax payable	0.0	-0.2	0.0	-1.5	0.0	0.0
Lease liabilities	-14.9	-14.1	-14.6	-16.3	-16.3	-16.3
Trade and other payables	-86.2	-80.7	-72.2	-71.7	-71.7	-71.7
<b>Total Current Liabilities</b>	<b>-174.1</b>	<b>-95.0</b>	<b>-86.8</b>	<b>-89.5</b>	<b>-88.0</b>	<b>-88.0</b>
<b>Non-Current Liabilities</b>						
Interest bearing loans and borrowings	-64.8	-144.2	-145.5	-131.3	-131.3	-131.3
Lease liabilities	-42.0	-43.5	-43.9	-45.6	-43.6	-43.6
Provisions	0.0	-1.5	-1.6	-3.8	-3.8	-3.8
Deferred tax liabilities	-10.4	-13.7	-16.6	-16.6	-16.6	-16.6
<b>Total non-current liabilities</b>	<b>-117.2</b>	<b>-202.9</b>	<b>-207.6</b>	<b>-197.4</b>	<b>-195.4</b>	<b>-195.4</b>
<b>Net Assets</b>						
Minority	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>153.1</b>	<b>166.6</b>	<b>174.9</b>	<b>153.9</b>	<b>166.7</b>	<b>181.8</b>

Source: Company actuals, Equity Development forecasts



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