Vp plc

3rd October 2024

Navigating market challenges, acquisition in Ireland

Vp's half year update highlights another resilient performance set against a backdrop of challenging macro-economic conditions. The current year outturn will be below previous expectations, given a slower than anticipated improvement in performance at Brandon Hire Station and a slower than expected rollout of projects under the new Network Rail Control Period (CP7). At the same time, today's acquisition of Charleville Hire and Platform Ltd (for an initial €12m) marks a return to M&A activity in a specialist area, highlighting the strategic ambitions of the new management team.

On our new forecasts, the shares trade on <10x P/E with a dividend yield of c.6%. In our view, this is an attractive valuation for a high-quality business with an excellent long term growth record and potential to benefit from market recovery.

H1'25 trading update

Whilst the macro-economic environment remains challenging, the diversity of Vp's end markets continues to underpin a resilient performance. The important Infrastructure market remains supportive, Energy is delivering good growth, and other key markets stand to benefit from any improvement in trading conditions. Strategically, the Group continues to make good progress with a refreshed strategy and the implementation of the new digital roadmap.

Acquisition of Charleville Hire and Platform Ltd (CPH)

Vp has announced its first acquisition under the new leadership team. CPH is a highly specialist powered access business with a leading position in the Republic of Ireland, principally serving the growing pharma, renewables, technology and food ingredient sectors. The acquisition is expected to be immediately accretive to Group EPS, it provides a platform for growth and allows Vp to take advantage of opportunities that exist in the buoyant Irish market.

Current year expectations reduced; long-term growth potential undimmed

Vp is a high-quality business with an excellent track record and scope for significant growth over the medium term. **Our revised Fair Value estimate is 1000p** (from 1110p), reduced in line with the quantum of the earnings downgrade. We remain confident that Vp will be a significant beneficiary of any upturn in market activity and see attractive long-term value and growth potential in the Group.

Key Financials and Valuation metrics

Year end March, £m	2021A	2022A	2023A	2024A	2025E	2026E
Sales	308.0	350.9	371.5	368.7	374.0	392.0
EBITDA	96.7	108.4	111.9	111.0	110.2	114.3
Adjusted PBT	23.2	38.9	40.2	39.9	37.0	40.5
FD EPS (p)	45.8	71.2	78.4	73.2	67.1	73.5
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	-140.0	-134.5
Net Cash/(Debt)**	-178.7	-188.3	-192.9	-187.2	-200.0	-194.5
Net Debt**/EBITDA	1.8x	1.7x	1.7x	1.7x	1.8x	1.7x
P/E	14.2x	9.1x	8.3x	8.9x	9.7x	8.8x
EV/EBITDA	4.5x	4.1x	4.0x	4.0x	4.1x	4.0x
Price/ TNAV	2.9x	2.5x	2.2x	2.1x	2.1x	1.9x
Dividend yield	3.8%	5.5%	5.8%	6.0%	6.2%	6.4%
FCF yield	21.1%	3.6%	4.5%	9.8%	4.9%	9.0%

*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)	650p
52 weeks Hi/Lo	720p/485p
Market cap	£257m
ED Fair Value / share	1000p
Proforma net cash	(£140.0m)
Avg. daily volume	24,000

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: Interim results – Nov/Dec '24 (est)

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H1'25 trading update

Vp's half year update highlights another resilient performance set against a backdrop of challenging macro-economic conditions.

The Infrastructure market remains supportive, delivering year on year growth with strong demand in transmission, water and civil engineering. There has been a slower than expected rollout of projects under CP7, but the Group remains positive about prospects for the Rail sector overall.

Non-residential construction remains subdued. In Brandon Hire Station, whilst progress is being made, the planned improvements in performance under the new management team have been slower than anticipated.

Energy is benefiting from a good level of project activity and Housebuilding, whilst still relatively soft, should benefit from the new government's focus on this area, as well as future interest rate reductions.

Strategically, the Group continues to make good progress with a refreshed strategy and the implementation of the new digital roadmap, which will benefit future performance.

Overall, the current year outturn will be below previous expectations, as summarised on the following page.

Acquisition of Charleville Hire and Platform Ltd

Vp has announced its first acquisition in several years and the first under the new leadership team. M&A has always been a feature of Group strategy with a focus on specialist areas of activity, with good growth and margin potential. It has a diverse portfolio of machinery, the majority of which is zero-emission at the point of use.

Charleville Hire and Platform Ltd (CPH) is a highly specialist powered access business with a leading position in the Republic of Ireland, principally serving the growing pharma, renewables, technology and food ingredient sectors. It is a family owned and run business with a strong management team, based near Cork.

There will be an initial cash consideration of €12.1m for 90% of CPH, with the remaining 10% to be acquired over a three-year period. The acquisition is being funded from existing debt facilities and cash resources. Subject to stretching EBITDA targets, a further deferred earn out payment of €21.7m may be payable across the second and third anniversaries of the acquisition.

For the year ended 31st December 2023, CPH generated revenue of €9.5m, EBITDA of €5.7m and PBT of €2.3m. It has gross assets of €13.9m.

The acquisition is expected to be immediately accretive to Group EPS, it provides a platform for growth and allows Vp to take advantage of opportunities that exist in the buoyant Irish market.

Forecast change summary

Overall, the current year outturn will be below previous expectations, given the subdued conditions in non-residential construction and housebuilding, and the slower than expected rollout of projects under CP7.

Current year PBT is now expected to be c.£37m (previous forecast £41.8m), which includes an initial contribution from CPH. Our forecast changes are summarised in the table below. We assume that CPH contributes in line with its recent run rate (€2.3m PBT in last reported year), which we would hope to prove conservative under Vp's leadership.

We apply similar forecast changes to FY26, which we believe should leave scope for outperformance in the event of a market recovery.

Changes to forecasts

Year end March	2025(E) Revised	2025(E) Old	2025(E) Change	2026(E) Revised	2026(E) Old	2026(E) Change
Revenue £m	374.0	384.0	-2.6%	392.0	397.0	-1.3%
EBITDA £m	110.2	114.3	-3.6%	114.3	117.3	-2.6%
PBT (underlying) £m	37.0	41.8	-11.6%	40.5	45.0	-10.0%
EPS fully diluted p	67.1	75.9	-11.6%	73.5	81.7	-10.0%
Dividend	40.0	40.0	0.0%	41.5	41.5	0.0%
Net cash/ (debt) ex. leases £m	-140.0	-120.9	15.8%	-134.5	-112.6	19.5%
Net cash/ (debt) inc. leases £m	-200.0	-180.8	10.6%	-194.5	-172.6	12.7%

Source: Equity Development

We remain confident that Vp will be a significant beneficiary of any upturn in market activity, alongside ongoing initiatives to improve Group performance, particularly at Brandon Hire Station.

On our new forecasts, the shares trade on <10x P/E with a dividend yield of c.6%. In our view, this is an attractive valuation for a high-quality business with an excellent long term growth record and potential to benefit from market recovery.

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