John Laing Group

Grow, optimise and enhance

Company outlook

Investment companies

CEO Ben Loomes set out his strategic vision for John Laing Group (JLG) at its capital markets day in November. He intends to accelerate growth by investing in 'core-plus' infrastructure while also enhancing operating and balance sheet efficiency. This note assesses the opportunity. Many of the initiatives will take time to fully realise, but the direction of travel is clear and activity levels look to be rising. The shares have recovered recently, but, at an FY20e P/NAV of 1.02x, the rating remains below its peers.

Year end	NAV/share (p)	EPS* (p)	DPS (p)	P/NAV (x)	P/E (x)	Yield (%)
12/18	323	63.1	9.5	0.97	5.0	3.0
12/19	337	20.4	9.5	0.93	15.4	3.0
12/20e	308	(0.0)	9.1	1.02	N/M	2.9
12/21e	312	4.6	10.3	1.01	68.4	3.3

Note: *EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Building on its successful PPP platform

Since IPO, JLG has achieved an average money multiple of over 3.0x in PPP, with the recent IEP East sale reaching 5.8x. PPP will now focus on Australia, the US and Colombia, markets where it has a strong position already. JLG has been short-listed for six PPP projects since June 2020; stimulus spending could raise activity levels further. It is also targeting 'PPP-like' greenfield opportunities such as waste to energy that it believes can accelerate growth and leverage the existing platform.

Adding a core-plus growth engine

JLG also aims to drive growth by establishing a core-plus strategy. It has identified broadband infrastructure as a particularly attractive opportunity (COVID-19 clearly illustrates the strategic value of high-speed internet access). It has substantial fire power to execute this strategy already: on top of the £500m+ in available financial resources reported in November, it has c £370m of disposal proceeds still to be received. Core-plus tickets are typically bigger; attracting third-party capital could enable JLG to scale up its investment quickly.

Financials: 9–12% medium-term returns target

It is too early to explicitly model the longer-term impact of the new strategy in our view and near-term returns are likely to be affected by a drag from renewables and the limited investment in FY20. Anticipating further (modest) adverse moves in power prices, we lower our FY20 NAV per share forecast by 2p to 308p (a 6p decline in Q4). Our FY21e forecast of 312p (down 3p) implies 4.6% y-o-y growth on an underlying basis.

Valuation: Discount to peers despite recent re-rating

After staging a recovery over the last six months, JLG's shares now trade at 1.02x our FY20e NAV per share, below both its historical average (1.07x) and that of its peers (1.16x). Recent newsflow has highlighted the strength of its existing PPP franchise and suggests that market activity levels are picking up. As renewable exposure falls and JLG begins to execute on its new strategy, we believe there is scope for NAV growth to accelerate and the re-rating to continue.

17 February 2021

Price	**315p**
Market cap	**£1,566m**

Net debt (£m) at H120:	
Re-presented accounts	105
Edison calculation based on statutory accounts	431
Shares in issue	497m
Free float	100%
Code	JLG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(3.4)	2.3	(11.4)
Rel (local)	(4.3)	(3.6)	(4.6)
52-week high/low		373.2p	273.6p

Business description

John Laing Group is an originator, active investor in, and manager of greenfield infrastructure projects. It operates internationally and its business is focused on the transport, energy, social and environmental sectors.

Next events

FY20 results	March 2021

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Investment summary

CEO Ben Loomes set out his strategic vision for JLG at its capital markets day in November. The company intends to accelerate growth by investing in adjacent 'PPP-like' opportunities and building a core-plus infrastructure business. It is also seeking to enhance both operating and balance sheet efficiency. It already has substantial financial fire power at its disposal but is also looking to attract third-party capital to drive its growth and leverage the existing platform. Many of these initiatives will take time to fully realise but the direction of travel is clear and the shortlisted pipeline in the US in particular is building. There is no guarantee that JLG will close these deals but, as renewable exposure falls, we believe a faster growing, less volatile business will emerge.

Building on its successful PPP platform

Since IPO JLG has achieved a money multiple of over 3.0x on its public-private partnership (PPP) investments, with the recent IEP East sale achieving over 5.8x. However, with the UK and European markets mature, it will now focus on the US, Colombia and Australia. JLG already has a leading position in these markets and, following recent US election results and the launch of the US$9bn 5G programme in Colombia, there appears to be plenty of scope to build on this success. Since June 2020 it has been short-listed for six additional PPP projects (four in the US). JLG is also targeting 'PPP-like' greenfield opportunities that can accelerate growth and leverage the existing platform.

Adding a core-plus growth engine

JLG admits that PPP is unlikely to deliver sufficient growth and scale on its own. It aims to drive growth by establishing a core-plus strategy and has identified broadband infrastructure as a particularly attractive opportunity. COVID-19 clearly demonstrates the strategic imperative of high-speed internet access. Cash strapped governments are seeking to broaden coverage of 1.0Gbps access and the predictability of returns on fibre projects is improving. JLG already has the fire power to execute this strategy: on top of £500m+ in available financial resources (as reported in November) it is yet to receive c £370m in disposal proceeds. Attracting third-party capital could further accelerate execution here and leverage the cost base.

Reducing renewable risks

JLG's last three financial reports have been marred by falls in its renewable asset valuations and further falls in power prices remains a risk in our view. However, after the sale of its Australian wind farm assets, renewables are a shrinking part of the portfolio (24% of portfolio value (PV) and 19% of NAV at Q3).

Financials: Targeting 9–12% returns in the medium term

It is too early to explicitly model the longer-term impact of the new strategy; renewables and the lack of investment in FY20 are likely to affect FY21 returns. Anticipating further (modest) adverse moves in power prices we lower our FY20e NAV per share forecast by 2p to 308p (a 6p decline in Q4). Our FY21 forecast of 312p (down 3p) implies 4.6% y-o-y growth on an underlying basis).

Valuation: Discount to peers despite recent re-rating

At 315p JLG's share price implies 1.02x FY20e NAV per share, a rating below both its two-year average (1.07x) and that of its nearest peers (1.16x). Recent newsflow has highlighted the strength of JLG's existing PPP franchise and seen confidence in its longer-term prospects return. As renewable exposure falls and it begins to execute on its new strategy, we believe there is scope for NAV growth to accelerate and the re-rating to continue.

Reset and refocus

In the three years following its IPO (2015–18), JLG managed to grow its NAV per share by 45%. However, in 2019 growth in NAV began to slow and turned negative for the first time in H120 as cuts to power prices (among other things) affected its renewable portfolio (see Reset and refocus). Underlying Q320 NAV per share, calculated by taking reported NAV per share (314p), adding back dividend payments (+8p) and stripping out the net benefit of pension and FX movements (-7p), was 315p, down 6.5% year-to-date (see Steady as she goes).

Ben Loomes arrived as CEO in May 2020 to sharpen the investment focus and laid out his new strategy at the capital markets day in November 2020. The company will target sustainable returns of 9–12% in the medium term. It will continue to focus on originating, investing and managing greenfield infrastructure, seeking to create value from the 'yield shift' as it de-risks projects and businesses. The main changes were:

1. The PPP franchise will focus on the US, Colombia and Australia. It will no longer focus on the UK and European PPP market and it has substantially reduced costs here. It will also target adjacent 'PPP-like' greenfield opportunities that it believes can accelerate growth and leverage the existing platform.
2. The company aims to accelerate growth by establishing a core-plus strategy and has identified broadband infrastructure as a particularly attractive opportunity.
3. It will seek to enhance operational and balance sheet efficiency through a combination of cost savings (it is targeting £6m pa or 15% of total headcount, which will be partially reinvested in core-plus), taking larger stakes and attracting third-party capital.

JLG is already beginning to execute on this strategy. The sale of Australian wind farm assets for £157m (gross) further trims its renewable exposure (see Sale of Australian wind farm assets), it raised its stakes in the I-77 and Clarence Correctional Centre projects (US and Australia respectively) and acquired a 21% stake in the Pacifico 2 PPP project in Colombia (total investments of £74m). JLG already has the financial fire power to execute its new strategy. It reported available financial resources of more than £500m in November. Even reflecting recent investments, with the cash from second tranche IEP East and Australian wind farm sales still to be received (c £370m) we estimate it will effectively have over £815m available by the end of 2021.

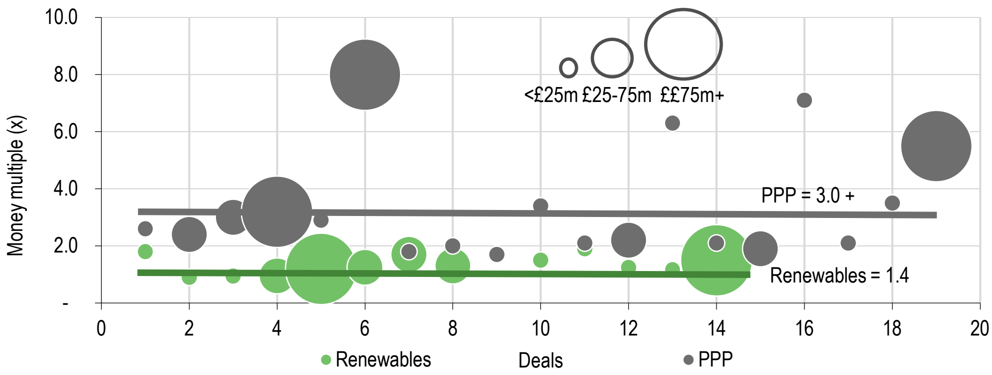
This note sets out, in broad terms, the rationale for JLG's strategic shift and assesses the potential opportunity. It focuses on three topics in particular:

- the evolution of the PPP platform;
- the core-plus strategy: focusing on the potential opportunities in digital infrastructure; and
- reducing renewable risks.

Building on its successful PPP platform

JLG's core PPP business (78% of portfolio value at Q320) is in good shape. Since IPO it has achieved a money multiple of more than 3.0x on its investments here (compared to just 1.4x for its renewable business). The disposal of its 30% stake in the IEP East project for up to £421m, a money multiple of over 5.8x and a 22% premium to its June 2020 valuation, while an outlier, illustrates the potential for value creation (see Exhibit 1). With JLG only having a modest exposure to volume-based assets (11% of the total portfolio, 15% of PPP), COVID-19 has had a limited impact on valuations so far.

Exhibit 1: Realised money multiples in JLG's PPP portfolio since IPO



Source: Company data.

JLG's approach in this segment is unlikely to change dramatically. However, following the IEP disposal, we estimate the combined value of its remaining six PPP investments in UK and Europe is c £110m (just 9% of its PPP portfolio value at Q3). The market is also shrinking. The volume of deals is declining and competition is squeezing returns. In light of this, JLG is reducing investment and cutting resources. The majority of the £6m in annualised cost savings will come from downsizing its European PPP business.

Future PPP investment will focus on the US, Colombia and Australia, markets where JLG has a strong position already and there is some growth potential. Chronic underinvestment in US infrastructure (across multiple asset classes) has long been acknowledged but a new president, with control of the senate and a mandate to 'build back better' from COVID-19, could finally pass a stimulus package that addresses this. The American Society of Civil Engineers estimates that the current rate of investment in road and rail transportation ($1tn pa) needs to double.

JLG has a focus on transport (82% of its PPP portfolio H120) and a particularly strong position in road projects and the US in particular. It is the market leader in the US and has been shortlisted for every major transport PPP since entering the market in 2014. 'Managed lane' projects in North Carolina I-77 and Virginia I-66 are going well and in November 2020 it increased its stake in I-77 to 17.45%. Since June 2020 JLG has been short-listed for an additional four transport projects in North America: the SR-400 highway in Atlanta (Georgia), Phase 1 of the I-495 and I-270 programme in Maryland (the largest Managed Lanes project in the US), the Ontario Line (Canada) and Potrero Yard (redevelopment of a bus storage and maintenance facility). These projects, plus the Aloha (social infrastructure) project and the existing short-listed positions with the Jefferson Parkway toll road and Sepulveda Transit Corridor bring the number of PPP projects for which JLG is short-listed in North America to seven (see Exhibit 2).

The company has recently been announced as one of two consortia moving forward on the Sepulveda project and could also hear back on the Maryland project in the near term. There is no guarantee that it will be selected of course, but wins here would clearly further highlight the strength of its position in this market and enable the execution of its new strategy to be accelerated. The size of the Maryland project may require JLG to raise additional capital to manage concentration risk within the overall portfolio.

Exhibit 2: North America PPP portfolio and pipeline is driven by transport projects

Name	Classification	Stake (%)	Income	Status	Value (£m) at Jun-20*	Comments
Total North America portfolio					463	
Live Oak wind farm	Wind farm	75			90	Midpoint of £85–95m range
Cypress Creek	Solar	100			63**	Implied from total NA PPP est. below
PPP					310**	'Around two-thirds of NA total'
North America PPP portfolio						
Denver Eagle P3	Rail lines and rolling stock	45	Availability	Secondary	95	Midpoint of £90–100m range
I-66 (Virginia)	Road – managed lanes	10	Volume	Primary	65	Midpoint of £60–70m range
I-4 Ultimate (Florida)	Road – construction	50	Availability	Primary	55	Midpoint of £50–60m range
I-77 (North Carolina)	Road – managed lanes	10	Volume	Secondary	CS	Commercially sensitive
I-75	Road – construction	40	Availability	Primary	?	Total value of four undisclosed projects at June 2020 was £95m. Implying £24m per project average
MBTA Automated Fare Coll. Sys.		90		Primary	?	
Hurontario	Light rail	40		Primary	?	
North America PPP pipeline						**Estimated financial close**
Aloha	Social infrastructure		Availability	Short listed		H221
Jefferson Parkway	Road		Volume	Short listed		Q321
Georgia SR-400 Express Lanes	Road		Availability	Short listed		Q421
I-495 & I-270 P3 project Phase 1	Road		Volume	Short listed		Q322
Ontario Line	Op & maint. Metro system		Availability	Short listed		??
Potrero	Public trans. (bus)/housing		Availability	Short listed		??
Sepulveda	Transit		Availability	Short listed		Q224

Source: Edison Investment Research and company data. Note: *Based on company disclosure, which typically states valuation in a range. **Estimated valuations based on method shown in the comments column. At its interims, JLG stated PPP is two-thirds of the value of its North American portfolio.

Transport is also a significant opportunity in Colombia. At Q320 Colombia (Latin America) accounted for just c 4% of the PPP portfolio, but JLG has seven full-time employees based in Bogota and is looking to expand. The Ruta del Cacao project (30% stake, valued at £60–70m in June 2020) is progressing well with construction more than 55% complete and in January 2021 it acquired a 21% stake in Pacifico 2, an existing availability-based PPP road project, for £32m. Acquisition of a stake in an existing PPP project highlights JLG's ability to access opportunities outside the normal PPP pipeline where it believes there is an excellent opportunity to create value.

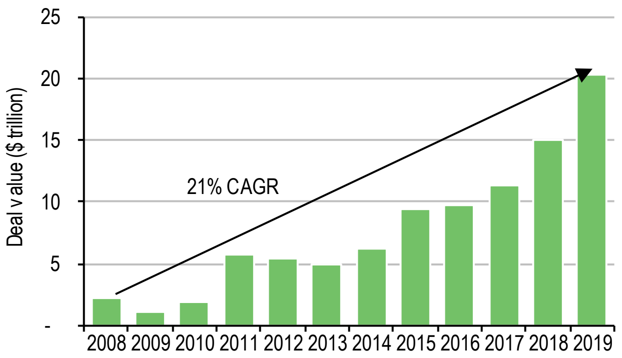
The opportunity in Colombia is not just about roads. In May 2020, its government published its US$9bn 5G investment programme outlining 22 infrastructure projects that it intends to award, 10 of which were outside the transport sector.

JLG is also aiming to accelerate growth and leverage its PPP platform by targeting 'PPP-like' opportunities, greenfield projects in adjacent sectors, where the counterparty can be either the public sector (but not a formal PPP contract) or a highly rated private institution. It has already identified a range of sectors: waste-to-energy, campus energy, specialised accommodation, water and decarbonisation of transport.

The core-plus strategy

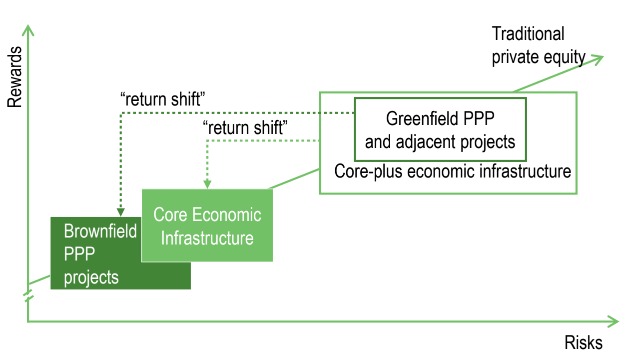
While the PPP market generates attractive returns, JLG admits that, by itself, PPP is unlikely to deliver sufficient growth and scale. It believes that establishing an additional core-plus strategy can deliver both. It estimates that the value of core-plus deals in 2019 was c $20tn globally and has grown at 21% pa since 2009 (Exhibit 3). Historically, core-plus has been considered higher risk as the counterparty is typically a corporate rather than a government and the income is volume, rather than availability, driven. However, JLG believes that, particularly in developed markets, many of the assets underpinning these investments are (or will be) considered 'core' economic infrastructure and are therefore actually relatively low risk (Exhibit 4). It believes this segment can also generate high returns. It is targeting core-plus returns (annual income plus portfolio value growth) of 10–14%.

Exhibit 3: Core-plus is a large and growing opportunity



Source: Company data (based on capital markets day slide 50)

Exhibit 4: Return shift in non-core and PPP strategies



Source: Company data (based on capital markets day slide 13).

Digital infrastructure

JLG has identified digital infrastructure as a particularly attractive opportunity. It is widely accepted (eg the National Infrastructure Commission) that sustaining a competitive developed economy in the 21st century will require extending high-speed access to the internet for businesses and communities alike. COVID-19 has further highlighted the strategic imperative of digital infrastructure and is accelerating the shift of many activities online. Increasingly network infrastructure is considered 'core' economic infrastructure, thereby arguably justifying a lower risk profile.

In many countries, the strategic need to expand internet access is already reflected in legislation and targets. Policymakers are increasingly defining the threshold for fixed-line access speeds as 1.0Gbps, speeds only deliverable with fibre-to-the-premise (FTTP) or cable with DOCSIS 3.1 technology (traditional xDSL technology over copper is typically limited to c 0.3Gbps and has much lower capacity). The EU's Gigabit Society initiative aims to give households download speeds of at least 0.1Gbps, upgradable to 1.0Gbps by 2025. Coverage of Gbps capable networks stood at 44% in 2019 (see Exhibit 5). In the UK, FTTP coverage is 14% and 'ultrafast' (defined as 0.3Mbt/s+ and including cable) is at 57%. The UK government has set an ambition to make 1.0Gbps available to 85% of homes by 2025 and introduced legislation to accelerate deployment. The US and Japan intend to use 5G and G.fast rather than FTTP, but many developing economies (eg the Philippines, Brazil and India) also have ambitious targets to extend FTTP coverage.

Delivering on these initiatives will require funding and this is where infrastructure investors could play a role. Traditionally, telecoms operators have funded these rollouts, but as they look to build out to locations with fewer potential customers, the economics become ever more challenging. In the UK, BT has committed to invest £12bn in upgrading its network, but has admitted it is only likely to achieve 70% coverage by 2025. The government has pledged £5bn to extend coverage, an amount that has been described by the National Audit Office as 'ludicrously optimistic'. Across Europe, rural coverage of Gbps networks is just 20%. The cost of reaching 100% in Europe was estimated (in 2017) at more than €150bn and many countries look set to miss their targets.

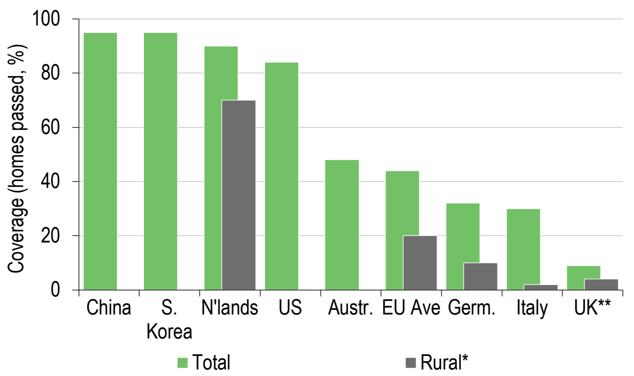
Alternative network operators (altnets) are looking to deploy FTTP selectively where there is a commercial opportunity or funding to address the shortfall. In the UK companies such as CityFibre, Community Fibre, G.Network, Hyperoptic and ZZoomm have received funding from financial investors (including Goldman Sachs, KKR and Warburg Pincus) to accelerate deployment. The conditions and complexity of each build vary, but with take-up (connections vs homes passed) typically reaching 40% and still rising (see Exhibit 6), the economics of these investments are increasingly predictable. Energy companies, with access to existing ducts, also have opportunities here.

These investment plans are compounding the pressure on incumbent operators to accelerate deployment. Many are constrained by high levels of debt, dividend obligations and the need to fund 5G rollouts. Consequently, they have been forced to consider the ownership structure of their fixed network assets (joint ventures, functional separation or demerger). This split of infrastructure and service provision is already an established model in the wireless market, where tower companies often deploy, own and run shared mast infrastructure for mobile operators. As managing director of 3i's infrastructure fund, Ben Loomes invested in Wireless Infrastructure Group (WIG), the leading towers business in the UK (sold in 2019 for £387m, a 27% internal rate of return).

In our view, securing first mover advantage is key to delivering returns on a fibre network investment. Building a network and selling capacity on a long-term wholesale basis to competing service providers typically creates a predictable income stream and reduces the incentive for potential rivals to overbuild. Overcapacity, fuelled by excess capital in the dotcom boom, led to many of the original business-focused fibre deployments declaring bankruptcy or requiring recapitalisation.

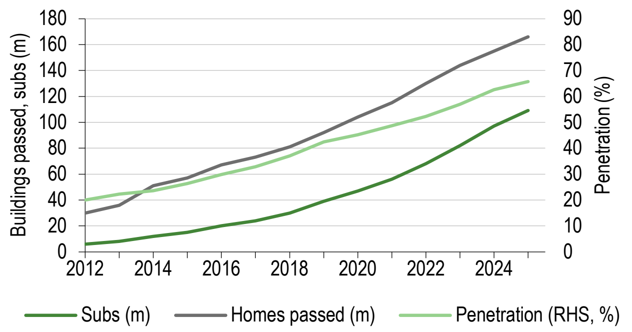
Aside from the rewards offered by substantial investment in consumer fibre, the B2B segment could also prove attractive. Approximately 13% of 3i's current portfolio (c £210m) is invested in 'communications', predominantly a 50% stake in Tampnet, a fibre-based network provider focused on subsea connectivity to oil and gas companies.

Exhibit 5: Penetration of 1.0Gbps deployment in 2019 across selected countries



Source: European data from *Broadband coverage in Europe 2019* study from EU. Note: *Total and rural estimated for mid-2019. **UK based on FTTH deployment – DOCSIS 3.1 was not available at this point. Other data from various regulatory sources.

Exhibit 6: Rising penetration of building passed by FTTH/B* in Europe



Source: Edison Investment Research based on IDATE data for the FTTH Council Europe. Note: *FTTB = fibre to the building.

JLG believes that, in general, this mid-market economic infrastructure space is underserved. Following recent record capital raising many of the funds that typically address it have become much larger and consequently are focused on bigger projects. JLG, with substantial financial resources at its disposal, potentially bolstered by third-party capital, is very well positioned to address these projects.

Potential financial impacts of the shift to core plus

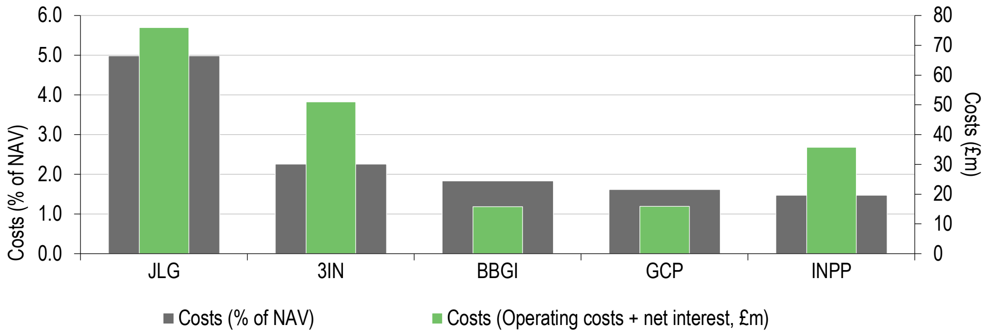
It is too early to explicitly model the impact of a shift to core-plus. However, it is possible to highlight a number of metrics that could be affected:

- **The ability to scale:** the combination of a faster growing end-market (see Exhibit 3), larger ticket sizes and the use of third-party capital should enable JLG to scale up the level of investment quickly.
- **Operating costs:** diversification into core-plus will require building experienced teams. Largely due to the need to actively manage its greenfield projects, JLG's cost base (2.9% of NAV, 5% including net interest) is already relatively high versus its peers (see Exhibit 7) and we believe

that its core-plus strategy can be funded by the savings in renewables and PPP in the UK and Europe. However, over time the growth and the shift towards bigger tickets should help improve operating efficiencies.

- **Rising discount rates:** due to its greenfield focus JLG's weighted average discount rate (WADR) has historically sat above its closest peers focusing on core PPP infrastructure. Like its peers, its WADR has declined modestly over the last five years as the risk-free rate has fallen. A shift into core-plus could see the WADR begin to increase again.
- **Cash cover for the dividend:** many core-plus assets are already yielding and therefore could potentially improve the balance between capital gain and yield and help cover the cost base.
- **New funding options:** while JLG currently has substantial financial fire power to execute its core-plus strategy the current model links investment to realisations and is constrained by commitments to return 5–10% of gross proceeds and maintain cash flow to cover existing dividends. The company has indicated that some core-plus projects (as well as some of the road projects in the US) are potentially big-ticket items where a single investment could skew the balance of the portfolio. Accelerating the diversification into core-plus is therefore likely to need additional, potentially dedicated third-party capital. Increasing scale attracting third-party capital could improve cost-efficiency and give JLG a way of adding new investment strategies.

Exhibit 7: Operating costs vs peers



Source: Edison Investment Research based on company data

Reduced renewable risk

JLG's last three financial reports have been marred by cuts to its renewable asset valuations (a 24p impact on NAV per share in H119, 7p in H219 and 29p in H120). While Q3 performance was stable many investors remain concerned that there is more bad news to come here. Long-term forecasts for electricity prices, a central assumption behind the discounted cash flows (DCFs) underpinning these valuations, continue to decline. These declines partially reflect lower post COVID-19 demand for electricity, but also the rising penetration of (ever-cheaper) renewable generation on the grid (see Exhibit 8).

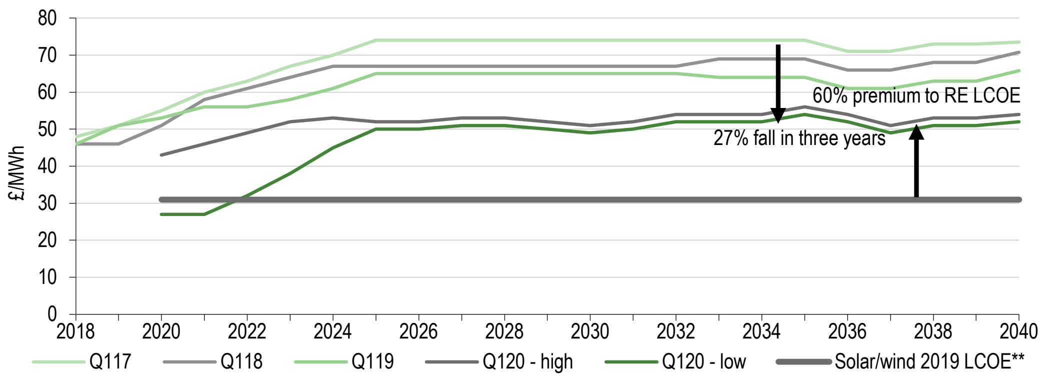
In the candid assessment of new management, these market issues have been compounded by poor execution by JLG historically. In comparison to its peers, a relatively modest proportion of its renewable cash flow is covered by purchase power agreements (PPAs). In Australia, JLG's Sunraysia project struggled to get connectivity and the company failed to anticipate regulatory rulings on marginal loss factors, which calculate losses on transmission and can erode income forecasts.

In our view, downside risks to renewable valuations from a further cut to power price forecasts remain. While the pace of cost declines in wind have abated slightly according to the International Renewable Energy Agency (IRENA), the rate of price declines in solar continues. COVID-19 related shifts in demand have increased price volatility, making forecasting even more hazardous than normal. In June 2020 JLG calculated that the sensitivity of its NAV per share to a 5% cut in power price forecasts was 7p (2%).

Nevertheless, the overall risk to group NAV from renewables is clearly diminishing as:

- Renewables are a shrinking part of the portfolio: following the announced sale of Australian wind farm assets, they account for just 24% of portfolio value and 19% of total NAV. Re-running the sensitivity analysis published in June on this lower exposure suggests that a 5% cut in prices would reduce NAV by just 4.5p (1% of the total).
- NAV has been reset to a lower base: while difficult to verify externally, after several missteps over the last few years we believe a new management team is likely to have applied more cautious assumptions to value its residual portfolio. The sale of the Australian wind farm assets for a 'small uplift' should provide some reassurance that valuations are now more conservative.
- Renewed focus on execution: with the sale of wind farm assets, JLG can focus on fixing the remaining operational issues in Australia and, where possible, securing new or extended PPAs.

Exhibit 8: UK power price forecasts showing consistent falls over the last three years and the impact of COVID-19* – falling renewable LCOE suggests scope for further falls over time



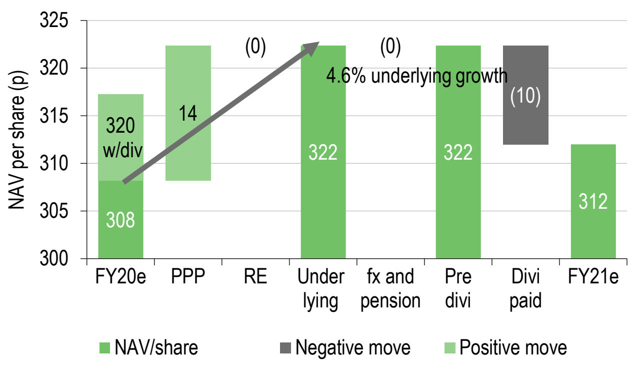
Source: Edison Investment Research. Note: *Data adapted from FSFL based on the UK. JLG has no UK renewable assets but similar trends have been observed in the US (see www.ussolarfund.co.uk/sites/default/files/200916_usf_presentation_30_june_2020_results_final.pdf, slide 22) and the EU www.greencoat-renewables.com/~/media/Files/G/Greencoat-Renewables/documents/reports-publications/2020/GRP%20Interim%20Results%20Presentation%20-%20WEBSITE.pdf slide 21.
**Solar/wind levelised cost of energy (LCOE) is based on 2019 costs and assumptions consistent with the US market from Lazard and is typically falling 5–10% annually.

Financials

In Steady as she goes, we raised our FY20 NAV per share forecast to 310p to reflect JLG's Q3 trading statement. Noting comments from JLEN Environmental Assets Group in November that pressure on power forecasts remains, and reflecting the cost savings and recent transactions, we lower our FY20e NAV per share forecast by 2p to 308p. This implies a 6p decline in Q4 that primarily reflects P&L charges and the interim dividend payment.

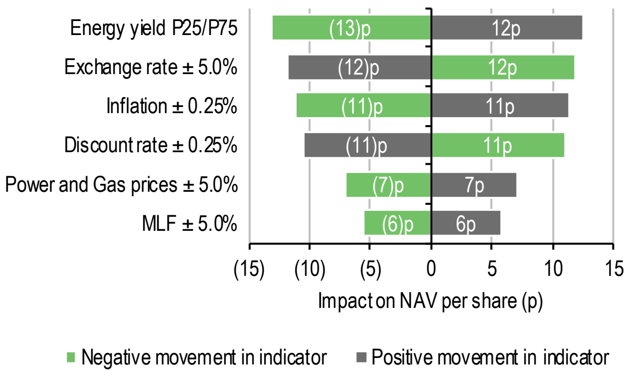
We lower our FY21 NAV per share forecast by 3p to 312p. Our forecast implies 4.6% y-o-y growth on an underlying (ie pre-dividend) basis. Returns in FY21 are likely to be affected by a further drag from renewables and the limited investment in FY20 (less scope for value enhancements). It is too early to explicitly model the longer-term impact of the shift to core-plus in our forecasts.

Exhibit 9: NAV per share progression in FY21e



Source: Edison Investment Research

Exhibit 10: Sensitivity analysis (based on June 2020)



Source: Edison Investment Research. Note: MLF = marginal loss factor.

Exhibit 11: Key financial parameters

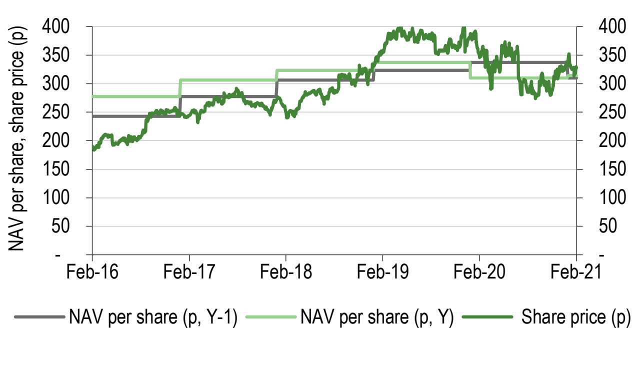
	2018	2019	2020e	2021e
Investments (£m)	342	267	47	140
Realisations (£m)	296	143	290	400
DPS (pence)	9.5	9.5	9.1	10.3
Headline NAV/share (pence)	323	337	308	312
NAV/share before dividends deducted (pence)	332	347	318	321
Year-end NAV (£m)	1,586	1,658	1,537	1,558
Year-end portfolio value (£m)	1,560	1,768	1,550	1,339
Fair value movement in year (£m)	354	141	82	87
– of which discount unwind & reduction of construction risk premia	141	183	158	136
– of which value uplift on financial closes	43	31	30	8
– of which value enhancements	79	157	30	23
– of which FX	10	(57)	38	11
– of which other	81	(173)	(174)	(92)

Source: Company data, Edison Investment Research estimates

Valuation

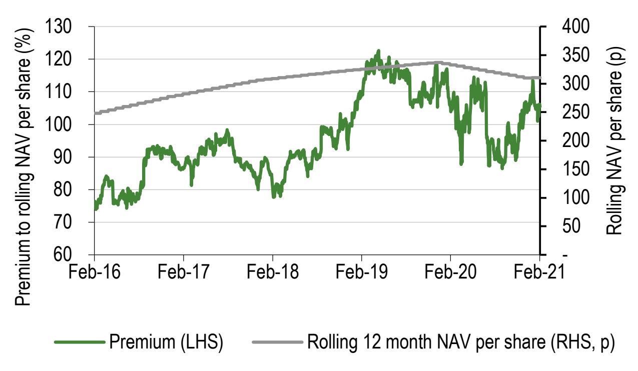
Over the last five years JLG's shares have performed well overall. The price has risen 66% (125p), primarily driven by a 43% (93p) rise in NAV per share (see Exhibit 12). Adding this to dividends over the period (45p), the total return is 90% (170p) or 14% on an average annualised basis. However, for much of the last two years the shares have struggled. Coupled with wider macro concerns including COVID-19, downward revisions to the value of the renewable portfolio have affected both NAV and the rating.

Exhibit 12: Five-year share price vs NAV per share (current (Y) and last reported (Y-1))



Source: Company data, Refinitiv

Exhibit 13: Five-year premium to rolling NAV per share (%) and rolling NAV per share (p)



Source: Company data, Refinitiv

The last six months have seen the shares recover some of the lost ground (up 10%). While this recovery should not be attributed to the arrival of the new CEO exclusively (the promise of a COVID-19 vaccine certainly helped), confidence about the longer-term strategy has seen JLG outperform its nearest peers. The Q3 trading statement saw a stabilisation in NAV, with recent newsflow (the sale of IEP, the analyst day and a string of new shortlisted positions) highlighting the strength of its existing PPP franchise, the scope for improved execution and suggest deal activity has picked up.

At 315p JLG's current share price implies 1.00x Q320 NAV per share (1.02x FY20e), a rating marginally below the two-year average (1.07x) but well below the c 1.16x at which its nearest renewable and infrastructure peers trade (Exhibit 14). This modest discount may reflect the risk of further downward revisions to JLG's renewable portfolio and the relatively low dividend payout (in the absence of NAV per share growth, many of its peers offer better yields). Completing its exit from renewables, growing confidence in the new strategy and converting the lengthening list of short-listed positions could drive a further re-rating and close this discount.

Exhibit 14: Premium/discount vs last reported NAV per share vs peers (%)

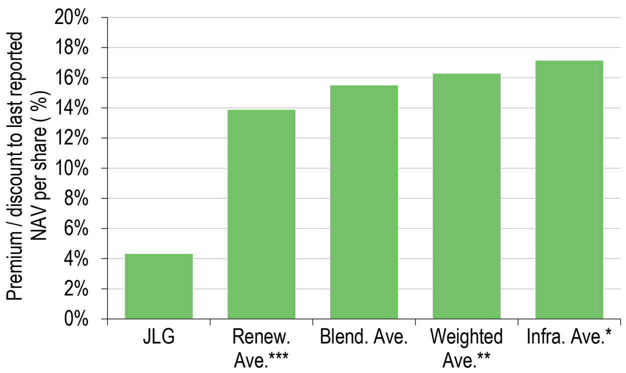
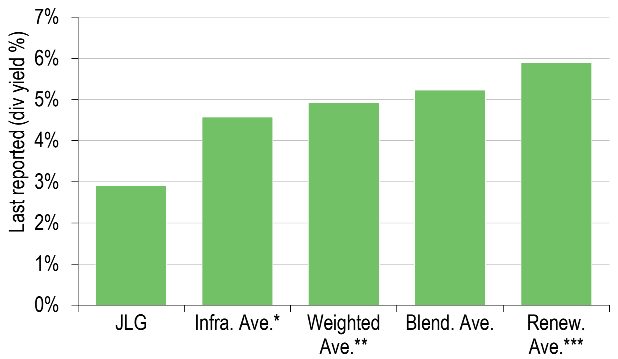


Exhibit 15: Historical dividend yield vs peers



Source: Edison Investment Research based on company data. Note: *Infrastructure funds: 3i Infrastructure, Bilfinger Berger Global, GCP Infrastructure Investments, HICL Infrastructure, International Public Partnerships. **Based on 26% renewables, 74% other infrastructure. ***Renewable funds: Bluefield Solar Income Fund, Foresight Solar Fund, Greencoat UK Wind, John Laing Environmental Assets, NextEnergy Solar, The Renewables Infrastructure Group.

Exhibit 16: Financial summary

Accounts: IFRS, year-end: December, £m	2017	2018	2019	2020e	2021e
TOTAL REVENUES	196.7	397.0	179.0	89.5	98.5
Cost of sales	0.0	0.0	0.0	0.0	0.0
Gross profit	196.7	397.0	179.0	90.1	98.5
SG&A (expenses)	(58.9)	(66.0)	(68.0)	(70.0)	(62.0)
Other income/(expense)	0.0	(21.0)	0.0	(5.0)	0.0
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0
Reported EBIT	137.8	310.0	111.0	15.1	36.5
Finance income/(expense)	(11.8)	(14.0)	(11.0)	(15.2)	(13.5)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Reported PBT	126.0	296.0	100.0	(0.0)	23.0
Income tax expense (includes exceptionals)	1.5	0.0	0.0	0.0	0.0
Reported net income	127.5	296.0	100.0	(0.0)	23.0
Basic average number of shares, m	367.0	466.9	491.1	492.7	494.4
Adjusted EPS (p)	31.9	63.1	20.4	(0.0)	4.6
EBITDA	137.8	331.0	111.0	20.1	36.5
Adjusted NAV (p/share)	281	323	337	308	312
Adjusted total DPS (p)	8.9	9.5	9.5	9.1	10.3
BALANCE SHEET					
Property, plant and equipment	0.1	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other non-current assets	1,346.9	1,700.0	1,914.0	1,746.3	1,535.1
Total non-current assets	1,347.0	1,700.0	1,914.0	1,746.3	1,535.1
Cash and equivalents	2.5	6.0	2.0	365.2	555.2
Inventories	0.0	0.0	0.0	0.0	0.0
Trade and other receivables	7.6	8.0	6.0	6.0	6.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	10.1	14.0	8.0	371.2	561.2
Non-current loans and borrowings	0.0	0.0	4.0	4.0	4.0
Trade and other payables	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	41.3	42.0	9.0	16.0	14.0
Total non-current liabilities	41.3	42.0	13.0	35.0	13.0
Trade and other payables	17.3	20.0	15.0	15.0	15.0
Current loans and borrowings	173.2	66.0	236.0	515.0	515.0
Other current liabilities	1.4	0.0	0.0	15.0	(5.0)
Total current liabilities	191.9	86.0	251.0	545.0	525.0
Equity attributable to company	1,123.9	1,586.0	1,658.0	1,586.0	1,633.4
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
CASH FLOW STATEMENT					
Profit before tax	126.0	310.0	111.0	20.1	36.5
Net finance expenses	11.8	0.0	0.0	0.0	0.0
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0
Share based payments	3.0	3.0	4.0	0.0	0.0
Fair value and other adjustments	(189.7)	(369.0)	(174.0)	(111.4)	(112.2)
Movements in working capital	1.6	2.0	(2.0)	(0.7)	1.1
Cash from operations (CFO)	(47.3)	(54.0)	(61.0)	(92.0)	(74.6)
Capex	(0.1)	0.0	0.0	(0.1)	(0.1)
Cash transf. from inv. Held at FV	(1.7)	58.0	74.0	0.0	37.7
Portfolio Investments - Disposals	79.1	(46.0)	(124.0)	243.0	260.0
Cash used in investing activities (CFIA)	77.3	12.0	(50.0)	242.9	297.6
Net proceeds from issue of shares	0.0	210.0	(4.0)	0.0	0.0
Movements in debt	11.0	(106.0)	169.0	279.0	0.0
Other financing activities	(40.1)	(59.0)	(58.0)	(51.6)	(58.8)
Cash from financing activities (CFF)	(29.1)	45.0	107.0	212.3	(33.1)
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0
Increase/(decrease) in cash and equivalents	0.9	3.0	(4.0)	363.2	190.0
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0
Cash and equivalents at end of period	2.5	5.5	2.0	365.2	555.2
Net (debt)/cash	(170.7)	(60.0)	(238.0)	(153.8)	36.2
Movement in net (debt)/cash over period	(10.9)	110.7	(178.0)	84.2	190.0

Source: Company data, Edison Investment Research

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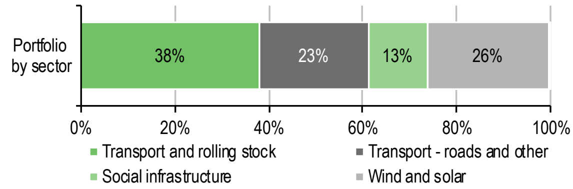
Investment portfolio by sector (June 2020)



Management team

Chairman: Will Samuel

Will Samuel joined JLG in December 2017 and became chairman in May 2018. He is also chairman of Tilney Group and was previously chairman of TSB Bank, Howdens Joinery Group, Ecclesiastical Insurance Group and HP Bulmer. Mr Samuel has also served as a director of Schroders and was co-chief executive officer at Schroder Salomon Smith Barney. He is also a fellow of the Institute of Chartered Accountants in England and Wales

CEO: Ben Loomes

Ben Loomes was appointed CEO in May 2020. He has 20 years of experience in the infrastructure sector across investing, fund management, fund-raising and corporate finance. Prior to JLG, Ben was head of infrastructure at InfraRed Capital Partners. Prior to this, he was managing partner of 3i Group's infrastructure. During his time at 3i, he managed around £2bn of investments across the transport, energy, utilities, telecommunications and social infrastructure sectors.

CFO: Rob Memmott

Rob was appointed as CFO in January 2021. He has considerable CFO experience, having served in that role most recently at Praetura Group (a privately owned financial services business), at publicly listed Arrow Global between 2011 and 2018 and at Leeds Bradford Airport. At Arrow he led the business through its IPO, and was responsible for an international balance sheet, fund-raising and investor relations.

Principal shareholders (updated in Q4)	(%)
Standard Life	10.9
Fidelity	8.0
Schroders	5.7
Baillie Gifford	5.6
SFM UK Management	5.0
JPMorgan	5.0

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