

John Laing Group

Underlying market strength

Pre-close update

Investment companies

13 December 2019

Price 355.0p
Market cap £1,750m

Available financial resource (£m) at 30 June 2019	458
Shares in issue	493.0m
Free float	99%
Code	JLG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.9)	(0.5)	15.1
Rel (local)	(1.3)	(0.4)	7.3
52-week high/low	402.0p	313.4p	

Business description

John Laing 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

FY19 results	March 2020
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John Laing Group (JLG) believes it remains on track to meet its targets for investment commitments and realisations for 2019–21, despite the run rate being below the level required to achieve this in 2019 to date. However, the adverse impact from exchange rates and reduced power price forecasts has led us to reduce our FY19e NAV per share from 353p to 343p. JLG's share price now stands at c 9% premium to its last disclosed NAV per share, broadly in line with its peers. A continuation of the rapid growth achieved in recent years should help underpin further share price appreciation.

Year end	NAV (p)	EPS* (p)	DPS (p)	P/NAV (x)	P/E (x)	Yield (%)
12/17	281	31.9	8.9	1.3	11.1	2.5
12/18	323	63.1	9.5	1.1	5.6	2.7
12/19e	343	30.9	8.3	1.0	11.5	2.3
12/20e	383	49.5	11.2	0.9	7.2	3.2

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

Adverse FX and power price impact on NAV

JLG's trading update stated the underlying health of the business remains strong, both in terms of PPP project delivery and ongoing value enhancements. However, JLG expects negative impacts from the strength in sterling in H2 (£50m – 10p share), a decline in power price forecasts (c £40m – 8p share) and changes in macroeconomic and tax assumptions (c £7m – 1p share) to lead to an FY19 NAV per share for the full year 'before the impact of foreign exchange...to be marginally below market expectations'. Market consensus for NAV per share before the announcement was 355p (Edison: 353p/share). To reflect these trends, we have revised our NAV per share for FY19 to 343p.

JLG maintains investment and realisation targets

Investment commitments for 2019 (year to date) amount to £157m, while realisations have totalled £132m. Although investment commitments and realisations are below the rate implied by JLG's guidance, the company is confident it remains on track to meet its target for investment commitments of c £1.0bn over the three-year period 2019–21 and for realisations to be broadly in line with investment commitments. We have reduced our forecasts for cash investments and realisations for FY19 to £200m (but increased longer-term estimates) and, as a result, have reduced the special element of the DPS for FY19, reducing our overall DPS forecast to 8.3p, but increasing FY20e to 11.2p.

Valuation: c 10% premium to last reported NAV

At 355p (the closing price on 12 December), the share price is at a premium of c 9% to its last reported NAV per share (325p on 30 June 2019). The premium is now broadly in line peer group averages (c 12%). To achieve further share price appreciation, JLG will need to continue its strong record of NAV per share growth (CAGR of 15.8% 2014–18 including dividends paid) by exploiting the significant opportunities for infrastructure investment.

Exhibit 1: Financial summary

Accounts: IFRS, Yr end: December, GBP: Millions	2017A	2018A	2019E	2020E	2021E
Total revenues	196.7	397.4	228.8	329.7	351.2
Cost of sales	0.0	0.0	0.0	0.0	0.0
Gross profit	196.7	397.4	228.8	329.7	351.2
SG&A (expenses)	(58.6)	(65.6)	(64.9)	(66.2)	(67.5)
Other income/(expense)	0.0	(21.3)	0.0	0.0	0.0
Depreciation and amortisation	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Reported EBIT	137.8	310.5	163.9	263.5	283.7
Finance income/(expense)	(11.8)	(13.9)	(12.4)	(16.6)	(13.9)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Reported PBT	126.0	296.6	151.5	246.9	269.7
Income tax expense (includes exceptionals)	1.5	(0.3)	(0.2)	(0.2)	(0.3)
Reported net income	127.5	296.3	151.4	246.7	269.5
Basic average number of shares, m	367.0	466.9	491.9	493.5	494.4
Adjusted EPS (p/share)	31.9	63.1	30.9	49.5	54.0
EBITDA	138.1	331.9	164.0	263.6	283.8
Adjusted NAV (p/share)	281	323	343	383	425
Adjusted Total DPS (p/share)	8.9	9.5	8.3	11.2	11.2
Balance sheet					
Property, plant and equipment	0.1	0.1	0.1	0.1	0.1
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	1,700.5	1,865.7	2,148.1	2,447.1
Total non-current assets	1,347.0	1,700.6	1,865.8	2,148.2	2,447.2
Cash and equivalents	2.5	5.7	2.0	2.0	2.0
Inventories	0.0	0.0	0.0	0.0	0.0
Trade and other receivables	7.6	7.9	6.3	9.0	9.6
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	10.1	13.6	8.3	11.0	11.6
Non-current loans and borrowings	0.0	0.0	79.0	129.0	179.0
Trade and other payables	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	41.3	41.6	9.0	9.0	9.0
Total non-current liabilities	41.3	41.6	88.0	138.0	188.0
Trade and other payables	17.3	20.0	17.3	17.3	17.3
Current loans and borrowings	173.2	65.7	77.2	109.7	148.4
Other current liabilities	1.4	0.4	1.4	1.4	1.4
Total current liabilities	191.9	86.1	95.9	128.4	167.1
Equity attributable to company	1,123.9	1,586.5	1,690.2	1,892.9	2,103.7
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Cashflow statement					
Profit before tax	126.0	296.6	151.5	246.9	269.7
Net finance expenses	11.8	13.9	12.4	16.6	13.9
Depreciation and amortisation	0.3	0.1	0.1	0.1	0.1
Share based payments	3.2	2.7	0.0	0.0	0.0
Fair value and other adjustments	(270.6)	(323.7)	(228.2)	(342.6)	(364.9)
Movements in working capital	2.9	2.5	(18.3)	(3.1)	(3.6)
Cash from operations (CFO)	(126.4)	(7.9)	(82.6)	(82.4)	(85.0)
Capex	(0.1)	0.0	(0.1)	(0.1)	(0.1)
Cash transf. from inv. Held at FV	77.4	12.4	52.6	60.6	68.9
Portfolio Investments - Disposals	79.1	(46.0)	0.0	0.0	0.0
Cash used in investing activities (CFIA)	156.4	(33.6)	52.5	60.5	68.8
Net proceeds from issue of shares	0.0	210.5	0.0	0.0	0.0
Movements in debt	11.0	(106.5)	86.5	82.5	88.7
Other financing activities	(40.1)	(59.3)	(60.1)	(60.6)	(72.5)
Cash from financing activities (CFF)	(29.1)	44.7	26.4	21.9	16.2
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0
Increase/(decrease) in cash and equivalents	0.9	3.2	(3.7)	0.0	0.0
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0
Cash and equivalents at end of period	2.5	5.7	2.0	2.0	2.0
Net (debt) cash	(170.7)	(60.0)	(154.2)	(236.7)	(325.4)
Movement in net (debt) cash over period	(10.9)	110.7	(94.2)	(82.5)	(88.7)

Source: Company accounts, Edison Investment Research

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