

# John Laing Group

## Investments markets remain strong

John Laing Group's (JLG) pre-close statement maintained guidance for FY18 investment commitments and realisations at £250m. The investment pipeline and the market for secondary assets are reported to be "strong" and the portfolio continues to become increasingly diversified geographically. With a strong market background and the financial strength to exploit market opportunities, we see scope for JLG to close the valuation gap to NAV and its peers.

Year end	NAV (p)	EPS* (p)	DPS** (p)	P/NAV (x)	P/E (x)	Yield (%)
12/17	281	31.9	8.9	1.0	8.6	3.2
12/18e	303	40.6	9.2	0.9	6.8	3.4
12/19e	338	44.4	9.4	0.8	6.2	3.4

Note: \*EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*DPS includes interim, final and special payments. The figures have been adjusted to reflect the impact of the rights issue.

## Guidance maintained

JLG's pre-close statement maintained guidance for FY18 investment commitments and realisations at £250m. Realisations are well on the way to achieving this total and have so far totalled £241.5m (including £232.0m for IEP Phase 1). Commitments have been running at a slower pace in H1, but JLG maintains a strong investment pipeline and expects a pick-up in H2. Encouragingly, the market for secondary assets also remains strong. The deficit on the pension fund (according to IAS19), which stood £35.2m at the year-end, had moved to a surplus of £19.8m by 31 May 2018, thanks to a reduction in the discount rate used (linked to yield on corporate bonds) and a contribution of £26.5m (Edison FY18e: -£7.4m). Future contributions, which are based on the actuarial deficit and are currently scheduled to run at a similar level over the next few years, will only be revisited in light of the next actuarial valuation due next March. Our forecasts remain unchanged.

## Continued internationalisation of portfolio

The trend of the last two years, which has seen JLG's portfolio become less focused on the UK, continues. Both realisations achieved in H1 (Lambeth Housing and IEP Phase I) were UK investments, while new investment commitments were split between Europe and the US. Of JLG's 13, either preferred or shortlisted PPP projects, 10 are located in North America and three in Europe. Of the total pipeline, less than 5% is said to be UK focused. Given the recent disposals, we would estimate less than 20% of the total portfolio to be UK related.

## Valuation: Discount offers opportunity

Although JLG's shares have recovered some of the ground lost since last autumn following the collapse of Carillion, Labour's announced hostility to new PPP projects and the launch of the rights issue, they remain at a discount to the last reported NAV of 281p (adjusted for the rights issue). The shares trade at a c 4% discount to NAV, compared to an average peer group premium of 4%, offering an attractive investment opportunity.

## Pre-close trading update

### Investment companies

4 July 2018

**Price** 274.2p  
**Market cap** £1,342m

Net debt (£m) at end FY17	170.7
Shares in issue	489.3m
Free float	100%
Code	JLG
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(3.4)	1.9	(0.4)
Rel (local)	(2.0)	(5.3)	(4.0)
52-week high/low	291.7p	239.9p	

### 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

Interim results	23 August 2018
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### Analyst

Graeme Moyse	+44 (0)20 3077 5700
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[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

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**Exhibit 1: Financial summary**

Accounts: IFRS, Year-end: December, £m	2017	2018e	2019e	2020e
Total revenues	196.7	260.3	289.8	323.0
Cost of sales	0.0	0.0	0.0	0.0
Gross profit	196.7	260.3	289.8	323.0
SG&A (expenses)	(58.6)	(59.9)	(61.1)	(62.3)
Other income/(expense)	0.0	0.0	0.0	0.0
Depreciation and amortisation	(0.3)	(0.2)	(0.2)	(0.2)
Reported EBIT	137.8	200.3	228.6	260.5
Finance income/(expense)	(11.8)	(10.7)	(11.2)	(14.0)
Other income/(expense)	0.0	0.0	0.0	0.0
Reported PBT	126.0	189.6	217.4	246.5
Income tax expense (includes exceptionals)	1.5	0.0	0.0	0.0
Reported net income	127.5	189.6	217.4	246.5
Basic average number of shares, m	367.0	466.9	489.3	489.3
Adjusted EPS (p/share)	31.9	40.6	44.4	49.9
EBITDA	138.1	200.5	228.8	260.7
Adjusted NAV (p/share)	281	303	338	378
Adjusted Total DPS (p/share)	8.9	9.2	9.4	9.6
<b>BALANCE SHEET</b>				
Property, plant and equipment	0.1	0.4	0.7	1.0
Goodwill	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0
Other non-current assets	1,346.9	1,522.5	1,733.0	1,980.3
Total non-current assets	1,347.0	1,522.9	1,733.7	1,981.3
Cash and equivalents	2.5	58.5	75.5	74.1
Inventories	0.0	0.0	0.0	0.0
Trade and other receivables	7.6	10.7	11.9	13.2
Other current assets	0.0	0.0	0.0	0.0
Total current assets	10.1	69.2	87.4	87.4
Non-current loans and borrowings	0.0	75.0	150.0	200.0
Trade and other payables	0.0	0.0	0.0	0.0
Other non-current liabilities	41.3	16.4	1.0	1.0
Total non-current liabilities	41.3	91.4	151.0	201.0
Trade and other payables	17.3	17.3	17.3	17.3
Current loans and borrowings	173.2	0.0	0.0	0.0
Other current liabilities	1.4	1.4	1.4	1.4
Total current liabilities	191.9	18.7	18.7	18.7
Equity attributable to company	1,123.9	1,482.1	1,651.4	1,849.0
Non-controlling interest	0.0	0.0	0.0	0.0
<b>CASH FLOW STATEMENT</b>				
Profit before tax	126.0	189.6	217.4	246.5
Net finance expenses	11.8	10.7	11.2	14.0
Depreciation and amortisation	0.3	0.2	0.2	0.2
Share based payments	3.2	0.0	0.0	0.0
Fair value and other adjustments	(270.6)	(254.8)	(286.3)	(314.6)
Movements in working capital	2.9	(1.5)	(0.1)	(0.8)
Cash from operations (CFO)	(126.4)	(55.8)	(57.6)	(54.7)
Capex	(0.1)	(0.5)	(0.5)	(0.5)
Cash transf. from inv. Held at FV	77.4	52.6	59.3	66.8
Portfolio Investments - Disposals	79.1	0.1	0.1	0.1
Cash used in investing activities (CFIA)	156.4	52.2	58.9	66.5
Net proceeds from issue of shares	0.0	210.2	0.0	0.0
Movements in debt	11.0	(98.2)	75.0	50.0
Other financing activities	(40.1)	(52.4)	(59.4)	(63.1)
Cash from financing activities (CFF)	(29.1)	59.6	15.6	(13.1)
Currency translation differences and other	0.0	0.0	0.0	0.0
Increase/(decrease) in cash and equivalents	0.9	56.0	16.9	(1.3)
Currency translation differences and other	0.0	0.0	0.0	0.0
Cash and equivalents at end of period	2.5	58.5	75.5	74.1
Net (debt) cash	(170.7)	(16.5)	(74.5)	(125.9)
Movement in net (debt) cash over period	(10.9)	154.2	(58.1)	(51.3)

Source: Company accounts, Edison Investment Research

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