

# John Laing Group

## Growth in buoyant markets

Trading update

John Laing Group's (JLG) trading update and recent disposal of a wind farm provided year-to-date figures for investment commitments and realisations. The figures confirmed the strength of the underlying infrastructure project market and highlighted the increased level of activity within the business. We have revised our forecasts and now expect a special dividend payment of 5.3p/share (6.5% of £299m), offering a yield on the final and special payments combined, of c 3.3%. We expect further NAV growth in FY17 and beyond, and believe JLG's rating is undemanding.

Year end	NAV (p)	EPS* (p)	DPS** (p)	P/NAV (x)	P/E (x)	Yield (%)
12/15	242	27.6	6.90	1.2	10.2	2.5
12/16	277	51.9	8.15	1.0	5.4	2.9
12/17e	302	33.3	11.01	0.9	8.4	3.9
12/18e	330	39.4	9.98	0.9	7.1	3.6

Note: \*EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\* DPS includes interim, final and special payments

## Increased investment realisations and commitments

So far in FY17, JLG has completed realisations of £299m (previous guidance £200m) and made investment commitments of £340m (guidance of £200m). We have revised our financial forecasts for FY17 to reflect these updated figures and a small reduction in the pension deficit (from £30m to £22m). Due to the increased level of realisations, we have increased the 'special' element (based on 6.5% of £299m) of our forecast for JLG's DPS for FY17. JLG has guided towards a 'special' payment of 5-10% of realisations and in previous years has paid c 7.5%. We assume, given the scale of disposals in FY17, JLG may pay a more conservative percentage of realisations, and now forecast final and special DPS payments of 3.81p and 5.30p, respectively. Our forecast for investment and realisations in FY18 is unchanged (£200m), although with an investment pipeline of c £2bn and commitments running at £350m, our assumptions for FY18 face upward pressure.

## Continuing strong market for infrastructure projects

The increased pace of realisations and investment commitments underlines the strength of the global market for infrastructure investment, despite reduced activity levels in the UK PPP market. JLG has evolved significantly since its flotation, when it was largely a UK-focused PPP investor, and the group is now increasingly well diversified geographically and by asset type. We estimate that following the recent disposals of UK assets to JLIF and JLEN and the investment in the US Transform 66 P3 managed-lane projects (9 November 2017), less than 25% of the portfolio remains invested in the UK. With c 10% of the £2bn investment pipeline focused on the UK, we expect this proportion to decline further.

## Valuation: Potential valuation upside

JLG (yield of c 3.3% special + final DPS) is currently trading at a small discount to its last reported NAV of 284p/share and a c 9% discount to our forecast FY17 NAV of 302p/share. We believe the continuing discount to NAV and the valuations of its peers is unjustified by the strength of the infrastructure markets in which JLG operates and the track record it has established in delivering value.

## Investment companies

13 December 2017

**Price** **280.5p**  
**Market cap** **£1,029m**

Net debt (£m) at 30 June 2017	60
Shares in issue	367.0m
Free float	100%
Code	JLG
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(1.7)	(3.9)	(0.2)
Rel (local)	(2.4)	(5.3)	(9.1)
52-week high/low	317.8p	252.0p	

## Business description

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

## Next events

FY17 results	March 2018
--------------	------------

## Analyst

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

**John Laing Group is a  
research client of Edison  
Investment Research Limited**

**Exhibit 1: Financial summary**

Accounts: IFRS, Year-end: December, £m	2015	2016	2017e	2018e	2019e	2020e
<b>Profit &amp; loss</b>						
Total revenues	167.6	260.8	189.9	215.1	238.2	249.5
Cost of sales	(0.1)	0.0	(0.5)	(0.5)	(0.5)	(0.5)
Gross profit	167.5	260.8	189.4	214.6	237.7	249.0
SG&A (expenses)	(54.1)	(57.6)	(55.2)	(56.3)	(57.5)	(58.6)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation	(1.2)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Reported EBIT	112.2	202.4	133.4	157.5	179.5	189.6
Finance income/(expense)	(11.3)	(10.3)	(11.3)	(12.8)	(15.0)	(17.2)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0
Reported PBT	100.9	192.1	122.1	144.7	164.5	172.4
Income tax expense (includes exceptionals)	(2.1)	(1.8)	0.0	0.0	0.0	0.0
Reported net income	104.5	190.3	122.1	144.7	164.5	172.4
Basic average number of shares, m	358.3	366.9	366.9	366.9	366.9	366.9
Basic EPS	27.6	51.9	33.3	39.4	44.8	47.0
<b>Balance sheet</b>						
Property, plant and equipment	1.0	0.3	0.5	0.7	0.9	1.1
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.2	0.0	0.0	0.0	0.0	0.0
Other non-current assets	966.7	1,258.5	1,380.7	1,530.6	1,722.5	1,916.5
Total non-current assets	967.9	1,258.8	1,381.2	1,531.3	1,723.4	1,917.6
Cash and equivalents	1.1	1.6	1.0	1.0	1.0	1.0
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Trade and other receivables	8.3	7.4	9.4	10.6	11.7	12.3
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	9.4	9.0	10.4	11.6	12.7	13.3
Non-current loans and borrowings	0.0	0.0	0.0	250.0	350.0	400.0
Trade and other payables	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	46.3	70.8	23.3	1.5	1.5	1.5
Total non-current liabilities	46.3	70.8	23.3	251.5	351.5	401.5
Trade and other payables	19.6	14.7	12.7	12.7	12.7	12.7
Current loans and borrowings	14.9	161.4	245.5	64.6	30.3	40.1
Other current liabilities	6.9	4.1	1.4	1.4	1.4	1.4
Total current liabilities	41.4	180.2	259.6	78.7	44.4	54.2
Equity attributable to company	889.6	1,016.8	1,108.7	1,212.7	1,340.3	1,475.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow statement</b>						
Profit before tax	100.9	192.1	122.1	144.7	164.5	172.4
Net finance expenses	11.3	10.3	11.3	12.8	15.0	17.2
Depreciation and amortisation	1.2	0.8	0.8	0.8	0.8	0.8
Share based payments	0.7	2.0	0.0	0.0	0.0	0.0
Fair value and other adjustments	(124.8)	(78.4)	(331.7)	(212.1)	(237.2)	(243.8)
Movements in working capital	(3.2)	(2.3)	(29.2)	(0.7)	(0.5)	(0.4)
Cash from operations (CFO)	(13.9)	124.5	(226.7)	(54.4)	(57.4)	(53.8)
Capex	(0.6)	(0.1)	(1.0)	(1.0)	(1.0)	(1.0)
Cash transf. from inv. Held at FV	(54.0)	(73.4)	35.5	39.8	44.7	49.7
Portfolio Investments - Disposals	(56.6)	(161.6)	149.0	0.0	0.0	0.0
Cash used in investing activities (CFIA)	(111.2)	(235.1)	183.5	38.8	43.7	48.7
Net proceeds from issue of shares	124.7	0.0	0.0	0.0	0.0	0.0
Movements in debt	19.0	146.0	84.1	69.1	65.7	59.8
Other financing activities	(19.6)	(35.1)	(41.5)	(53.5)	(51.9)	(54.7)
Cash from financing activities (CFF)	124.1	110.9	42.6	15.6	13.8	5.1
Currency translation differences and other	0.0	0.0	0.0	0.0	0.0	0.0
Increase/(decrease) in cash and equivalents	(1.0)	0.3	(0.6)	(0.0)	(0.0)	(0.0)
Currency translation differences and other	(0.1)	0.2	0.0	0.0	0.0	0.0
Cash and equivalents at end of period	1.1	1.6	1.0	1.0	1.0	1.0
Net (debt) cash	(13.8)	(159.8)	(244.5)	(313.6)	(379.3)	(439.1)
Movement in net (debt) cash over period	(15.9)	(146.0)	(84.7)	(69.1)	(65.7)	(59.8)

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by John Laing Group and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.