

John Laing Group

Delivering against guidance

Pre-close update

John Laing Group's (JLG's) pre-close update confirms the strong level of activity in the business in FY18. JLG will provide guidance on the level of realisations and investment commitments expected for FY19 at its results (due March) but we believe the outlook for next year and beyond appears encouraging based on the investment pipeline and global demand for infrastructure. JLG's discount to its peer group does not reflect its proven track record or the prospects for further growth.

Year end	NAV (p)	EPS* (p)	DPS* (p)	P/NAV (x)	P/E (x)	Yield (%)
12/17	281	31.9	8.9	1.1	9.8	2.8
12/18e	318	57.4	9.2	1.0	5.5	2.9
12/19e	355	46.9	9.3	0.9	6.7	3.0

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

High levels of investment activity

JLG revealed that investment commitments for the year so far have amounted to £267m, with up to another £30m possible before the year end (guidance £250m). Total realisations completed in 2018 amounted to £241.5m (guidance £250m) with a further £54.5m (Manchester Waste TPS) agreed but not yet completed. The special component of the DPS will be based on the realisation figure of £241.5m. According to JLG, with the exception of the sale of IEP Phase 1 completed earlier in the year at above book valuation, the investment portfolio has performed 'in line with expectations'. At 30 November, the IAS19 pension surplus had fallen to £6m from £24m at the end of June.

Encouraging outlook for FY19 and beyond

According to JLG, the investment outlook and the market for secondary assets remain strong. JLG is shortlisted for 10 PPP projects and is exploring opportunities in Latin America; this is expected to add to the pipeline shortly. The proportion of the portfolio invested in the UK is expected to shrink further (31% June 2018) once the Manchester Waste TPS disposal is completed and IEP Phase II remains the only significant UK asset. We have made minor adjustments to our forecasts to reflect the smaller pension surplus but our forecast year-end NAV per share remains 318p (+13% vs FY17). Our projections for the special dividend are also unchanged as we assume the marginal shortfall in realisations versus guidance will be compensated for by a slightly higher pay-out ratio.

Valuation: Prospects not reflected in valuation

JLG is trading at a small premium to its last-published NAV per share of 307p (30 June) but a discount to our projected FY18 figure of 318p/share. Although the outlook for PFI projects in the UK remains uncertain, the UK represents less than 5% of JLG's investment pipeline and the overall outlook appears encouraging. Given JLG's track record of value delivery (CAGR in NAV 2014–17 of 15.5% inc DPS) and the prospects for continuing growth in the business, we believe the shares offer an attractive play on the global demand for infrastructure investment.

Investment companies

14 December 2018

Price 313.4p
Market cap £1,538m

Net cash (company definition, £m) at 30 June 2018 234

Shares in issue 490.8m

Free float 99%

Code JLG

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.7) 0.3 22.2

Rel (local) 0.4 7.5 33.9

52-week high/low 332.4p 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

FY18 results March 2019

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Exhibit 1: Financial summary

Accounts: IFRS, Yr end: December, GBP: Millions	2017	2018e	2019e	2020e
Total revenues	196.7	346.9	310.3	349.2
Cost of sales	0.0	0.0	0.0	0.0
Gross profit	196.7	346.9	310.3	349.2
SG&A (expenses)	(58.6)	(65.8)	(67.1)	(68.5)
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	280.9	242.9	280.6
Finance income/(expense)	(11.8)	(12.4)	(13.1)	(16.5)
Other income/(expense)	0.0	0.0	0.0	0.0
Reported PBT	126.0	268.4	229.9	264.1
Income tax expense (includes exceptionals)	1.5	(0.5)	(0.4)	(0.5)
Reported net income	127.5	267.9	229.5	263.6
Basic average number of shares, m	367.0	466.9	490.8	490.8
Adjusted EPS (p/share)	31.9	57.4	46.9	53.2
EBITDA	138.1	281.1	243.1	280.8
Adjusted NAV (p/share)	281	318	355	399
Adjusted Total DPS (p/share)	8.9	9.2	9.3	9.4
Balance sheet				
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	1,613.6	1,861.4	2,136.9
Total non-current assets	1,347.0	1,614.0	1,862.1	2,137.9
Cash and equivalents	2.5	28.2	36.8	24.7
Inventories	0.0	0.0	0.0	0.0
Trade and other receivables	7.6	14.3	12.8	14.3
Other current assets	0.0	0.0	0.0	0.0
Total current assets	10.1	42.5	49.6	39.0
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	2.2	1.0	1.0
Total non-current liabilities	41.3	77.2	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	1,560.9	1,742.3	1,957.5
Non-controlling interest	0.0	0.0	0.0	0.0
Cashflow statement				
Profit before tax	126.0	268.4	229.9	264.1
Net finance expenses	11.8	12.4	13.1	16.5
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)	(334.2)	(299.0)	(333.2)
Movements in working capital	2.9	(19.3)	2.8	(1.3)
Cash from operations (CFO)	(126.4)	(72.9)	(53.5)	(54.2)
Capex	(0.1)	(0.5)	(0.5)	(0.5)
Cash transf. from inv. Held at FV	77.4	49.5	57.2	65.9
Portfolio Investments - Disposals	79.1	(8.5)	(8.4)	(8.4)
Cash used in investing activities (CFIA)	156.4	40.5	48.3	57.0
Net proceeds from issue of shares	0.0	210.4	0.0	0.0
Movements in debt	11.0	(98.2)	75.0	50.0
Other financing activities	(40.1)	(54.1)	(61.2)	(65.0)
Cash from financing activities (CFF)	(29.1)	58.1	13.8	(15.0)
Currency translation differences and other	0.0	0.0	0.0	0.0
Increase/(decrease) in cash and equivalents	0.9	25.7	8.6	(12.1)
Currency translation differences and other	0.0	0.0	0.0	0.0
Cash and equivalents at end of period	2.5	28.2	36.8	24.7
Net (debt) cash	(170.7)	(46.8)	(113.2)	(175.3)
Movement in net (debt) cash over period	(10.9)	123.9	(66.4)	(62.1)

Source: Company data, Edison Investment Research

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