

John Laing Group

Steady as she goes

After negative surprises in its last three reports, John Laing Group's (JLG) Q3 update brought welcome good news. NAV per share rose 2% to 314p as an FX headwind and pension charges failed to offset another strong PPP performance. The performance of the renewable portfolio, now just 22% of the total, was stable. JLG retains its guidance for 'modest' underlying NAV growth in H2 and we nudge up our NAV per share forecast from 308p to 310p. The share price stands at a 9% discount to FY20e NAV per share.

Year end	NAV/share (p)	EPS* (p)	DPS (p)	P/NAV (x)	P/E (x)	Yield (%)
12/18	323	63.1	9.5	0.9	4.5	3.4
12/19	337	20.4	9.5	0.8	13.8	3.4
12/20e	310	(12.3)	8.2	0.9	N/A	2.9
12/21e	315	3.6	9.8	0.9	78.5	3.5

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

Q3: A further solid PPP performance

Headline NAV per share rose 2% from 309p to 314p in Q3. Underlying NAV growth was 4% reflecting a good performance of the PPP portfolio driven predominantly by the gain from the agreed sale of its stake in IEP (see Exhibit 1). The performance of the renewable portfolio was stable with a further write down of the biomass facilities offset by the disposal of wind farm assets for a small uplift to book value (see [Sale of its Australian wind farm assets](#)). This good underlying performance was partially offset by FX and movement in the pension (-6p and -2p per share respectively).

Significant realisations, guidance unchanged

JLG's Q3 was dominated by two significant realisations: the sale of its 30% stake in IEP East for up to £421m (a 22% uplift to book value at 30 June) and the sale of its Australian wind farm portfolio for £157m (a 1.5x money multiple). This last disposal represents material progress on its strategy to exit renewables, which now account for just 22% of the portfolio value. While there were no disclosed investments, the pipeline remains healthy with 10 short-listed/preferred bidder positions (unchanged). The company confirmed its guidance for modest underlying NAV growth in H2 (ie excluding dividend, FX and other external factors).

Forecasts: Nudging up FY20e NAV per share to 310p

We lift our FY20 NAV per share forecast 2p to 310p to reflect better than expected Q3 realisations (+5p), partially offset by an adverse pension movement and changes to other assumptions. Our forecast implies 320p before dividends (-5% y-o-y growth). Our FY21 headline NAV/share forecast of 315p is unchanged.

Valuation: 9% discount to FY20e NAV per share

At 281p, JLG trades at a 9% discount to FY20e NAV/share – close to the bottom of its historical range. Yet, as the sale of IEP East highlights, its core PPP portfolio continues to generate value. The sale of its Australian wind farm assets lowers its renewables exposure and suggests valuations have been reset to conservative levels. New CEO Ben Loomes will set out his strategy for JLG, including how a new growth engine can complement its existing PPP strengths, on 25 November.

Q3 trading statement

Investment companies

3 November 2020

Price **281p**
Market cap **£1,385m**

Net debt (£m) at H120 105 (re-presented accounts), 431 (Edison calculation based on statutory accounts)

Shares in issue 493m
 Free float 99%
 Code JLG
 Primary exchange LSE
 Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(7.5)	(2.2)	(23.6)
Rel (local)	(4.1)	2.9	(3.5)
52-week high/low	401p	274p	

Business description

John Laing Group is an originator, active investor in, and manager of, greenfield infrastructure projects. It operates internationally and its business currently addresses PPP (Public, Private Partnership) and renewable energy segments.

Next events

Analyst day November 2020

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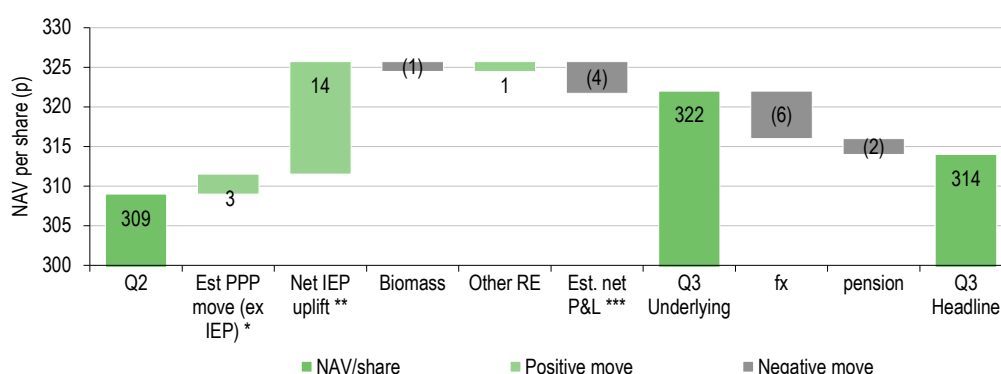
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The story of Q3

NAV per share growth driven by PPP

Underlying net asset value (NAV) per share rose 4% during Q3 from 309p to 322p, primarily driven by the sale of IEP East for up to £421m, a money multiple of over 5.8x and a 22% premium to its 30 June valuation. After allowing for disposal costs we estimate that this disposal boosted NAV per share by 14p (see Exhibit 1). However, the gain in PPP was not exclusively driven by the IEP East sale. Assuming P&L charges of -4p and a stable overall performance of the renewable portfolio (as per company commentary), we estimate that there was a 3p positive contribution to NAV from the public private partnership (PPP) portfolio excluding IEP East.

Exhibit 1: The estimated contribution of major drivers of NAV per share progression in Q3

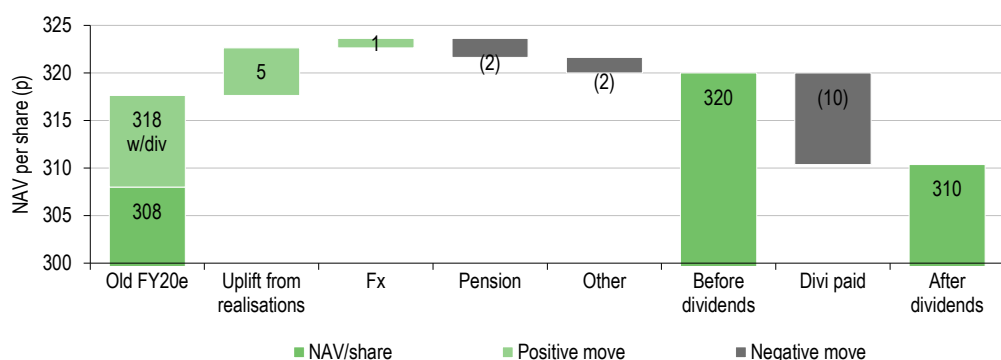


Source: John Laing Group data plus Edison Investment Research estimates * Estimated based on assumptions to IEP East proceeds and P&L charges. ** Estimate of net gain for IEP East excludes gain from interest (£15m) and £3m of transaction costs. *** Estimated P&L charge based on H120 charge halved.

Modest increase to FY20 NAV per share forecast

We raise our FY20 NAV per share forecast 2p from 308p to 310p, to reflect Q3 realisations (+5p) and foreign exchange (+1p) partially offset by pension costs (-2p) and minor changes to other assumptions (-2p). Our forecast implies an NAV per share of 320p before dividends. On an underlying basis, ie excluding the dividend and the negative impact of 8p of FX and pension valuation, FY20e NAV per share is 328p, implying 3% growth in H2 (in line with company guidance of 'modest' underlying growth) and a 5% y-o-y decline.

Exhibit 2: Changes to FY20 Edison NAV per share forecast



Source: John Laing Group data, Edison Investment Research

Exhibit 3: Financial summary

Accounts: IFRS; year-end: 31 December; £m	2017	2018	2019	2020e	2021e
Income statement					
Total revenues	196.7	397.0	179.0	18.3	96.8
Cost of sales	0.0	0.0	0.0	0.0	0.0
Gross profit	196.7	397.0	179.0	18.4	96.8
SG&A (expenses)	(58.9)	(66.0)	(68.0)	(65.0)	(66.3)
Other income/(expense)	0.0	(21.0)	0.0	0.0	0.0
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0
Reported EBIT	137.8	310.0	111.0	(46.6)	30.5
Finance income/(expense)	(11.8)	(14.0)	(11.0)	(14.8)	(12.7)
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Reported PBT	126.0	296.0	100.0	(61.4)	17.9
Income tax expense (includes exceptionals)	1.5	0.0	0.0	0.0	0.0
Reported net income	127.5	296.0	100.0	(61.4)	17.9
Basic average number of shares, m	367.0	466.9	491.9	492.7	494.4
Adjusted EPS (p)	31.9	63.1	20.4	(12.3)	3.6
EBITDA	137.8	331.0	111.0	(46.6)	30.5
Adjusted NAV (p/share)	281	323	337	310	315
Adjusted Total DPS (p)	8.9	9.5	9.5	8.2	9.8
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	1,712.3	1,687.7
Total non-current assets	1,347.0	1,700.0	1,914.0	1,712.3	1,687.7
Cash and equivalents	2.5	5.5	2.0	380.9	408.0
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	386.9	414.0
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	9.5	9.5
Total non-current liabilities	41.3	42.0	13.0	25.5	13.5
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	12.0	0.0
Total current liabilities	191.9	86.0	251.0	542.0	530.0
Equity attributable to company	1,123.9	1,586.0	1,658.0	1,531.6	1,558.2
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Cashflow statement					
Profit before tax	126.0	310.0	111.0	(46.6)	30.5
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)	(35.2)	(110.5)
Movements in working capital	1.6	2.0	(2.0)	1.3	(0.9)
Cash from operations (CFO)	(47.3)	(54.0)	(61.0)	(80.5)	(80.9)
Capex	(0.1)	0.0	0.0	(0.1)	(0.1)
Cash transf. from inv. Held at FV	(1.7)	58.0	74.0	56.8	36.0
Portfolio Investments - Disposals	79.1	(46.0)	(124.0)	190.0	100.0
Cash used in investing activities (CFIA)	77.3	12.0	(50.0)	246.7	135.9
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)	(51.2)	(53.6)
Cash from financing activities (CFF)	(29.1)	45.0	107.0	212.7	(27.9)
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)	378.9	27.1
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	380.9	408.0
Net (debt) cash	(170.7)	(60.0)	(238.0)	(138.1)	(111.0)
Movement in net (debt) cash over period	(10.9)	110.7	(178.0)	99.9	27.1

Source: Company accounts, Edison Investment Research (based on JLG's statutory accounts)

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