EDISON

John Laing Group

FY17 results

Diversified portfolio continues to deliver growth

Investment companies

John Laing Group's (JLG) FY17 results delivered further growth in DPS and NAV and highlighted the increasing internationalisation of the business. The announcement of a rights issue to fund future growth was unexpected, but we see significant opportunity in the global infrastructure market. At the current share price of c 260p, JLG stands at a significant discount to its adjusted NAV per share of 281p.

Year end	NAV (p)	EPS* (p)	DPS** (p)	P/NAV (x)	P/E (x)	Yield (%)
12/17	281	31.9	8.9	0.9	8.0	3.5
12/18e	303	40.6	9.2	0.8	6.3	3.6
12/19e	338	44.4	9.4	0.8	5.8	3.7

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.

FY17 results: NAV growth exceeds forecasts

JLG again posted growth in the key benchmarks of reported NAV per share (+10.5% to 306p versus Edison FY17e of 302p) and DPS (+30.2% to 10.61p, including special). In a year characterised by high levels of activity, JLG disposed of investments worth £289m (initial guidance of £200m) and entered into investment commitments of £383m (£200m). Opportunities for growth remain strong and JLG guides to investment commitments and disposals of c £250m for FY18 and FY19 (before the rights issue). The pipeline of new investment opportunities stands at £2.15bn (2016: £1.86bn).

Rights issue to raise £210m

Alongside the FY17 results, JLG announced a rights issue to raise £210.2m (net of expenses). The rationale for the rights issue is to provide JLG with greater financial flexibility and the necessary resources to exploit investment opportunities in the burgeoning global infrastructure market. Under the terms of the rights issue, JLG will issue 122.32m (one for three) shares at a price of 177p, a discount of 29.2% to the prevailing price before the announcement (274.2p). The rights issue shares include rights to the final and special dividend payments announced at the FY results. The final base dividend of £14m (3.82p/share) will be increased by the shares issued as a result of the rights issue (3.51p/share adjusted), while the special dividend of £17.9m (4.88p/share) will be spread over the increased number of shares (3.66p/share adjusted). As a result of the rights issue, the announced NAV per share for FY17 will be diluted to 281p (adjustment factor of 92%).

Valuation: Discount reflects UK sentiment

The prospects for investment in international infrastructure remain strong. However, JLG's share price has declined in recent months following the Labour Party's announced hostility to future PFI projects (September 2017), the collapse of Carillion (January 2018) and the announcement of the dilutive rights issue (March 2018). Given JLG's reduced reliance on the UK PFI market, we believe the share price weakness offers an attractive entry point for investors. At the current share price of c 260p, JLG stands at a significant discount to its adjusted historic NAV of 281p/share (peers are at a small premium).

23 March 2018

Price	**256.0p**
Market cap	**£940m**
Net debt (£m) at end FY17	170.7
Shares in issue	367.0m*
* *Pre rights issue*	
Free float	100%
Code	JLG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.2	(3.8)	1.6
Rel (local)	6.0	4.3	5.2
52-week high/low		317.8p	240.0p

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

AGM	May 2018

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FY17 results: Growth in key benchmarks of NAV & DPS

The two key benchmarks of NAV and DPS increased again in FY17. In the period 2014-17 JLG has achieved CAGR in the NAV per share, excluding dividends, of 13.4%.

Exhibit 1: Key figures – FY17 results vs FY16 and Edison FY17 estimates

		2016	2017a	2017e	2017 (adj)	% growth
NAV per share	(p/share)	277	306	302	281	10.5%
DPS						
Interim	(p/share)	1.85	1.91	1.91	1.75	3.2%
Final	(p/share)	3.70	3.82	3.81	3.51	3.2%
Total Base	(p/share)	5.55	5.73	5.72	5.26	
Special	(p/share)	2.6	4.88	5.30	3.66	87.7%
Investment commitments	£m	181.9	382.9	340.0	N/A	110.5%
Realisations	£m	146.6	289.0	299.0	N/A	97.1%

Source: John Laing Group, Edison Investment Research

The pipeline of new investment opportunities increased by c 16%, to £2.16bn and, with less than 5% of the total pipeline now focused on the UK, demonstrates the increasing internationalisation of the business. The total portfolio increased by 1.5%, to £1,193.8m, despite the increased level of investment realisations and adverse foreign exchange movements (-£11.0m vs a positive FX impact in FY16 of £74.7m). Once again, the percentage of the portfolio located in the UK declined and now stands at c 34%. At December 2016, c 43% of the portfolio was comprised of UK investments and at the time of the IPO the figure was c 66%. With the post-results-announced disposal of the IEP (Phase I) project for £227.5m, the impending disposal of the Lambeth Housing Project and cash injections for new projects, we believe the UK's share will decline to c 30%.

The final DPS of 3.82p was in line with our forecasts, but the special DPS of 4.88p fell below our projection of 5.30p/share. The reasons for the shortfall were twofold. First, realisations for the year totalled £289m (versus our assumption of £299m) as the Lambeth Housing project disposal (£10m) did not complete by the year end as predicted. In addition, JLG applied a DPS rate of 6.2% to the disposals total (6.2% of £289m = £17.9m) versus our assumption of 6.5% of £299m = £19.4m. JLG has announced the adjusted figures for the DPS post the rights issue. The final base DPS is reduced to 3.51p/share and the special is reduced to 3.66pshare (see Exhibit 1).

The total retirement benefit obligation fell from £69.3m to £40.3m, helped in large part by a cash contribution to the pension scheme of £24.7m.

Rights issue: Rationale and impact

As we have argued previously, the global market for infrastructure remains strong, buoyed by the trends of population growth, urbanisation and environmentalism. The requirement for infrastructure resulting from these trends is commonly intensified by prior periods of under-investment. While there are notable exceptions to this general trend, such as the UK, JLG's historic track record and geographical reach indicate that it is well placed to take advantage of a strong global market (as evidenced by the high levels of activity in FY17). While JLG remains committed to its self-funding model (investments = realisations), the scale of activity (and requirement for investment) is significantly greater than envisaged when it floated on the stock market in 2015. JLG believes that the additional funding provided by the rights issue will allow it to take advantage of the market strength without being forced into early, and possibly suboptimal, asset disposals.

Due to the relatively heavy nature of the rights issue (one for three) and the discount offered of c 29%, there is an inevitable dilution to EPS and NAV per share. The important NAV per share is reduced from 306p to 281p using a rights issue adjustment factor of 92% (derived from the "adjustments to final dividend" announcement of 14 March 2018).

Rights issue timetable

Exhibit 2: Rights issue – key dates

Event	Date
Rights issue announced/prospectus published	08/03/2018
Nil paid trading commences	09/03/2018
Announcement of adjustment to proposed final dividend	14/03/2018
Latest date for acceptance and payment	23/03/2018
Announcement of rights issue results	26/03/2018
Ex-dividend date	20/04/2018

Source: John Laing Group

Forecasts and valuation

We have revised our forecasts to take account of the FY17 results, the new guidance and the dilutive impact of the rights issue. We forecast, for now, on the basis of annual investment and disposal (including IEP Phase I) totals of £250m for FY18 and FY19. We expect the special DPS will be based on 7.5% of investment disposals (6.2% in FY17). Our NAV forecasts, revised for the impact of the rights issue, are shown in Exhibit 3. We forecast growth of c 10% CAGR pa in the NAV in 2017-20e (from the rebased value of 281p) and CAGR in the underlying dividend (excluding special) of c 3% pa.

Exhibit 3: Edison NAV forecasts (p/share) using adjustment factor of 92%

	2017a	2018e	2019e	2020e
Previous forecast	306	330	365	402
Forecast adj for rights issue	281	303	338	378

Source: Edison Investment Research

Share price restrained by UK newsflow

Despite the strong growth achieved in FY17, JLG's share price has weakened over the last six months following adverse news flow in the UK. In September the Labour Party indicated that if it were to form the next government it would "abandon PFI as a tool for future infrastructure investment" and "bring in-house existing PFI projects". By way of reference, JLIF, the independent fund established by JLG in 2010, calculated that if all of its UK projects were voluntarily terminated, it would receive c 86% of its UK portfolio value. More recently (January 2018) the collapse of Carillion has cast a shadow over the outsourcing/infrastructure industry and led JLIF to announce that it expects the liquidation of Carillion to cost it £3m in advisory and transaction costs as it appoints new contractors. JLG has not released equivalent data for its own portfolio but, applying the same percentage (ie 86%) to its total UK assets (including renewables), as stated at the FY17 results and adjusted for the recently agreed disposal of IEP (Phase I), the impact would be c 5p/share. Assuming renewables constitute the same proportion of the UK business as for the business as a whole (30.9%), the impact would be c 1p/share (using the enlarged number of shares).

Valuation

At the current share price of c 260p, JLG stands at a significant discount to its published NAV (c 7-8% based on the current share price). Given the geographically diverse nature of its business, the demonstrable track record of delivery against key benchmarks and the scale of the opportunity in global renewable and infrastructure markets, JLG's discount to NAV appears very conservative for a company which, based on our estimates, offers the prospect of 10% CAGR in NAV 2017-20e. By way of comparison, JLG's quoted peers trade at a small premium.

Exhibit 4: Financial summary

Accounts: IFRS, Yr end: December, GBP: Millions	2017A	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
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	1,522.5	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
Cashflow statement				
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: John Laing Group, Edison Investment Research

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