

JOHN LAING GROUP PLC

JLG.L Sector: Infrastructure Investment

Analyst: James Stenson

Email: 18688103

As at 19/02/2019

Business Model

John Laing Group plc, formerly Henderson Infrastructure Holdco (UK) Limited, is an originator and active investor and manager of greenfield infrastructure projects. The Company operates through segments, including Primary Investment, Secondary Investment and Asset Management. Its Primary Investment segment includes costs and cost recoveries associated with originating, bidding for and winning greenfield infrastructure and renewable energy projects. Its Secondary Investment segment includes investment returns from and growth in the value of the Secondary Investment portfolio, net of associated costs. Its Asset Management segment includes fee income and associated costs from investment management services in respect of both the Primary and Secondary Investment portfolios and in respect of John Laing Infrastructure Fund (JLIF), John Laing Environmental Assets Group (JLEN) and John Laing Pension Fund (JLPF) portfolios plus fee income and associated costs from project management services.

Investment Rationale

John Laing Group has a strong record of procuring and managing infrastructure assets before realising profits by selling them into the secondary market. Capital is then recycled into new projects. The business operates globally and therefore offers a geographically diverse portfolio. John Laing Group is currently trading at a discount when compared to other infrastructure investment peers.

John Laing Group PLC set a new 52-week high during today's trading session when it reached 375.31. They have outperformed the Construction and infrastructure industry which returned -22.1% over the past year. JLG outperformed the Market in United Kingdom of Great Britain and Northern Ireland which returned -3% over the past year.

John Laing Group discount rate is ~36.7% when compared to the estimated value of the shares. (see Supplementary Data Appendix 1.1 & 1.2 for calculations).

John Laing Group PLC uses very little debt in its capital structure as supported by a debt to capital ratio of 0.59%. (Appendix 1.4)

Currently, this equity presents an opportunity to capitalise on the share price growth and the returns are estimated to be quite lucrative. It also has a low beta value of 0.37, compared to the industry average of 0.66. This low volatility helps to reduce the risk.

Depending on the share performance this should be bought as a short-term asset with the potential to keep long-term if dividend growth and yields increase.

RECOMMENDATION

BUY

Current Price

371.20

Our Valuation Range

355.00-425.00

John Laing Group have seen an increase of 49.51% in share price growth over the last year.



MARKET DATA

Revenue	£193m
Net Income	£128m
Incorporated in	2006
Employees	165
52-week range	227.82 - 374.60
Average volume	527,949
Shares outstanding	490.78m
Free float	489.49m
P/E (TTM)	5.93
Market cap	£1.82bn
EPS (TTM)	0.6252
Cash flow per share	0.6396
Price/Cash flow per share	6.89
Book value per share	3.07
Tangible book value per share	3.07
Net profit margin	78.85%
Operating margin	83.24%
Annual div (ADY)	5.31
Annual div yield (ADY)	1.43%
Return on assets	19.58%
Return on equity	20.73%

Investment Risks

With all investments come risk, but as previously discussed the low beta value indicates that this equity is quite stable. It has quite a low volatility rating which allows the prediction of its value and future forecasts.

However, it should be noted that John Laing Group are not risk free. Year on year John Laing Group PLC's revenues fell -24.58% from 260.80m to 196.70m. This along with an increase in selling, general and administrative costs has contributed to a reduction in net income from 190.30m to 127.50m, a -33.00% decrease. This is something that will have to be closely monitored as if this trend continues, then share prices will suffer as a result.

In 2017, John Laing Group PLC increased its cash reserves by 56.25%, or 900.00k. Cash Flow from Investing totalled 77.30m, indicating this company earned more from the sale of existing assets than it spent on the purchase of new assets. Although this in itself does not pose a threat, it could be seen as a trend that the business is winding down. This is another area in which will have to be monitored and accounted for any continuation of the trend.

Year on year, both dividends per share and earnings per share excluding extraordinary items growth dropped - 2.34% and -33.29%, respectively. However the five year annualized earnings per share growth figure ranks above the industry average relative to its peers.

Finally, with Brexit looming and such uncertainty within all UK based markets, there does come a risk that Brexit will hurt a company more than can be anticipated. John Laing Group PLC boasts a very diverse portfolio and is geographically diverse. This diversity in their portfolio of assets and infrastructure projects helps to ensure protection against Brexit.

Supplementary Data

Appendix 1.1 - Discounted Cash Flow

Below are the data sources, inputs and calculation used to determine the intrinsic value for John Laing Group. ✘

LSE:JLG Discounted Cash Flow Data Sources

Data Point	Source	Value
Valuation Model		2 Stage Free Cash Flow to Equity
Levered Free Cash Flow	Average of 4 Analyst Estimates (S&P Global)	See below
Discount Rate (Cost of Equity)	See below	8.2%
Perpetual Growth Rate	10-Year GB Government Bond Rate	1.2%

An important part of a discounted cash flow is the discount rate, below we explain how it has been calculated.

Calculation of Discount Rate/ Cost of Equity for LSE:JLG

Data Point	Calculation/ Source	Result
Risk-Free Rate	10-Year GB Govt Bond Rate	1.2%
Equity Risk Premium	S&P Global	8.8%
Construction Unlevered Beta	Simply Wall St/ S&P Global	0.44
Re-levered Beta	= Unlevered beta (1 + (1- tax rate) (Debt/Equity)) = 0.441 (1 + (1- 19%) (0.49%))	0.443
Levered Beta	Levered Beta limited to 0.8 to 2.0 (practical range for a stable firm)	0.8
Discount Rate/ Cost of Equity	= Cost of Equity = Risk Free Rate + (Levered Beta * Equity Risk Premium) = 1.23% + (0.8 * 8.77%)	8.25%

Appendix 1.2 - Discounted Cash Flow Continued

Discounted Cash Flow Calculation for LSE:JLG using 2 Stage Free Cash Flow to Equity Model

The calculations below outline how an intrinsic value for John Laing Group is arrived at by discounting future cash flows to their present value using the 2 stage method. We use analyst's estimates of cash flows going forward 5 years for the 1st stage, the 2nd stage assumes the company grows at a stable rate into perpetuity.

LSE:JLG DCF 1st Stage: Next 5 year cash flow forecast

	2019	2020	2021	2022	2023
Levered FCF (GBP, Millions)	179.19	187.74	196.69	206.08	215.90
Source	Est @ 4.77%	Est @ 4.77%	Est @ 4.77%	Est @ 4.77%	Est @ 4.77%
Present Value Discounted (@ 8.25%)	165.54	160.23	155.08	150.10	145.28
Present value of next 5 years cash flows	£776.24				

LSE:JLG DCF 2nd Stage: Terminal Value

	Calculation	Result
Terminal Value	$= \text{FCF}_{2023} \times (1 + g) \div (\text{Discount Rate} - g)$ $= £215.90 \times (1 + 1.23\%) \div (8.25\% - 1.23\%)$	£3,114.00
Present Value of Terminal Value	$= \text{Terminal Value} \div (1 + r)^5$ $= £3,114.00 \div (1 + 8.25\%)^5$	£2,095.42

LSE:JLG Total Equity Value

	Calculation	Result
Total Equity Value	$= \text{Present value of next 5 years cash flows} + \text{Terminal Value}$ $= £776.24 + £2,095.42$	£2,871.66
Equity Value per Share (GBP)	$= \text{Total value} / \text{Shares Outstanding}$ $= £2,871.66 / 490.78$	£5.85

LSE:JLG Discount to Share Price

	Calculation	Result
Value per share (GBP)	From above.	£5.85
Current discount	Discount to share price of £3.71 $= -1 \times (£3.71 - £5.85) / £5.85$	36.7%

Appendix 1.3 Income Statement (Profit & Loss)

Fiscal data as of Dec 31 2017	2017	2016	2015	2014	2013
REVENUE AND GROSS PROFIT					
Total revenue	197	261	168	207	233
OPERATING EXPENSES					
Cost of revenue total	--	0	0.10	0.40	38
Selling, general and admin. expenses, total	59	58	55	60	64
Depreciation/amortization	--	--	--	--	--
Unusual expense(income)	--	--	--	--	--
Other operating expenses, total	--	--	--	--	--
Total operating expense	59	58	55	61	81
Operating income	138	202	112	146	152
Other, net	(1.3)	(1.3)	(2.7)	(8.4)	(7.5)
INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS					
Net income before taxes	126	192	101	120	134
Provision for income taxes	(1.5)	1.80	2.10	(0.2)	2.30
Net income after taxes	128	190	99	121	132
Minority interest	--	--	--	--	--
Net income before extra. Items	128	190	99	121	132
Total extraordinary items	--	0	5.70	(0.1)	(1.3)
Net income	128	190	105	121	131
Inc.avail. to common excl. extra. Items	128	190	99	121	132
Inc.avail. to common incl. extra. Items	128	190	105	121	131
EPS RECONCILIATION					
Basic/primary weighted average shares	367	367	390	400	400
Basic/primary eps excl. extra items	0.35	0.52	0.25	0.30	0.33
Basic/primary eps incl. extra items	0.35	0.52	0.27	0.30	0.33
Dilution adjustment	0	0.00	--	--	--
Diluted weighted average shares	372	370	392	400	400
Diluted eps excl. extra items	0.34	0.51	0.25	0.30	0.33
Diluted eps incl. extra items	0.34	0.51	0.27	0.30	0.33
COMMON STOCK DIVIDENDS					
DPS - common stock primary issue	0.05	0.06	0.04	0	0
Gross dividend - common stock	30	30	25	0	0
PRO FORMA INCOME					
Pro forma net income	--	--	--	--	--
Interest expense, supplemental	11	9.00	8.60	17	11
SUPPLEMENTAL INCOME					
Depreciation, supplemental	0.30	0.60	0.70	1.00	1.20
Total special items	(1.9)	(0.5)	--	--	--
NORMALISED INCOME					
Normalized income before taxes	124	192	101	120	134
Effect of special items on income taxes	(0.67)	0.00	--	--	--
Income tax excluding impact of special items	(2.17)	1.80	2.10	(0.2)	2.30
Normalized income after tax	126	190	99	121	132
Normalized income avail. to common	126	190	99	121	132
Basic normalized EPS	0.34	0.52	0.25	0.30	0.33
Diluted normalized EPS	0.34	0.51	0.25	0.30	0.33

Appendix 1.4 Balance Sheet (Statement of Financial Position)

Fiscal data as of Dec 31 2017	2017	2016	2015	2014	2013
ASSETS					
Cash And Short Term Investments	2.50	1.60	1.10	2.10	2.30
Total Receivables, Net	6.60	6.90	7.80	6.40	12
Total Inventory	--	--	--	--	--
Prepaid expenses	1.00	0.50	0.50	2.80	1.10
Other current assets, total	--	--	--	0.10	0.60
Total current assets	10	9.00	9.40	11	16
Property, plant & equipment, net	0.10	0.30	1.00	1.10	2.20
Goodwill, net	--	--	--	--	--
Intangibles, net	--	0	0.20	0.80	1.30
Long term investments	1,346	1,258	965	858	746
Note receivable - long term	--	--	--	0	4.10
Other long term assets	--	--	--	--	--
Total assets	1,357	1,268	977	873	771
LIABILITIES					
Accounts payable	1.50	1.90	1.80	14	12
Accrued expenses	16	13	17	12	9.30
Notes payable/short-term debt	173	161	15	0	6.00
Current portion long-term debt/capital leases	--	--	--	--	--
Other current liabilities, total	1.50	4.20	7.30	9.10	10
Total current liabilities	192	180	41	35	38
Total long term debt	0	0	0	0	0
Total debt	173	161	15	0	6.00
Deferred income tax	--	--	--	--	--
Minority interest	--	--	--	--	--
Other liabilities, total	41	71	46	188	205
Total liabilities	233	251	88	223	243
SHAREHOLDERS EQUITY					
Common stock	37	37	37	30	30
Additional paid-in capital	218	218	218	100	100
Retained earnings (accumulated deficit)	869	762	635	520	398
Treasury stock - common	--	--	--	--	--
Unrealized gain (loss)	--	--	--	--	--
Other equity, total	--	--	--	--	--
Total equity	1,124	1,017	890	650	528
Total liabilities & shareholders' equity	1,357	1,268	977	873	771
Total common shares outstanding	367	400	400	327	400
Treasury shares - common primary issue	0	0	0	0	0

LINCOLN STUDEMENT MANAGED INVESTMENT FUND (LSMIF)

Founded in 2018, the Lincoln Student Managed Investment Fund (LSMIF) is exactly what it says on the tin, a fund which will analyse, determine upon, and purchase shares to create a portfolio. The only difference is we are students. No simulations, just our knowledge and ability vs the real market. The best test of our teachings and learnings.

The fund is set up with a structure similar to any other professionally run fund Management Company with students running every aspect of the fund, from CEO to analyst. It is designed to give any student involved the best experience of the financial world possible before getting a job.

The fund will be handed down to new students each year as those partake in this fund finish their studying. The fund aims to grow in the future, with more positions available to give the most number of students the chance to partake.

The ultimate goal of the fund is to raise the profile of each student involved to allow for them to get the best experience possible. We, however, set the following objectives to make the fund grow on sustainable basis:

- To generate long-term returns from investments using our stylized investment strategies.
- To raise funds through crowdfunding and donors to help increase the capital base.
- To increase the number of students involved in the fund with expanded capital base.
- To link the fund's activities with the related programmes and modules' assessments
- To get more outside sponsors who want to work directly with the fund as well, to further simulate the professional environment.

Contact details

Chief Executive Officer: Mr. James Stenson, BSc Banking and Finance, University of Lincoln. Email: 18688103@students.lincoln.ac.uk.

Academic Advisor: Dr. Hao Quach. Principal Lecturer/Programme Leader for Banking and Finance programmes. Email: hquach@lincoln.ac.uk. Tel: +441522835546

General Enquiries: Email: LSMIF@lincoln.ac.uk

DISCLAIMER

This report is for educational purpose only. The views expressed in this report are those of the authors and not necessarily related, by any sense, to those of the University of Lincoln or the Lincoln International Business School. The expressions of opinions in this report are subject to changes without notice. Authors have based this document on information from sources they believe to be reliable but which they have not independently verified. Any recommendations contained in this report are for educational purposes and intended for general/public readers to whom it is distributed. This report is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe for any investment. This report may not be further distributed in whole or in part for any purpose. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient or reader.

Copyright. Lincoln Student Managed Investment Fund (LSMIF) 2019, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying recording, or otherwise, without the prior written permission of the Lincoln Student Managed Investment Fund (LSMIF).