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Questor share tip: John Laing fund's investment plans outweigh risks

Savers have been punished for their prudence by low interest rates. That's why investments in infrastructure funds with long-term yielding assets have become increasingly popular.

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John Laing Infrastructure Fund
106.3p -0.9
Questor says BUY

John Laing Infrastructure Fund (JLIF) is one such company and yesterday's trading update confirmed that there are further opportunities ahead.

JLIF was spun out of building group John Laing. It has an option to buy private finance initiative (PFI) companies the constructor plans to divest, but there is no obligation to buy.

The portfolio value increased by 2.1pc in the first quarter of 2012, despite a £500,000 hit on currency due to the strong Canadian dollar, which was partially offset by a weak euro.

The fund recently raised £31m via an issue of shares at 105½p each. The proceeds are being used to pay down some debt and buy more assets in the secondary market.

As noted when Capita placed shares with institutions at a discount at the end of last month, share placings can be disastrous for private investors as they are locked out. However, this is not the case with JLIF, as current investors were also invited to apply for new equity, so the issue was structured to minimise dilution for current shareholders.

The company's balance sheet is quite strong. JLIF has £7.4m of debt drawn under its £60m credit facility, representing just 1.7pc of the company's total assets.

The shares are trading without the right to the interim dividend. The plan is to increase the pay-out so the shares yield 6pc, which is very healthy. If the payment this year comes in at 6p, this will imply a current prospective yield of 5.7pc. JLIF's next dividend payment of 3p a share will be made on May 11.

Of course, there are risks with such funds, which have been extremely popular for income seekers at a time of record low interest rates. However, when interest rates eventually rise which they surely will this could be negative for such funds.

Currently, most of these investments are trading at a premium to net asset value. JLIF, for example, is trading at 106p against its ex-dividend net asset value of 103.1p. When rates do rise, it is arguable that these funds will no longer trade at as high a premium because yield is available elsewhere.

There is also a risk of a retrospective renegotiation of previous PFI contracts by the Government, but Questor feels this is unlikely.

However, all in all, the fund's stable trading, visible income and investment plans means the sector remains attractive. Also, significantly higher interest rates to compete with the yield available from the sector are likely to be a long way off.

JLIF shares are little changed on the 105¼ p they were first tipped at on October 12 last year, but remain a buy.