

Market data

EPIC/TKR	CLIG
Price (p)	430.0
12m High (p)	430.0
12m Low (p)	332.5
Shares (m)	26.9
Mkt Cap (£m)	115.7
EV (£m)	101.8
Market	LSE

Description

City of London is an investment manager specializing in using closed end funds to invest in emerging markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

www.citlon.com

Key shareholders

Directors & staff	20.3%
Blackrock	10.0%
Hargreave Hale	4.9%
Polar Capital	3.3%
Slater Investments	3.0%

Next event

12 Oct 17	Ex-div date
23 Oct 17	AGM
23 Oct 17	Capital Markets Day
31 Oct 17	Final divi payment

Analysts

Brian Moretta	020 7194 7622
	bm@hardmanandco.com

City of London Investment Group

Q1 showing steady growth

City of London has published a trading statement this morning covering 1Q18. As indicated at the time of the release of the annual report, Funds under Management (FUM) have continued to grow and finished the quarter at \$5.0bn, compared to \$4.7bn at the end of June. Emerging Markets have continued to perform well, though this has continued to lead to redemptions from rebalancing. Over the quarter FUM growth of 6% slightly lagged the MSCI Emerging Markets total return Index figure of 8%, but was ahead of the MSCI World Index rate of 5%. The pipeline is described as 'robust'.

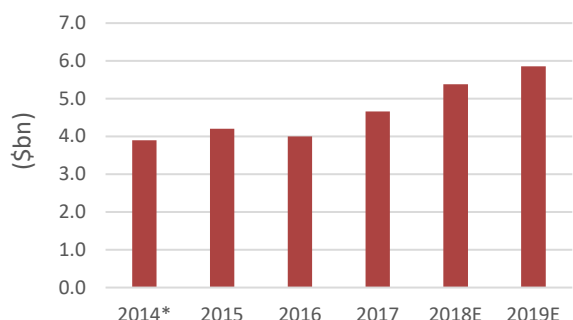
- ▶ **Operations:** Revenue, expense and profitability numbers are marginally ahead of expectations. Revenue continues to accrue at 84 basis points of FUM, with FUM a little ahead of expectations. Costs are in line with previous figures.
- ▶ **Profits:** The run rate operating profitability before profit share and EIP is currently £1.6m per month. This is based on the quarter end exchange rate of 1.34 US\$/£. The net result is that the estimated first quarter post-tax profit is £2.5m.
- ▶ **Valuation:** The prospective P/E of 10.3 times is at a significant discount to the peer group. The historic yield of 5.8% is very attractive and should at the very least provide support for the shares in the current volatile markets.
- ▶ **Risks:** Although Emerging Markets can be volatile, City of London has proved to be more robust than some other emerging market fund managers, aided by its good performance and strong client servicing. Further EM volatility may increase the risk of such outflows however.
- ▶ **Investment summary:** Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY17 saw the first dividend increase since FY12 and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year end Jun (£m)	2014*	2015	2016	2017	2018E	2019E
FUM (\$bn)	3.90	4.20	4.00	4.66	5.38	5.86
Revenue (£m)	24.22	25.36	24.41	31.29	34.99	35.83
Statutory PTP	7.24	8.93	7.97	11.59	13.47	13.97
Statutory EPS (p)	20.7	26.4	23.3	36.9	41.7	43.2
Dividend (p)	24.0	24.0	24.0	25.0	26.0	27.0
P/E (x)	20.8	16.3	18.5	11.7	10.3	9.9
Yield	5.6%	5.6%	5.6%	5.8%	6.0%	6.3%

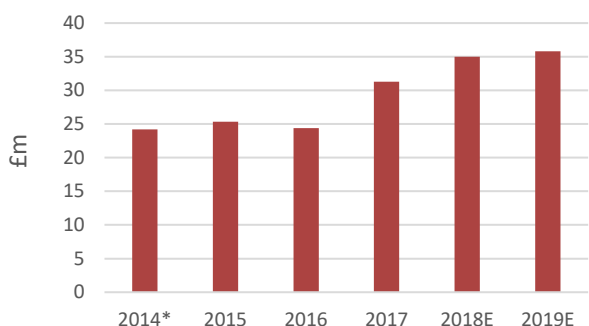
Source: Hardman & Co Research
* 2014 had 13 months in financial year.

Funds under Management



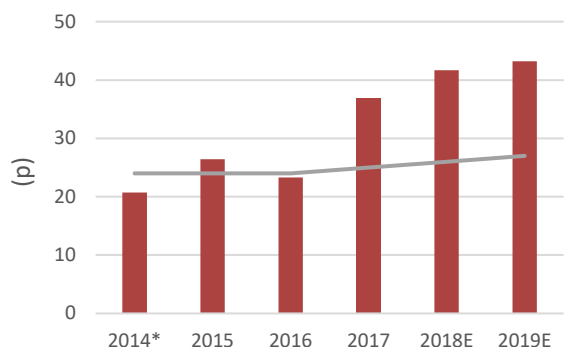
- ▶ Net inflows from 2014
- ▶ Market weakness in 2016 substantially offset by new business flows
- ▶ Assumed steady new business flows and market growth of 5% pa in 2018 and 2019

Revenues



- ▶ Revenues strongly linked to FUM
- ▶ Slight decrease in revenue margins from new business
- ▶ Some currency effects, particularly from strong US Dollar from 2015 to 2017

eps (bar) and dividend (line)



- ▶ Profitability historically maintained by cost flexibility
- ▶ Currency movements lead to step change in 2017
- ▶ Dividend shortfall in 2014 and 2016 covered from reserves
- ▶ Dividend increased in 2017 with cover of 1.46 and we expect steady increases over the next couple of years

Source: Company data; Hardman & Co Research

Estimate Updates

With most figures being in line with expectations we have only made small adjustments to our estimates, most notably increasing the FUM figures. This has led to small upgrade to our eps figures, with 2017E going from 40.9p to 41.7p and 2018E from 42.3p to 43.2p.

Share sales

We note that the share price is above the price 425p at which Barry Olliff expressed an intention to sell his next tranche of 250,000 shares. With a close period having just ended, and assuming the share price stays at or above this level, this seems likely to take place soon.

Financials

Summary Financials						
	2014*	2015	June Year End		2018E	2019E
			2016	2017		
FUM (\$bn)	3.90	4.20	4.00	4.66	5.28	5.75
P&L (£m)						
Revenue	24.22	25.36	24.41	31.29	34.66	35.41
Expenses	17.22	16.63	16.66	19.79	21.45	21.76
Operating Profit	7.00	8.73	7.76	11.51	13.21	13.65
PBT	7.24	8.93	7.97	11.59	13.23	13.67
Earnings	5.20	6.61	5.85	9.14	10.19	10.53
eps (p)	20.7	26.4	23.3	36.9	40.9	42.3
dps (p)	24.0	24.0	24.0	25.0	26.0	27.0
Key Metrics						
	2014*	2015	2016	2017	2018E	2019E
Growth (%)						
FUM		7.7	-4.8	16.5	15.4	8.9
Revenue		4.7	-3.7	28.2	11.8	2.4
Operating Profit		24.7	-11.1	48.4	16.9	3.7
EPS		27.5	-11.7	58.4	13.0	3.7
DPS		0.0	0.0	4.2	4.0	3.8
Operating Margins (%)						
Net FUM fee margin	0.88	0.86	0.86	0.85	0.84	0.84
Operating Margin	28.9	34.4	31.8	36.8	38.5	38.9
Tax Rate	28.2	26.0	26.5	26.0	26.0	26.0
Dividend cover	0.9	1.1	1.0	1.5	1.6	1.6
eps Sensitivity						
					2018E	2019E
No net new business						
eps (p)					41.0	42.0
% change					-1.7	-2.9
0% market growth (was 5% pa)						
eps (p)					40.8	41.6
% change					-2.2	-3.8

Source: City of London Investment Group, Hardman & Co Research
* 13-month year as year end change.

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*Hardman & Co Research Limited (trading as Hardman & Co)
35 New Broad Street
London
EC2M 1NH
T +44 (0) 207 194 7622*

Follow us on Twitter @HardmanandCo

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Hardman Team

Management Team

+44 (0)20 7194 7622

John Holmes	jh@hardmanandco.com	+44 (0)20 7194 7629	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)20 7194 7630	CEO

Marketing / Investor Engagement

+44 (0)20 7194 7622

Richard Angus	ra@hardmanandco.com	+44 (0)20 7194 7635
Max Davey	md@hardmanandco.com	+44 (0)20 7194 7622
Antony Gifford	ag@hardmanandco.com	+44 (0)20 7194 7622
Ann Hall	ah@hardmanandco.com	+44 (0)20 7194 7622
Gavin Laidlaw	gl@hardmanandco.com	+44 (0)20 7194 7627
Vilma PabillonYTE	vp@hardmanandco.com	+44 (0)20 7194 7637

Analysts

+44 (0)20 7194 7622

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Thomas Wigglesworth	tcw@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Steve Clapham	sc@hardmanandco.com
Mike Foster	mf@hardmanandco.com
Jason Streets	js@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com
------------------	---------------------

Mining

Ian Falconer	if@hardmanandco.com
--------------	---------------------

Oil & Gas

Angus McPhail	am@hardmanandco.com
---------------	---------------------

Property

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Services

Mike Foster	mf@hardmanandco.com
Paul Singer	

Special Situations

Steve Clapham	mf@hardmanandco.com
Paul Singer	

Tax Enhanced Services

Brian Moretta	bm@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Utilities

Nigel Hawkins

Hardman & Co

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

