**Market data**

EPIC/TKR	CLIC
Price (p)	350.0
12m High (p)	398.5
12m Low (p)	285.0
Shares (m)	26.9
Mkt Cap (£m)	94.2
EV (£m)	84.0
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](http://www.citlon.com)

**Key shareholders**

Directors & staff	20.3%
Blackrock	9.2%
Hargreave Hale	4.9%
Slater Investments	3.3%
Polar Capital	3.0%

**Next event**

20 Feb 2017	Half-year results
2 Mar 2017	Ex-dividend date for interim
17 Mar 2017	Interim dividend paid
11 Apr 2017	Q3 Trading update

**Analysts**

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**City of London Investment Group****Q2 statement shows robust profitability**

City of London has issued a trading statement for the first half of the 2017 financial year. As we noted previously, emerging market equities performed poorly in November, offsetting some of the good performance in the previous quarter and the MSCI Emerging Markets Index finished the half up 4.5%. City of London's FUM were \$4.1bn at 31 December, up 2.5% from the \$4.0bn as of the end of June. Investment performance has been challenging in the main emerging strategy market, with country allocation and underlying CEF performance contributing to a lagging of the market.

- ▶ **Operations:** The company indicates a current monthly run rate of operating profit before profit share of £1.4m, a slight decrease from the £1.5m rate in October reflecting the weak market. Overall the first half PBT is approximately £5.8m, a great improvement on the £3.6m in FY2016.
- ▶ **New business:** There is an active pipeline in excess of \$400m across all the company's product areas. The company notes greater interest in the non-emerging market CEF strategies over the last 12 months, suggesting continued improvement in diversification.
- ▶ **Valuation:** The prospective P/E of 9.9 times is at a significant discount to the peer group. The historic yield of 6.8% is very attractive and should at the very least provide support for the shares in the current volatile markets. At current market levels we'd expect dividend cover to be restored in 2017.
- ▶ **Risks:** To date, City of London has not experienced the sort of outflows that some other emerging market fund managers have, aided by its good performance and strong client servicing. Further EM volatility may increase the risk of such outflows however.
- ▶ **Investment summary:** City of London has continued to show robust performance in challenging market conditions. The valuation remains reasonable. At current FUM and exchange rates, dividend cover will be more than restored in FY2017 adding to investors' comfort.

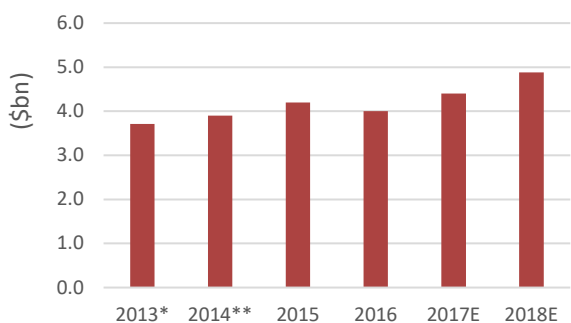
**Financial summary and valuation**

Year end Jun (£m)	2013*	2014*	2015	2016	2017E	2018E
FUM (\$bn)	3.71	3.90	4.20	4.00	4.40	4.88
Revenue (£m)	29.36	24.22	25.36	24.41	29.90	32.67
Statutory PTP	6.27	5.20	6.61	5.85	8.81	9.58
Statutory EPS (p)	24.9	20.7	26.4	23.3	35.4	38.5
Dividend (p)	24.0	24.0	24.0	24.0	25.0	26.0
P/E (x)	14.1	16.9	13.3	15.0	9.9	9.1
Yield	6.9%	6.9%	6.9%	6.9%	7.1%	7.4%

Source: Hardman & Co Research

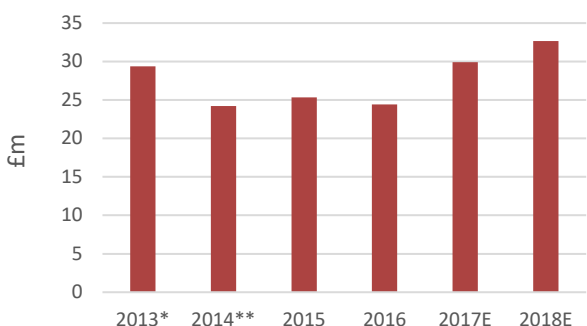
\* 2013 and 2014 had May year ends. 2014 had 13 months in financial year.

**Funds under Management**



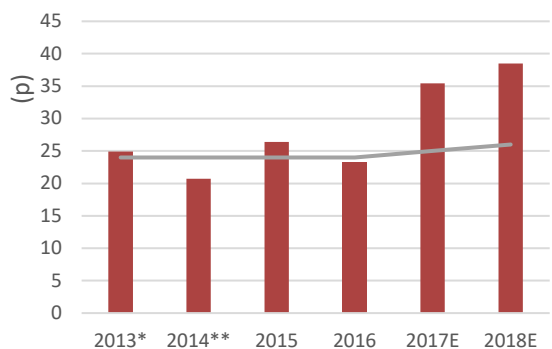
- ▶ Net inflows from 2014
- ▶ Market weakness in 2016 substantially offset by new business flows
- ▶ Assumed steady new business flows and market growth of 5% pa in 2017 and 2018

**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
- ▶ Dividend shortfall in 2014 and 2016 covered from reserves
- ▶ If market remains at current levels then we would expect dividend to be covered and increased in 2017

Source: Company data; Hardman & Co Research

## Estimate Changes

The first half profits came in slightly below our forecasts due to the fund underperformance. Although this has had a slight negative effect on our forecasts, there has been a continued benefit from the weakness of sterling relative to the US Dollar which means we have net slightly upgraded our forecasts.

Investors will note that first half earnings will give roughly 1.4 times cover for the rate required to cover the full year dividend. Given that we are comfortable to continue to forecast a small increase in the full year dividend.

## Financials

Summary Financials						
	2013*	2014**	June Year End 2015	2016	2017E	2018E
FUM (\$bn)	3.71	3.90	4.20	4.00	4.40	4.88
<b>P&amp;L (£m)</b>						
Revenue	29.36	24.22	25.36	24.41	29.90	32.67
Expenses	21.01	17.22	16.63	16.66	18.12	19.74
Operating Profit	8.36	7.00	8.73	7.76	11.79	12.92
PBT	8.86	7.24	8.93	7.97	11.91	12.94
Earnings	6.27	5.20	6.61	5.85	8.81	9.58
eps (p)	24.9	20.7	26.4	23.3	35.4	38.5
dps (p)	24.0	24.0	24.0	24.0	25.0	26.0
<b>Key Metrics</b>						
	2013*	2014**	2015	2016	2017E	2018E
<b>Growth (%)</b>						
FUM		5.0	7.7	-4.8	10.1	10.9
Revenue		-17.5	4.7	-3.7	22.5	9.2
Operating Profit		-16.3	24.7	-11.1	52.0	9.7
EPS		-16.9	27.5	-11.7	52.0	8.7
DPS		0.0	0.0	0.0	4.2	4.0
<b>Operating Margins (%)</b>						
Net FUM fee margin	0.92	0.88	0.86	0.86	0.85	0.84
Operating Margin	28.5	28.9	34.4	31.8	39.4	39.6
Tax Rate	29.3	28.2	26.0	26.5	26.0	26.0
Dividend cover	1.0	0.9	1.1	1.0	1.4	1.5
<b>eps Sensitivity</b>						
					2017E	2018E
<b>No net new business</b>						
eps (p)					35.1	35.3
% change					-0.8	-8.3
<b>0% market growth (was 5% pa from Sept 2016)</b>						
eps (p)					35.1	35.6
% change					-1.0	-7.4

Source: City of London Investment Group, Hardman & Co Research

\* May year end

\*\* 13-month year as year end change.

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*(Disclaimer Version 2 – Effective from August 2015)*

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