



1 May 2024

Financial Services



Source: LSEG, 2024

Market data

| | |
|--------------------|-------|
| EPIC/TKR | CLIG |
| Price (p) | 340.0 |
| 12m high (p) | 450.0 |
| 12m low (p) | 300.0 |
| Shares (m) | 50.7 |
| Mkt cap (£m) | 172.3 |
| EV (£m) | 151.2 |
| Country of listing | UK |
| Currency | GBP |
| Market | LSE |

Description

City of London is an investment manager, primarily using closed-ended funds to invest in emerging and other markets.

Company information

| | |
|-------|--------------------|
| CEO | Tom Griffith |
| CFO | Deepranjan Agrawal |
| Chair | Rian Dartnell |

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www.clig.com

Key shareholders

| | |
|-------------------------|-------|
| George Karpus | 31.5% |
| Hargreaves Lansdown | 8.4% |
| Aberforth Partners | 7.1% |
| Interactive Investor | 6.3% |
| AJ Bell | 3.4% |
| Other directors & staff | 10.7% |

Diary

| | |
|--------|------------------|
| 25 Jul | 4Q FUM statement |
| 17 Sep | Annual results |
| 18 Oct | 1Q FUM statement |

Analyst

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CITY OF LONDON INVESTMENT GROUP

Positive inflows boost FUM

City of London has announced its FUM for 3Q'24. It was a positive quarter, with group FUM rising 5.5%, from \$9.58bn to \$10.10bn. The largest contribution came from a positive market backdrop: all the benchmark indices for CLIM strategies delivered positive returns over the quarter. The MSCI Emerging Markets net total return Index was up 2.1%, while the MSCI ACWI ex US Index increased 4.5%, giving positive market movements across the strategies. Perhaps more importantly, City of London delivered its best quarter for fund flows for some time. Total net inflows were \$224m, with the \$54m of net inflows into Karpus being the strongest since it joined the group.

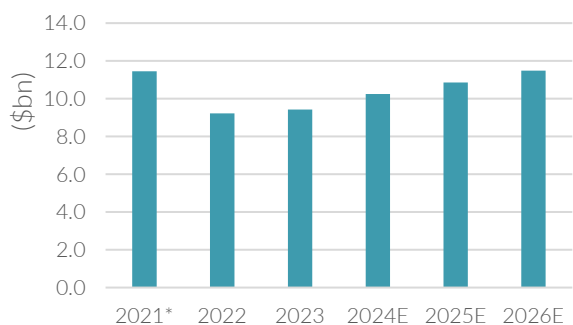
- **Funds:** Performance across the first half was variable, which is natural over a single quarter. Broadly, Emerging Market and Fixed Income strategies outperformed, while International and Opportunistic Value strategies underperformed.
- **Estimates:** The good market performance has led to meaningful upgrades to our earnings estimates. Our 2024E underlying EPS has increased by 3% from 42.3¢ to 43.5¢, our 2025E EPS has increased by 7% from 47.8¢ to 51.0¢, and our 2026E EPS has increased by 6% from 52.6¢ to 55.9¢.
- **Valuation:** After the recent performance, the 2025E P/E of 9.9x is a noticeable discount to the peer group. A 2025E dividend yield of 9.7% is well above the market average and should, at the very least, provide support for the shares in the current markets.
- **Risks:** Although City of London has reduced its relative emerging markets exposure, it is still 36% of assets. It has proved to be more robust than some other fund managers, aided by its good performance and strong client servicing. Market volatility remains a risk, although increasing diversification is also mitigating this.
- **Investment summary:** Having maintained good long-term investment performance and operational control, City of London is well-placed to grow organically. We believe the valuation remains reasonable. Going forward, the prospects for future dividend increases will be dependent on market growth and the ability to attract significant new business at good margins.

Financial summary and valuation

| Year-end Jun (\$m) | 2021 (£m) | 2022* | 2023 | 2024E | 2025E | 2026E |
|----------------------|-----------|-------|-------|-------|-------|-------|
| FUM (\$bn) | 11.45 | 9.22 | 9.42 | 10.25 | 10.85 | 11.49 |
| Revenue | 55.12 | 81.55 | 68.73 | 68.77 | 74.85 | 78.58 |
| Statutory PTP | 22.25 | 30.88 | 22.13 | 22.54 | 27.42 | 30.60 |
| Statutory EPS (¢) | 39.4 | 44.9 | 38.4 | 34.8 | 42.4 | 47.3 |
| Underlying EPS (¢) | 48.1 | 57.4 | 44.5 | 43.5 | 51.0 | 55.9 |
| Underlying EPS (p) | 48.1 | 44.2 | 36.5 | 35.3 | 41.5 | 45.5 |
| DPS (p) | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 |
| Special dividend (p) | | 13.5 | | | | |
| P/E (x) | 8.6 | 9.3 | 10.9 | 12.0 | 9.9 | 8.8 |
| Dividend yield | 9.7% | 13.7% | 9.7% | 9.7% | 9.7% | 9.7% |

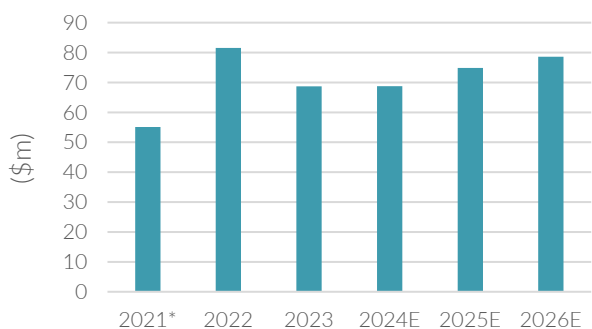
*2022 figures include a special dividend of 13.5p; Source: Hardman & Co Research

Funds under management (FUM)



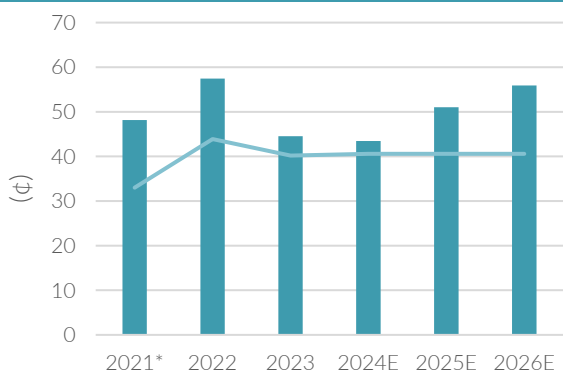
- ▶ Net outflows in 2023, after positive 2022
- ▶ Addition of Karpus in 2021 added \$3.58bn
- ▶ More normal market conditions should see a return to steadier growth
- ▶ Assumed steady net new business flows and equity market growth of 5% p.a.

Revenue



- ▶ Revenue linked strongly to FUM
- ▶ Ongoing, slow decrease in revenue margins from new business
- ▶ Karpus's revenue margin higher, and probably more robust, than CLIM's
- ▶ 2021 and 2022 boosted by addition of Karpus (latter was first full year)

Underlying EPS (bar) and DPS (line)



- ▶ Market movements drive changes, but profitability supported, historically, by cost flexibility
- ▶ Volatile markets weighed on 2022 and 2023 results
- ▶ Special dividend of 13.5p in 2022
- ▶ Ordinary dividend flat since 2021

*2021 figures in GBP. Source: Company data, Hardman & Co Research

Commentary

Funds

| Funds under management (FUM) movements during 3Q'24 | | | | |
|---|---------------|--------------|------------|-----------------|
| (\$m) | Mar'23 | Dec'23 | Net flows | Other movements |
| Emerging Markets | 3,601 | 3,578 | (49) | 72 |
| International | 2,285 | 2,004 | 213 | 68 |
| Opportunistic Value | 302 | 278 | 16 | 8 |
| Other | 87 | 98 | (10) | 1 |
| CLIM total | 6,275 | 5,958 | 170 | 147 |
| KIM total | 3,827 | 3,618 | 54 | 155 |
| Total | 10,102 | 9,576 | 224 | 302 |

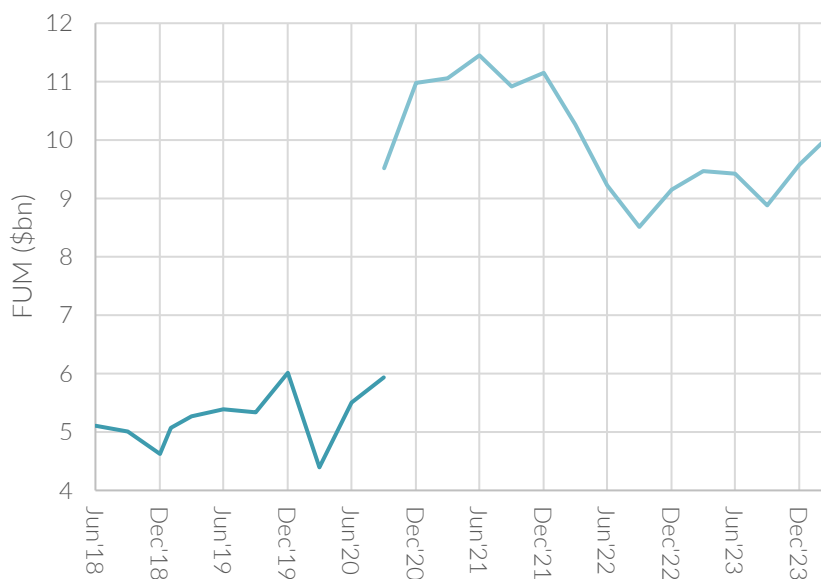
Source: Hardman & Co Research

Although market movements made a bigger contribution, the news on flows is more important. The total net inflows figure of \$224m is the best for some considerable time. Reassuringly, the news was positive across several areas.

The International and Opportunistic Value strategies have been the most consistent producers of net inflows over the past few years, so it was no surprise to see them adding further assets. Karpus saw its best quarter since it became part of the company, with new funds being attracted into the Municipal Bond strategy. It is a year since City of London committed to improving business development in Karpus, so, hopefully, this is the start of that effort bearing fruit.

Although the Emerging Market strategy experienced net outflows, these were much improved over recent figures and the best for a year. With developed markets generally performing better recently, there may be less rebalancing pressure from investors.

City of London's FUM progress over past five years



Note: Jump at Sep'20, due to Karpus transaction; Source: Company data, Hardman & Co Research

Performance, as might be expected over a short period like a quarter, was mixed. The Emerging Markets and Fixed Income strategies outperformed, while International and Opportunistic Value underperformed.

As we have noted for the past couple of reports, the discounts on closed-end funds are very wide just now. For example, the Municipal Bond strategy currently has average discounts of just over 10%, while the long-term average is 3.4%. City of London's investment team is finding lots of opportunities. The flows suggest this may also be starting to resonate with investors.

Finances

The only news on finances was the reiteration of the cost savings of \$2.5m that City of London expects to achieve in full in the next financial year.

Estimate updates

As would be expected from inflows and market movements ahead of our assumptions, there have been upgrades to our estimates. These were also helped by the weakening of sterling against the dollar, which led to some decrease in costs, in dollar terms.

Our 2024E underlying EPS has increased from 42.3¢ to 43.5¢, while our 2025E is increased by 7% from 47.8¢ to 51.0¢ and our 2026E EPS is 6% higher at 55.9¢, from 52.6¢. We have not changed our dividend estimates, although we note that the underlying cover, on our assumptions for 2026, is now 1.4x. We don't want to read too much into one quarter, and the rolling cover is still 1.2x. Nevertheless, City of London will be adding more to its cash reserves and a continuation of these trends may give scope for upgrades to dividend prospects too.

Financials

| Summary financials | | | | | | |
|----------------------|-------|-------|-------|-------|-------|-------|
| Year-end Jun | 2021 | 2022* | 2023 | 2024E | 2025E | 2026E |
| FUM (\$bn) | 11.45 | 9.22 | 9.42 | 10.25 | 10.85 | 11.49 |
| P&L (\$m) | | | | | | |
| Revenue | | 81.55 | 68.73 | 68.77 | 74.85 | 78.58 |
| Expenses | | 49.63 | 47.82 | 46.93 | 48.13 | 48.68 |
| EBITDA | | 38.20 | 27.34 | 27.43 | 32.32 | 35.49 |
| Operating profit | | 31.92 | 20.90 | 21.84 | 26.72 | 29.90 |
| Statutory PTP | | 30.88 | 22.13 | 22.54 | 27.42 | 30.60 |
| Earnings | | 24.11 | 17.50 | 16.97 | 20.65 | 23.04 |
| Statutory EPS (¢) | | 44.9 | 38.4 | 34.8 | 42.4 | 47.3 |
| Underlying EPS (¢) | | 57.4 | 44.5 | 43.5 | 51.0 | 55.9 |
| Underlying EPS (p) | 48.1 | 44.2 | 36.5 | 35.3 | 41.5 | 45.5 |
| Total DPS (p) | 33.0 | 46.5 | 33.0 | 33.0 | 33.0 | 33.0 |

| Key metrics | | | | | | |
|--|-------|--------|--------|-------|-------|-------|
| | 2021 | 2022* | 2023 | 2024E | 2025E | 2026E |
| Growth | | | | | | |
| FUM | | -19.4% | 2.2% | 8.8% | 5.9% | 5.8% |
| Revenue | | 47.9% | -15.7% | 0.1% | 8.8% | 5.0% |
| Operating profit | | 35.4% | -34.5% | 4.5% | 22.4% | 11.9% |
| Underlying EPS (¢) | | 19.3% | -22.5% | -2.4% | 17.4% | 9.6% |
| DPS (excl. special div.) | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Operating margins | | | | | | |
| Net FUM fee margin | 0.75% | 0.73% | 0.72% | 0.70% | 0.70% | 0.70% |
| Operating margin | 42.8% | 39.1% | 30.4% | 31.8% | 35.7% | 38.0% |
| Tax rate | 23.6% | 24.0% | 24.0% | 24.7% | 24.7% | 24.7% |
| U/I dividend cover (x, incl. special div.) | 1.5 | 1.0 | 1.1 | 1.1 | 1.3 | 1.4 |
| Rolling u/I 5-year cover (x, excl. special div.) | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 |

| Underlying EPS sensitivity | | | |
|---------------------------------------|-------|-------|-------|
| | 2024E | 2025E | 2026E |
| No net new business | | | |
| Underlying EPS (¢) | 43.4 | 50.3 | 54.4 |
| change | -0.1% | -1.3% | -2.7% |
| 0% market growth (was 5% p.a.) | | | |
| Underlying EPS (¢) | 43.4 | 48.7 | 50.4 |
| change | -0.2% | -4.5% | -9.8% |

*2022 figures include a special dividend of 13.5p; Source: Company data, Hardman & Co Research
£1=\$1.23

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