

Price	406p
Market Cap	£206m
Shares in issue	50.7m
12m Trading Range	380p–561p
Free float	61%
Next Event	1Q update: 17 Oct

Price performance (p)



Financial forecasts

Yr end June (£'m)	2021A	2022A	2023E
Revenue, net	52.5	58.2	57.5
yoy growth (%)	57.7	10.9	(1.2)
Operating profit	35.6	38.4	35.9
Profit margin (%)	67.8	66.0	62.4
Adj. PBT #	26.7	27.9	26.2
PAT	17.0	18.1	16.8
Adj. EPS (p)	48.1	44.2	41.6
DPS (p)	33.0	46.5	33.0
Net cash/(debt)	25.5	22.7	30
P/E	8.4	9.2	9.8
Div yield (%)	8.1	11.5	8.1
On 30 June £1=	1.38	1.21	1.15

excludes amortisation of intangibles, £1.7m KIM deal costs in FY21, and investment gains
Source: Audited Accounts and Zeus estimates

* City of London Investment Group is a Broking client of Zeus

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City of London Investment Group

CLIG LN – Financials

Annual report

CLIG's annual report & accounts is precisely in line with its pre-close update of 19 July, which revealed \$102m of net inflows, Sterling value of Group Funds under Management "FUM" of £7.6 billion and recommendation of a final DPS of 22p (2021 final: 22p).

- ◆ FUM at 30 June 2022 were US\$9.2 bn down 19% yoy (£7.6 bn down 8% yoy), with a change of "mix" with inflows of \$0.5bn into diversification strategies:
 - CLIM's Emerging Market FUM fell 31% yoy to \$3.7 bn (40% of Group FUM)
 - CLIM's diversification strategies fell only 2% yoy to \$2.1 bn (23% of Group FUM)
 - KIM client FUM reduced 12% yoy to \$3.4 bn (37% of Group FUM), as clients responded to market volatility by reducing their market exposure.
- ◆ 10.9% rise in net fee income to £58.2m (2021: £52.5m)
- ◆ 4.5% rise in underlying PBT to £27.9m (2021: £26.7m)
- ◆ 8.1% fall in underlying EPS to 44.2p (2021: 48.1p)
- ◆ Final DPS maintained at 22p, making total DPS of 46.5p (2021: 33p)

Outlook: Management sees "early signs of a more stable market environment" and observe that "irrespective of the macro-economic outlook, the CLIG business model, focused on value-orientated CEFs and encompassing a mix of institutional and wealth management clients, is stronger than in previous periods of difficult markets." In short, management "view the future with cautious optimism."

Zeus view: CLIG's annual report comments on exceptionally difficult market conditions and their performance against benchmarks (pages 6-7), including ESG risk.

"Wide discounts and persistent discount volatility" provide opportunities for CLIG's investment process and style.

Our new forecast (pages 4-5) reflects reduced net inflows, weak sterling and company guidance (pages 2-3):

- ◆ Maintain forecast net and gross fees at £57.5m and £59.5m respectively
- ◆ Cut PAT by 1% from £17.0m to £16.8m and adj EPS to 41.6p (excluding amortisation)
- ◆ Increase our forecast net cash at 30 June 2023 to £27.7m.

Valuation: CLIG has an excellent dividend record. At 406p CLIG shares are trading on 9.2x PER and 11.5% dividend yield including the 13.5p Special DPS. Looking forward, we expect CLIG to maintain 33p normal DPS: prospective dividend yield of over 8%.

Management guidance

Almost all CLIG's revenues are US dollar based, while costs are incurred in US dollars, sterling and also Singapore dollars. Exhibit 1 shows the effect of a change in US dollar/sterling exchange rate on CLIG's post-tax profit at various FUM levels and other assumptions.

We have rebased our forecast net inflows for FY(Jun)23E from £385m to £52m, reflecting difficult market conditions.

Based on Funds under Management of US\$9.25bn (Exhibit 2), current exchange rate we expect post tax profit of £16.8m (Exhibit 1).

Exhibit 1: CLIG FX/Post-tax profit matrix

FX/Post-tax profit matrix					
Illustration of US\$/£ rate effect:					
FuM US\$bn	8.2	9.2	9.4	9.9	10.4
US\$/£	Post-tax, £m:				
1.16	13.2	16.5	17.4	19.0	20.7
1.20	12.5	15.8	16.6	18.2	19.7
1.25	11.7	14.8	15.6	17.1	18.7
1.28	11.3	14.3	15.1	16.6	18.1
1.32	10.7	13.7	14.4	15.9	17.3
Assumptions:	CLIM		KIM		
1 Average net fee	71 bp's		76 bp's		
2 Annual operating costs	£6.7m plus US\$9.4m plus S\$0.8m (£1 = S\$1.68)		US\$7.9m		
3 Average tax	22%		24%		
4 Amortisation of Intangible £3.4m per annum					

Note: This table is intended to illustrate the approximate impact of movement in US\$/£, given an assumed set of trading conditions. It is not intended to be interpreted or used as a profit forecast.

Source: Company annual report published 20 September 2022

Exhibit 2: Movement in CLIG's FUM, US\$m

YE June, \$m	FY21 Actual	FY22 Actual	FY23E Forecast
Opening FUM	5,503	11,449	9,224
Net inflows	(752)	102	52
Performance & Market	3,120	(2,327)	-
Acquisition of KIM	3,578	-	-
Closing FUM	11,449	9,224	9,320
Growth in FUM (%)	109.0	(19.4)	1.0
Average FUM	9,679	10,337	9,250
Average FX rate: £1 =	US\$1.38	1.32	1.15
Average FUM in £	6,142	7,840	7,900
Avg revenue margin (bps)	85	74	73
Net / gross fees #	52.5 / 55.1	58.2 / 61.3	57.5 / 59.5

Source: Company (historic); Zeus (forecasts)

gross fees include finders commissions and custody fees

We change our forecasts from £1=US\$1.20 to £1=US\$1.15, with the US dollar/sterling exchange rate at £1=\$1.14 at the time of writing.

Our forecast for FY22E and FY23E is based on:

- ◆ Markets being flat overall
- ◆ CLIM and KIM continuing to attract net inflows and having 4% FuM growth by June 2023
- ◆ Revenue margin easing to 73 basis points (FY22: 74 basis points)

With weaker Sterling and lower net inflows, we adjust our forecast as follows:

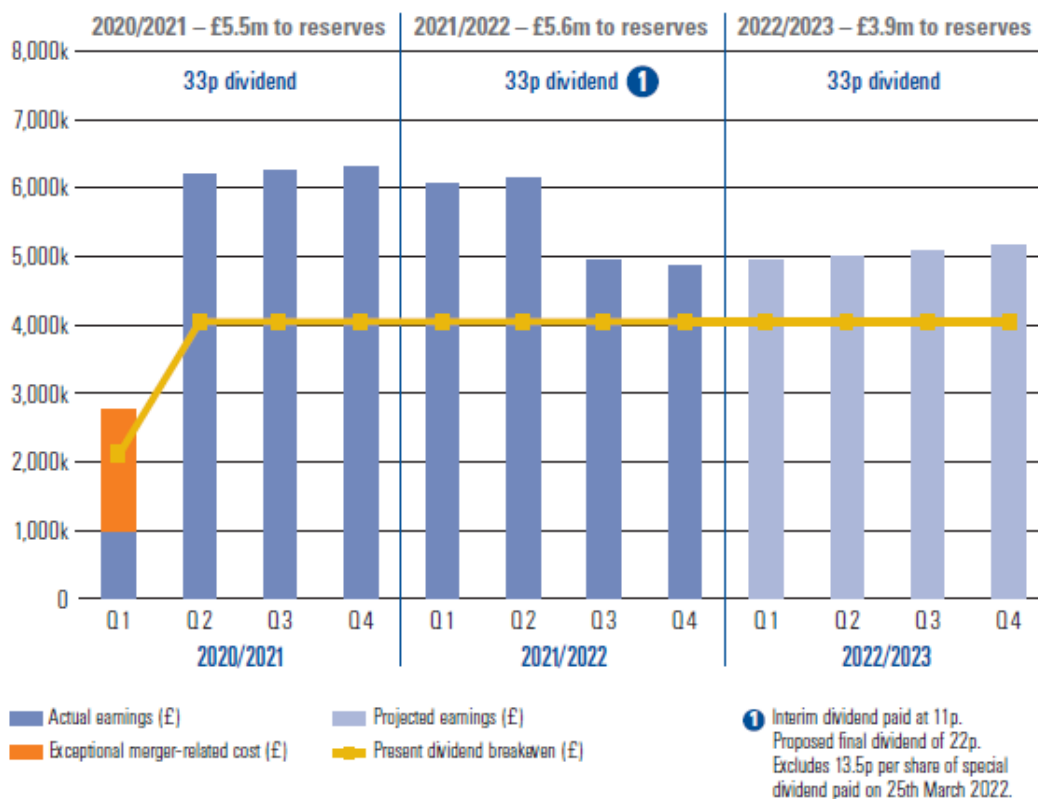
- ◆ Leave our forecast net fees at £57.5m and gross fees at £59.5m
- ◆ With weaker sterling, costs will be higher.
- ◆ PAT cut by 1% from £17.0m to £16.8m

We draw investors' attention to management's guidance, which is updated regularly and is available on its website. Exhibit 2 shows the group quarterly cash profit after tax, with a mathematical extrapolation to June 2023. Our forecasts are broadly in line with this guidance, although our forecasts include the non-cash amortisation of acquired intangibles (c £4.4m pa).

The US dollar exchange rate used in Exhibit 3 is £1=US\$1.25 which is 8.7% stronger than the current exchange rate and the rate used in our forecasts. Actual earnings and dividend cover would be 11.5% higher with current exchange rate.

Exhibit 3: CLIG template – for guidance purposes

Dividend cover chart



Key assumptions

- Number of CLIG Shares in issue (50.7m) less those held by the Employee Benefit Trust (1.7m) as at 30th June 2022.
- Excludes unrealised loss/gains on seed investments.
- Excludes amortisation of intangibles arising on the merger.

	CLIM	KIM
• Starting FuM as at	1-Jul-22	1-Jul-22
• Net increase in FuM in 2022/2023 (straight-lined to June 2023)	US\$250m	US\$135m
• Market growth:	0%	0%
• Corporation tax based on an estimated average rate	22%	24%
• Exchange rate assumed to be for entire period	£1/\$1.25	£1/\$1.25

Source: Company website

Zeus forecasts

Exhibit 4: Group P&L, £m

£m	1H21 Dec	2H21 June	FY21 June	1H22 Dec	2H22 June	Previous FY22E June	FY22 June	YoY change (%)	New FY23E June
Revenue (gross fees)	23.7	31.4	55.1	31.4	29.9	60.0	61.3	(3)	59.5
Finder's commissions	(0.4)	(0.7)	(1.1)	(0.8)	(0.8)	(1.6)	(1.6)	(37)	(1.0)
Administrative expenses *	(8.7)	(9.6)	(18.3)	(9.4)	(11.8)	(20.9)	(21.2)	6	(22.5)
Interest	-	(0.1)	(0.1)	(0.1)	(0.0)	(0.2)	(0.1)		(0.1)
Operating profit *	14.6	21.0	35.6	21.1	17.3	37.3	38.4	(7)	35.9
Profit share #	(3.4)	(5.5)	(8.9)	(5.6)	(4.9)	(10.0)	(10.5)	(7)	(9.7)
Underlying PBT *	11.2	15.5	26.7	15.5	12.4	27.3	27.9	(6)	26.2
Investment gain/(loss)	0.4	0.1	0.5	-	(0.6)	(0.1)	(0.6)		-
KIM deal costs	(1.7)	-	(1.7)	-	-	-	-		-
KIM intangibles amortisation	(1.1)	(2.2)	(3.3)	(1.9)	(2.2)	(4.1)	(4.1)	7	(4.4)
Profit before tax *	8.8	13.4	22.2	13.6	9.6	23.1	23.2	(6)	21.8
Minority interest	-	-	-	-	-	-	-		-
Tax	(2.2)	(3.0)	(5.2)	(3.0)	(2.1)	(5.0)	(5.1)	(2)	(5.0)
Profit after tax *	6.6	10.4	17.0	10.6	7.5	18.1	18.1	(7)	16.8

(Source: Company (historic); Zeus (forecasts))

* including custody fees and share based payments

profit share /operating profit = 27%

Exhibit 5: Movement in shareholders' equity, £m

£m	1H21 Dec	2H21 June	FY21E June	1H22 Dec	2H22 June	Previous FY22E June	FY22 June	YoY change (%)	New FY23E June
Equity b fwd	18.9	122.0	18.9	120.1	122.2	120.1	120.1	7	128.8
Profit after tax	6.6	10.4	17.0	10.6	7.5	18.1	18.1	(7)	16.8
Other comp income	(0.2)	(6.5)	(6.7)	2.0	10.8	2.0	12.8	38	8.0
PY final dividend paid	(5.0)	-	(5.0)	(9.4)	-	(9.4)	(9.4)	13	(10.6)
Interim dividend paid	-	(4.7)	(4.7)	-	(5.3)	(5.4)	(5.3)	2	(5.4)
Special dividend paid	-	-	-	-	(6.8)	(6.8)	(6.8)		
Purchase of KIM	101.8	-	101.8	-	-	-	-		
Net (purchase) of shares	(0.4)	(1.3)	(1.7)	(2.3)	(0.1)	(2.3)	(2.4)		
SBP & EIP	0.7	0.7	1.4	1.2	0.5	1.2	1.7		
Share issue costs etc	(0.4)	(0.5)	(0.9)	-	-	-	-		
Equity c fwd	122.0	122.0	120.1	122.2	128.8	117.5	128.8	8	137.6

Source: Company (historic); Zeus (forecasts)

Exhibit 6: Group Cashflows, £m

£m	1H21	2H21	FY21	1H22	2H22	Previous FY22E	FY22	YoY change (%)	New FY23E
Period end	Dec	June	June	Dec	June	June	June	June	June
Profit before tax	8.8	13.5	22.3	13.6	12.5	23.1	23.2	(6)	21.8
Intangible amortisation	1.1	2.2	3.3	1.9	2.2	4.2	4.1	7	4.4
Non-cash & working cap adj	0.4	3.0	3.4	1.0	3.8	1.9	4.8	(40)	2.9
Op cash generated	10.3	18.7	29.0	16.5	15.6	29.2	32.1	(9)	29.1
Net interest paid	(0.1)	(0.1)	(0.2)	(0.1)	-	(0.1)	(0.1)	-	-
Tax paid	(1.6)	(4.2)	(5.8)	(3.5)	(3.5)	(6.0)	(7.0)	0	(7)
Op. cash post-tax	8.6	14.4	23.0	12.9	12.1	23.1	25.0	(12)	22.1
CapEx & investment	0.9	-	0.9	(2.1)	(2.0)	(2.1)	(4.1)	(66)	(1.4)
Cash before financing	9.5	14.4	23.9	10.8	10.1	21.0	20.9	(1)	20.7
Special dividend	-	-	-	-	(6.8)	(6.8)	(6.8)	-	-
Dividends paid	(5.0)	(4.7)	(9.7)	(9.5)	(5.4)	(14.9)	(14.7)	9	(16)
Net share purchases	(0.4)	(1.3)	(1.7)	(2.3)	-	(2.3)	(2.4)	-	-
Lease financing etc	(1.1)	(0.4)	(1.5)	-	(0.4)	-	(0.4)	-	-
Net increase in cash	3.0	8.0	11.0	(1.0)	(2.4)	(3.0)	(3.4)	(238)	4.7
Cash & equivalents bfwd	14.6	17.5	14.6	25.5	24.5	25.5	25.5	(12)	22.5
FX & other	(0.1)	-	(0.1)	-	0.5	-	0.5	0	0.5
Cash & equivalents cfwd	17.5	25.5	25.5	24.5	22.7	22.5	22.7	22	27.7

Source: Company (historic); Zeus (forecasts)

Exhibit 7: Group Balance Sheet, £m

£m	FY20 June 2020	1H21 Dec 2020	FY21 June 2021	1H22 Dec 2021	Previous FY22E June	FY22 June 2022	YoY Change (%)	New FY23E June 2023
Non-current assets	1.1	0.8	0.8	0.9	0.9	0.9	0	0.9
Intangibles	-	110.3	101.0	101.1	99.0	110.0	2	112.0
Available for sale assets	4.0	4.3	4.4	6.2	6.2	7.4	18	8.7
Right of use assets	1.9	1.9	2.8	2.5	2.5	2.4	0	2.4
Lease liabilities	(2.0)	(1.9)	(2.7)	(2.5)	(2.5)	(2.6)	(4)	(2.5)
Working capital	0.3	(1.3)	(1.3)	(0.5)	(1.4)	(2.9)	14	(3.3)
Cash & equivalents	14.6	17.5	25.5	24.5	22.5	22.7	22	27.7
Tax payable	(0.8)	(2.1)	(1.4)	(1.4)	(1.4)	(0.5)	-	(0.5)
Deferred tax liability	-	-	(8.7)	(8.4)	(8.1)	(8.6)	(9)	(7.8)
Net assets	19.1	122.2	120.4	122.4	117.7	128.8	7	137.6
Non-controlling interest	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	-	-	-
Shareholders' equity	18.9	122.0	120.1	122.2	117.5	128.8	7	137.6

Source: Company (historic); Zeus (forecasts)

Investment conditions & CLIM’s processes

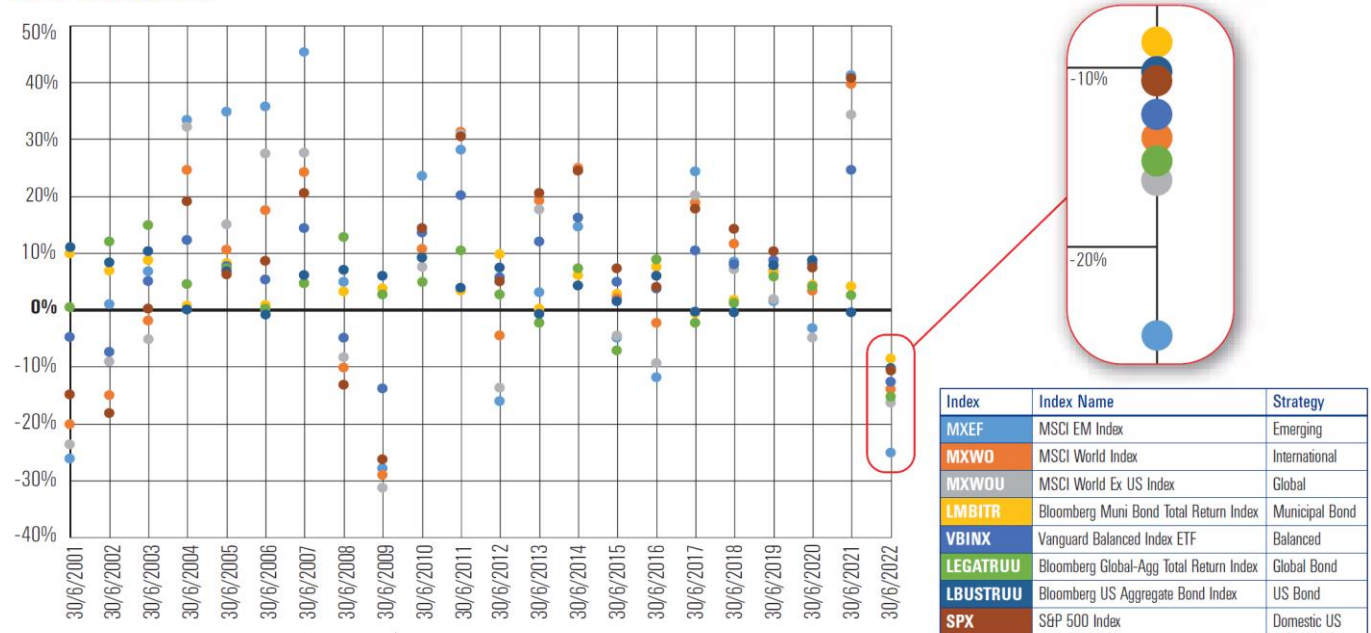
The year to June 2022 delivered the worst investment returns for 20 years

CLIG’s CEO statement begins by observing the difficult operating environment:

“For the first time in over 20 years, all eight main asset categories managed at the Group’s two subsidiaries delivered negative annual returns, as illustrated in the chart below.”¹

Exhibit 8: Asset Class Returns from June 2000 to June 2022

Asset Class Returns



Source: Bloomberg, Annual periods ending 30th June. (US\$) terms

Source: City of London Investment Group 2021/2022 annual report & accounts

CLIG’s two subsidiaries (CLIM and KIM) delivered negative annual returns, reflecting market conditions.

KIM’s strategies “performed well” driven by a “tactical reduction” to CEF (Closed End Fund) strategies when discounts narrowed and “significant allocation to SPACs trading at a discount to trust value”. SPACs were “one of the few asset classes that produced positive returns”.²

CLIM’s investment review observed that “active equity managers generally struggled to outperform over the period” and concludes that “despite the relative underperformance over the period, over 95% of CLIM’s assets remain ahead of benchmark and peer group over the five years ended June 2022.”³

CLIM’s investment report concludes: “Wide discounts and persistent discount volatility give us confidence that our CEF strategies will continue to meet our clients’ longer term performance expectations.”⁴

¹ City of London Investment Group 2021/2022 annual report & accounts

² Ibid

³ Ibid

⁴ Ibid

ESG risks

CLIM's investment report considers ESG risks and refers to its detailed stewardship report.⁵

In 2020/21 management developed its ability to "fully look through CLIM's portfolios to the underlying securities" to consider ESG risks at a portfolio level. Last year, CLIG has partnered with Style Analytics to analyse "style factors" and portfolio ESG risk.

It is no surprise that "discounts are the overriding consideration in CLIM's investment process but our manager due diligence does include a review of how ESG risk is managed by the underlying managers."⁶

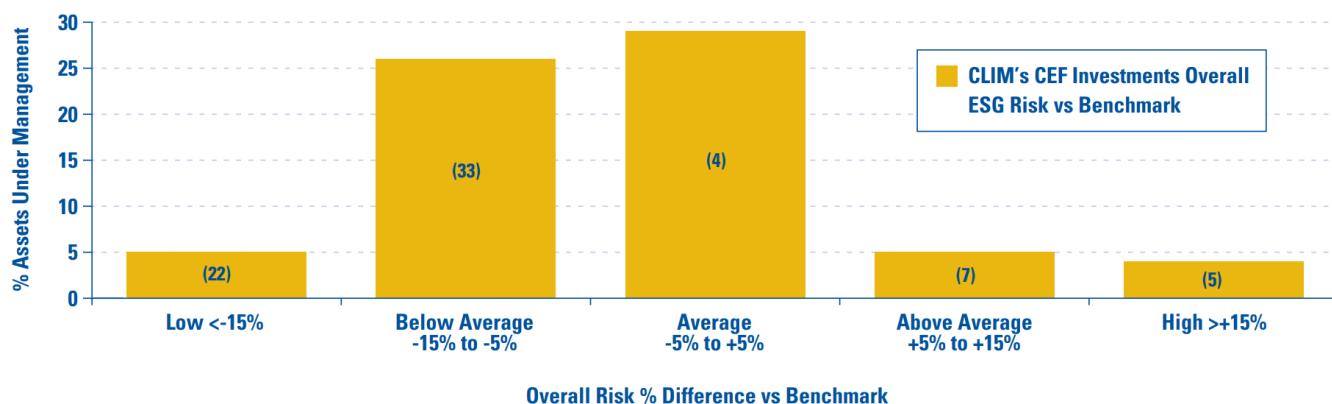
The report goes on to say "We undertake this work in order to improve their ESG disclosures and also to keep our clients better informed about their portfolios. We believe that improved transparency will result in better management of ESG risk by CEF managers and ultimately better returns for our clients".⁷

The analysis shows that "CLIM's CEF portfolios have a slightly lower overall ESG risk than their benchmarks on average, though this is not a targeted outcome."⁸

Exhibit 9 analyses ESG risk in CLIM's client portfolios as 31 December 2021 relative to their benchmarks.

The AUM does not sum to 100% because not all CEFs are suitable for this analysis.

Exhibit 9: CLIM's CEF investments Overall ESG Risk vs Benchmark



Source: CLIM / Sustainalytics. AUM does not sum to 100% because not all CEFs can be analyzed by Sustainalytics.

Source: https://citlon.com/esg-reports/AnnualStewardshipReport3_22.pdf

The above analysis covers 71 CEF portfolios, representing 70% of CLIM's AUM (73% of emerging market AUM and 66% of developed markets' AUM). The process covered 91% of securities in CLIM's CEF portfolios on a size weighted basis.

The overall ESG risk for CLIM portfolios was 2.8% lower than their respective benchmarks. By strategy, overall ESG risk for the EM strategy was 3.7% below benchmark and for the developed strategy it was 0.8% lower.

CLIG's website⁹ has numerous reports which enable its clients and investment allocators to assess CLIG's investment process.

⁵ https://www.citlon.com/esg-reports/AnnualStewardshipReport3_22.pdf

⁶ City of London Investment Group 2021/2022 annual report & accounts

⁷ Ibid

⁸ Stewardship Report

⁹ www.citlon.com

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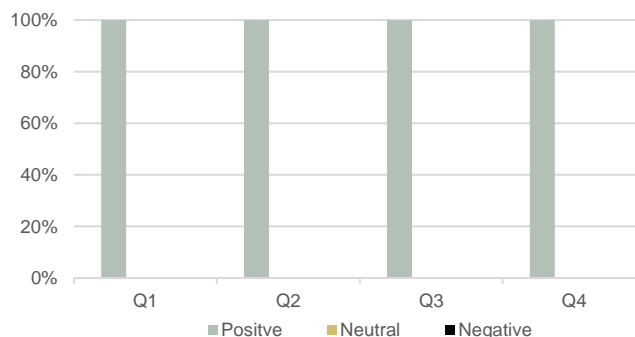
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12 Month Recommendation History



Recommendation distribution at 30 June 2022 Source: Zeus

12 Month Recommendation History

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