

29 November 2021

City of London Investment Group*

CLIG LN

Financials

Forecast update

We update our forecasts to take account of (1) Group 2020/2021 Annual Report & Accounts released in September (2) 1Q IMS released in October (3) End October 2021 FUM update in early November. Key points include:

- Group Funds Under Management "FuM" remain circa US\$11 bn; in October there was a small uptick which may indicate small net inflows.
- Strong investment performance across CLIG's investment strategies (Exhibit 3 shows performance over 5 years relative to peers and benchmarks).
- CLIG continues to maintain an active pipeline across all its major products; our forecasts assume no net inflows in FY22 and 4% net inflows for FY23.
- Income net of third-party commissions currently accrues £5m a month (we FY22 forecast £5m) and overheads at £1.6m (we forecast £1.625m).
- Sterling has strengthened 8% from below \$1.25 to £1 to over \$1.35 now.

CLIG's Group FuM on 31 October 2021 was \$11.2bn (see Exhibits 1 & 2).

Zeus view: We observe the acquisition of KIM has dampened the impact of market movements in emerging markets. This will reduce revenue and earnings volatility.

We draw attention to CLIM and KIM funds' top quartile performance over 5 years, which is a prerequisite for attracting net institutional net inflows.

Based on disclosures in CLIG's full year accounts, we trim our profit and EPS forecasts by 3%.

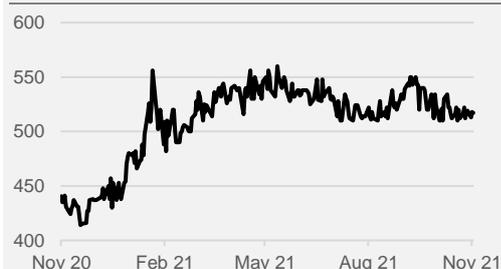
Overall, we leave our DPS forecasts unchanged, noting the dividend cover of over 1.4x (i.e. below "1.2x target") and build-up of net cash from £25m to over £30m.

Valuation: At 514p CLIG shares are trading on 10.9x PER and 6.4% dividend yield. CLIG has a strong balance sheet with no debt and substantial net cash. On our new forecast underlying EPS and using the group's "target dividend cover of 1.2x" and a 6.0% dividend yield, the valuation would be 650p a share.

Over the past 5 years CLIG has delivered annualised Total Shareholder Returns (TSR) of 16% CAGR, with dividends providing 8%, earnings growth c 6% CAGR. Over the next five years, we expect CLIG to continue to deliver a TSR of over 10% pa, of which half comes from dividends and the other half comes from a combination of earnings growth and multiple expansion.

Price	514p
Market Cap	£260m
Shares in Issue	51m
12m Trading Range	414p to 560p
Free float	61%
Next Event	1H update Jan '22

Price Performance (p)



Source: Bloomberg

Financial Forecasts

Yr end June (£m)	2020A	2021A	2022E	2023E
Revenue	33.3	52.5	60.0	61.5
y.o.y growth (%)	4.4	57.7	14.3	2.5
Op profit	18.6	35.8	41.0	41.5
Profit margin (%)	56	68	68	67
Underlying PBT #	11.5	26.9	30.0	30.4
Underlying EPS (p) #	38.0	48.1	47.3	47.9
DPS (p)	30.0	33.0	33.0	33.0
Avg FuM (\$B)	5.7	9.7	11.4	11.4
Net cash	14.6	25.5	30.8	38.6
P/E	13.5	10.7	10.9	10.7
Div Yield (%)	5.8	6.4	6.4	6.4

Source: Audited Accounts and Zeus Capital estimates

Forecasts include KIM acquisition from 1 October 2020

excludes £2.9m KIM deal costs: £1.2m in FY20 & £1.7m in FY21
amortisation of intangibles and investment gains

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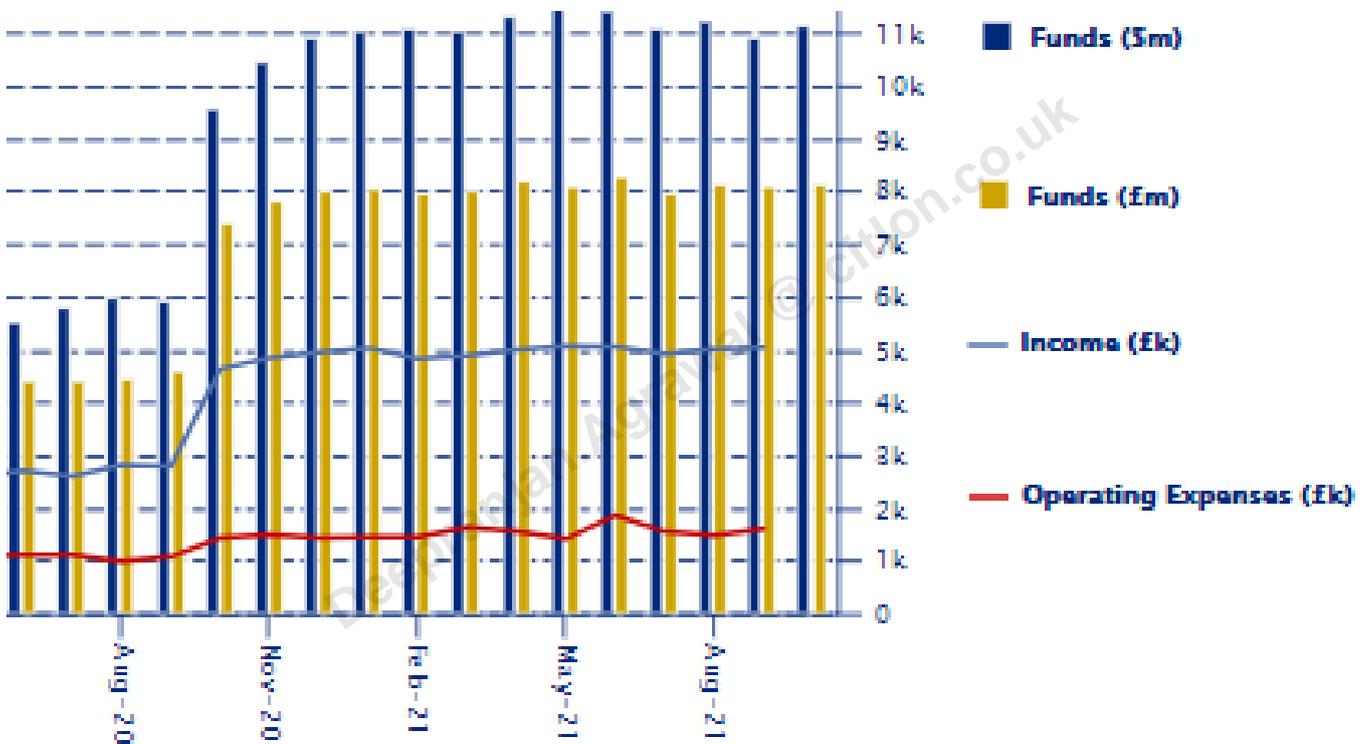
Zeus forecasts & co guidance

Movement in KPIs (FuM, income, operating expenses)

CLIG reports its KPIs on its website on a monthly, quarterly, half yearly and annual basis.

In 2021, CLIG Funds under Management has remained close to US\$11 billion (Exhibit 1) and its income at £5m a month (i.e. £60m p.a.). In the current financial year (to June 2022) operating expenses have been well controlled.

Exhibit 1: CLIM Funds Under management (“FUM”) & operating profitability



Source: <https://www.clig.com/funds-under-management.php>

CLIG’s 1Q IMS in October 2021 said: “The group’s income accrues at a weighted average rate of approx. 73 basis points of CLIG’s FUM and at approx. 76% of KIM’s FUM, net of third party commissions.” This is clear from Exhibit 1 above.

CLIG’s IMS continues: “Fixed costs are c £1.6m per month and accordingly the run-rate for operating profit before profit-share is approx. £3.3m per month based on current FUM and US\$/£ rate of US\$1.3474.” The strong cost control is clear from Exhibit 1 above. The current exchange rate is US\$1.33 (i.e. Sterling has weakened in recent months against the US dollar: as CLIG reports in Sterling US dollar weakness is beneficial).

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Movement in FuM

Exhibit 2 sets out the movement in CLIG's FUM.

In the 3 months to 30 September 2021 (1Q), 75% of the US\$172m of net outflows related to Emerging Market funds, where clients were rebalancing after very strong gains over the past year. Karpus Investment Management "KIM" experienced no net outflows. CLIG's investment performance was good from a country allocation and NAV performance perspective. While the Emerging Market's index fell 8%, and MSCI AWCI ex US index fell 4%, the FUM market movement was only 3% negative: this demonstrates the stability of KIM's US balanced portfolios which make up 36% of group FUM (June 2021: 34%).

In October 2021, emerging markets index (M1EF¹) nudged up 1%, MSCI ACWI ex US index rose 2%. Allowing for KIM's balanced portfolios, we expect this will have added just over US\$90m to FUM and net inflows added some US\$150m.

In November 2021, the Emerging Market and MSCI AWCI ex US indices are down 0.7% and 1.2% respectively. Net of KIM's balanced portfolios the change in market value should be small.

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

1Q of FY22 Actual	Oct 21 est	Nov 21 est	YE June, \$m	FY20 Actual	FY21 Actual	FY22E Forecast	FY23E Forecast
11,449	10,918	11,160	Opening FUM	5,389	5,503	11,449	11,449
(172)	150		Net inflows	338	(752)	-	451
(359)	92		Performance & Market	(224)	3,120	-	-
-	-		Acquisition of KIM	-	3,578	-	-
10,918	11,160		Closing FUM	5,503	11,449	11,449	11,900
			Growth in FUM (%)	2.1	109.0	-	3.9
			Average FUM	5,730	9,679	11,443	11,671

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

Key assumptions

CLIG's 1Q IMS in October 2021 said: "Business development will focus on EM, International, Opportunistic Value strategies and KIM balanced mandates, where additional capacity is now available for prospects."

We continue to forecast unchanged FUM this year.

Our forecast for FY22E and FY23E (see Exhibits 3, 4, 6, 7, 8 & 9) is based on:

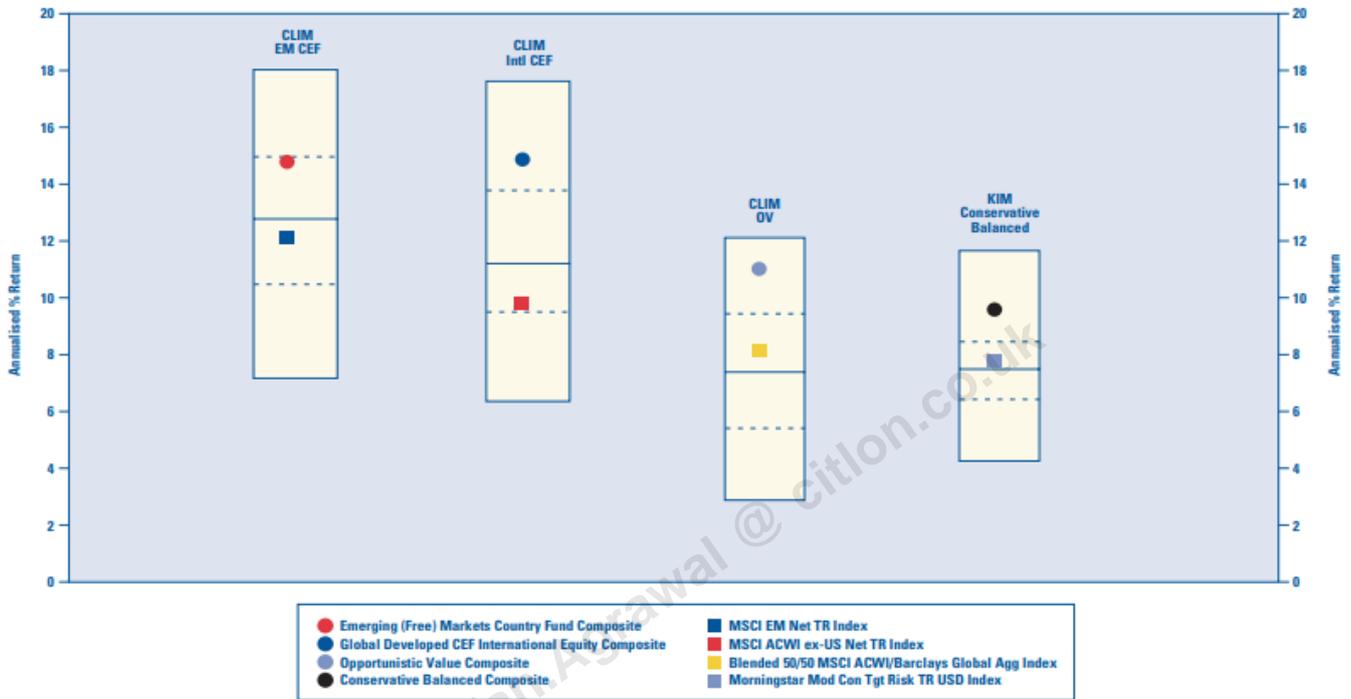
- Markets being flat overall
- CLIM and KIM having no net inflows in 2021/22 and 4% FuM growth by June 2023

¹ <https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111>

CLIM & KIM funds deliver top quartile performance over 5 years

Funds performance monitoring continued, even during COVID-restrictions. Exhibit 3 shows CLIG' five year peer group performance across its funds.

Exhibit 3: Five Year Peer Group* Quartile Chart



Source: <https://www.clig.com/investor-reports/IP59.pdf> *CLIM and KIM returns are compared to their respective eVestment and Morningstar universes

In our opinion, CLIM and KIM funds demonstrate attractive returns relative to benchmarks.

As at 30 September 2021, the split of CLIG's funds under management was:

- CLIM Emerging Market funds US\$4.9 billion (45% of total)
- CLIM International funds US\$1.8 billion (17% of total)
- CLIM Opportunistic Value funds US\$ 0.2 billion (2% of total)
- KIM Retail and Institutional funds US\$ 3.9 billion (36% of total)

Marketing CLIM and KIM's top quartile performing funds, driven by rigorous investment process (described in the Annual Report & Accounts), is a high priority.

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Zeus forecast

Exhibit 4 sets out our forecasts for CLIG for the years ending 30 June 2022 and 2023. With KIM margin of 76 basis points and CLIM margin of 74 basis points, and with Group FuM split 36% KIM and 64% CLIM, we use an average Group revenue margin of 73.4 basis points.

For forecasting, we use an average exchange rate of US\$1.33 = £1.00 for the current year (previously 1.44)². We nudge our revenue forecast for FY22E forecast up slightly from £59.0m to £60.0m (= \$11,400m/1.33*0.00734 - £2.9m). This is £5m a month.

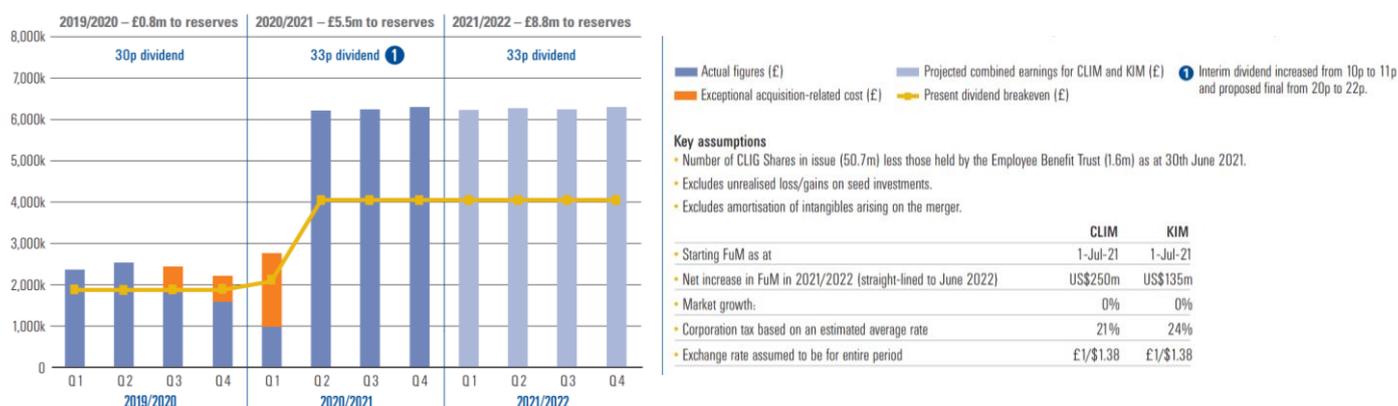
With nudge our forecast for underlying PBT down 3% to £30.0m (previously: £31.0m). Consequently, we cut our EPS by 3% but leave our DPS forecasts unchanged as cover is over 1.4x.

Exhibit 4: CLIG's financial forecasts

YE June, £m	1H21 Actual	2H21 Actual	FY21 Actual	FY22E New	FY23E New
Net fee income *	22.6	29.9	52.5	60.0	61.5
Costs	(8.0)	(9.6)	(16.7)	(19.0)	(20.0)
Op profit (pre-profit share)	14.6	20.3	35.8	41.0	41.5
Operating profit margin (%)	62	68	68	68	67
Profit share & EIP	(3.4)	(5.5)	(8.9)	(11.0)	(11.1)
Underlying Profit before tax	11.2	15.7	26.9	30.0	30.4
Underlying Profit after tax	9.0	11.7	20.7	22.8	23.1
Underlying EPS (p)	23.8	24.3	48.1	47.3	47.9
CLIG shares ex ESOT (m)	37.8	48.2	43.0	48.2	48.2
Total DPS (p)	11.0	22.0	33.0	33.0	33.0

Source: Company (historic); Zeus Capital (forecasts) * note: net fee = gross fee less finders commission, custody & admin (Annual accounts page 30)

Our FY22E forecast underlying PAT forecast of £22.8m is prudent compared with Exhibit 5 which shows just over £6m a quarter, as set out in the published accounts.

Exhibit 5: Illustrative returns

Source: <https://www.clig.com/investor-reports/CoL2021AR.pdf>

² Bloomberg data indicates the current exchange rate is US\$1.33 = £1

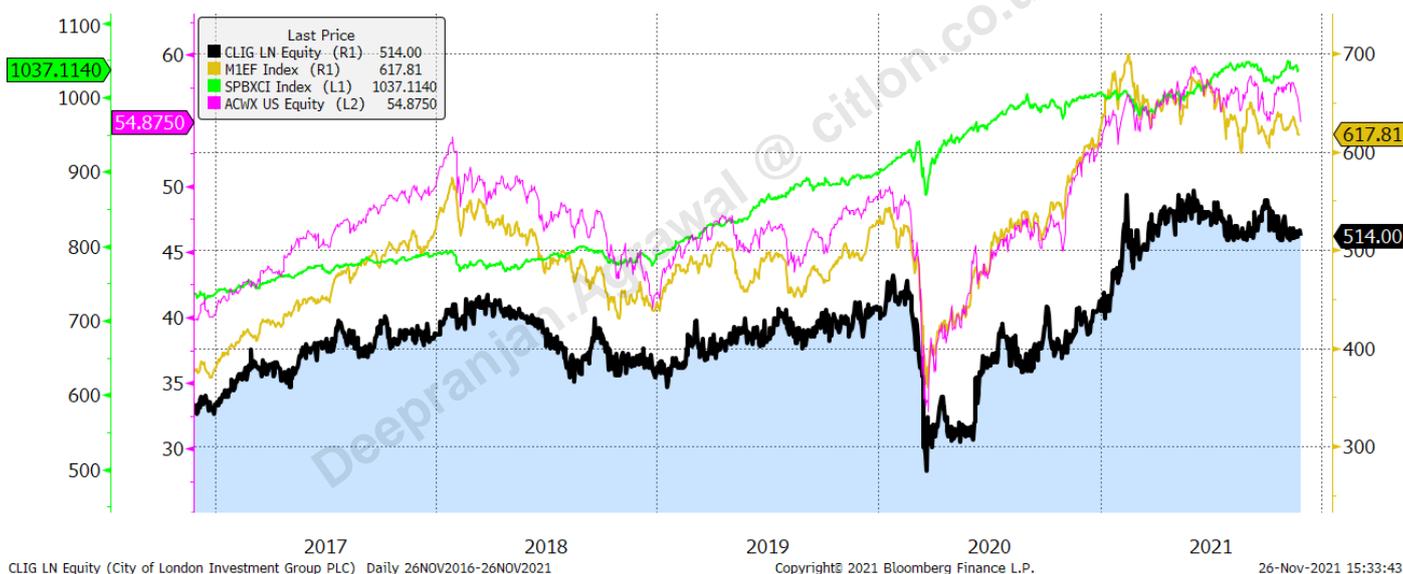
Valuation

CLIG has a strong balance sheet with no debt and substantial net cash. See pages 6 and 7 for our forecasts for the period to June 2022. Over the past 5 years CLIG has delivered annualised Total Shareholder Returns (TSR) of 16% CAGR. This can be analysed into 3 components:

1. Earnings growth of 6% 5-yr CAGR
2. 2% contribution from improvement in earnings multiple
3. Dividends paid which raises the TSR by 8% to 16% CAGR

Exhibit 6 shows CLIG share price and the Emerging Market Index (M1EF) in Sterling. Over the past 5 years CLIG shares have risen 8.0% CAGR, (*n.b. 16% CAGR with dividends reinvested*) so outperformed the Emerging market and US balanced indices (*up 11% CAGR*).

Exhibit 6: Emerging Market index in £ (LHS) & CLIG share price (RHS)



Source: Bloomberg chart 19 November 2021

M1EF index in US\$ = 618 and US\$:£ exchange rate is 1.33 so M1EF in £ is 465

Over the next 1, 2, 5 and 10 year periods we expect CLIG to continue to deliver a TSR of over 10% pa, of which half comes from dividends and the other half comes from a combination of earnings growth and multiple expansion.

In addition, CLIG continues to grow its net cash.³ On our forecasts CLIG's net cash rises to over £30m by end June 2022.

Exhibits 6 to 9 set out our forecast P&L, reserve movements, cashflow and balance sheet for CLIG.

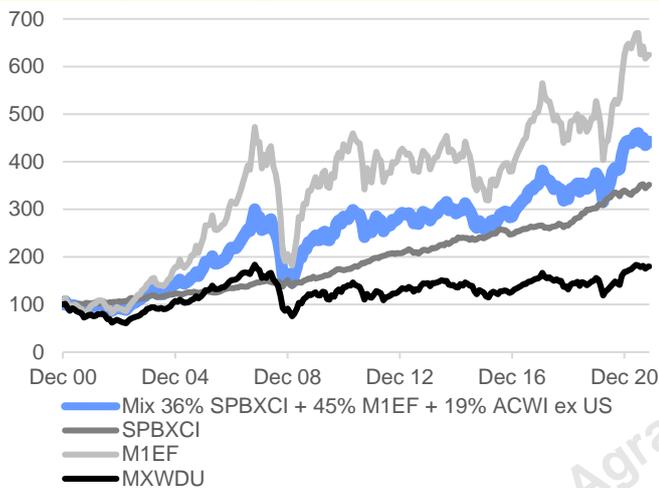
³ Net cash at end of May 2010 was £8.4m; May 2015 was £10.2m; June 2020 was £14.6m; December 2020 was £17.5m; and June 2021 was £25.5m.

We note the beneficial impact of the inclusion of c US\$3.9bn balanced portfolio managed by Karpus Investment Management “KIM”.

At 30 September 2021, KIM’s balanced portfolio contributed 36% of group funds under management and emerging market portfolios 45%.

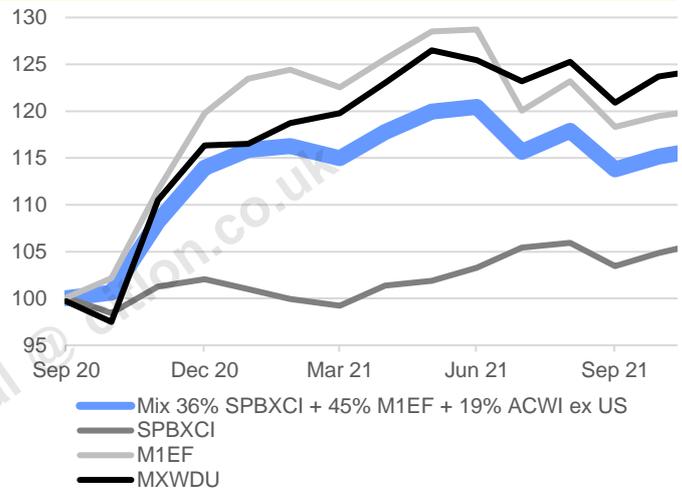
Exhibits 7 and 8 show the performance of benchmark indices rebased to 100 for December 2000. We have computed a weighted index with 45% weighting to emerging markets, 36% weighting to US balanced portfolio and 19% weighted to World Index ex US.

Exhibit 7: Index performance since 2000



Source: Zeus Capital research chart using Bloomberg data

Exhibit 8: Performance since 1 Oct 2020



Source: Zeus Capital research chart using Bloomberg data

We expect CLIG’s shareholders to appreciate the reduced market volatility created by the inclusion of KIM’s US balanced portfolio from 1 October 2020. The reduction in volatility will result in improved predictability of revenue, profit and cash generation.

Arguably, reduced earnings volatility could result in an increase in dividend payout.

On our forecast DPS of 33p CLIG shares offer investors an attractive dividend yield of over 6%.

On the Group “target dividend cover” of 1.2x (83% payout), the DPS for the current year would be 39p. On a 6% dividend yield this would be 650p.

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Group Financials

Exhibit 9: Group P&L, £m

	FY20 June	1H21 Dec	2H21 June	FY21 June	FY22E June	FY23E June
Revenue (gross fees)	33.3	23.7	31.4	55.1	62.5	64.0
Finder's commissions	(0.2)	(0.4)	(0.7)	(1.1)	(1.0)	(1.0)
Administrative expenses *	(14.5)	(8.7)	(9.4)	(18.1)	(20.5)	(21.5)
Interest	-	-	(0.1)	(0.1)	-	-
Operating profit	18.6	14.6	21.2	35.8	41.0	41.5
Profit share & EIP charge	(7.0)	(3.4)	(5.5)	(8.9)	(11.0)	(11.1)
Underlying PBT	11.6	11.2	15.7	26.9	30.0	30.4
Investment gain/(loss)	(0.9)	0.4	-	0.4		
KIM deal costs	(1.3)	(1.7)	-	(1.7)		
KIM intangibles amortisation	-	(1.1)	(2.2)	(3.3)	(4.4)	(4.4)
Profit before tax *	9.4	8.8	13.5	22.3	25.6	26.0
Minority interest	0.2	-	-			
Tax	(2.0)	(2.2)	(3.1)	(5.3)	(6.1)	(6.2)
Profit after tax *	7.6	6.6	10.4	17.0	19.5	19.8

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

* including custody fees of c £1.5m pa and share based payments

We assume financial markets remain at current levels.

Exhibit 10: Movement in shareholders' equity, £m

	FY20 June	1H21 Dec	2H21 June	FY21E June	FY22E June	FY23E June
Shareholders' equity at opening	18.9	18.9	122.0	18.9	120.1	124.8
Profit after tax	7.6	6.6	10.4	17.0	19.5	19.8
Other comprehensive income	-	(0.2)	(6.5)	(6.7)	-	-
PY Final dividend paid	(4.5)	(5.0)	-	(5.0)	(9.4)	(10.7)
Interim dividend paid	(2.5)	-	(4.7)	(4.7)	(5.4)	(5.4)
Purchase of KIM for 24.1m shares	-	101.8	-	101.8	-	-
Net issue/(purchase) of shares	(2.0)	(0.4)	(1.3)	(1.7)	-	-
SBP & EIP	1.2	0.7	0.7	1.4	-	-
Share issue costs & other	0.2	(0.4)	(0.5)	(0.9)	-	-
Shareholders' equity at year end	18.9	122.0	122.0	120.1	124.8	128.5

1Source: Company (historic); Zeus Capital (forecasts)

The FY21E DPS payable to KIM shareholders is time apportioned to reflect the period post completion and a third of the annual dividend is paid after interim accounts are published.

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Exhibit 11: Group Cash Flow, £m

Period end	FY20 June	1H21 Dec	2H21 June	FY21 June	FY22E June	FY23E June
Profit before tax	9.4	8.8	13.5	22.3	25.6	26.0
Amortisation of intangible assets	-	1.1	2.2	3.3	4.4	4.4
Non-cash items & working cap adj	3.5	2.1	1.1	3.2	(2.2)	2.9
Cash generated from operations	12.9	12.0	16.8	28.8	27.8	33.3
Interest received/(paid)	-	-	-	-	-	-
Tax paid	(2.0)	(1.7)	(4.1)	(5.8)	(7.2)	(7.3)
Net cash generated from op's	10.9	10.3	12.7	23.0	20.6	26.0
Net cash used in investing	(1.2)	(1.8)	2.7	0.9	(0.5)	(0.5)
Net cash flow before financing	9.7	8.5	15.4	23.9	20.1	25.5
Share issue costs	-	-	(1.0)	(1.0)	-	-
Ordinary dividends paid	(7.0)	(5.0)	(4.7)	(9.7)	(14.8)	(16.1)
Net issue/(purchase) of shares	(2.0)	(0.4)	(1.3)	(1.7)	-	-
Lease financing	(0.2)	(0.1)	(0.4)	(0.5)	-	-
Net increase/(decrease) in cash	0.5	3.0	8.0	11.0	5.3	7.8
Cash & equivalents at start of period	13.8	14.6	17.5	14.6	25.5	30.8
FX & other adjustments	0.3	(0.1)	-	(0.1)	-	-
Cash & equivalents at period end	14.6	17.5	25.5	25.5	30.8	38.6

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

CLIG maintains a very healthy net cash position.

Exhibit 12: Group Balance Sheet, £m

	Mid-FY20 Dec 2019	FY20 June 2020	1H21 Dec 2020	FY21 June 2021	FY22E June 2022	FY23E June 2022
Non-current assets	1.1	1.1	0.8	0.8	0.8	0.8
Intangibles	-	-	110.3	101.0	96.6	92.2
Available for sale assets	7.7	4.0	4.3	4.4	4.4	4.4
Right of use assets	2.0	1.9	1.9	2.8	2.8	2.8
Lease liabilities	(2.0)	(2.0)	(1.9)	(2.7)	(2.7)	(2.7)
Working capital	1.4	0.3	(1.3)	(1.3)	1.3	0.5
Cash & equivalents	12.5	14.6	17.5	25.5	30.8	38.6
Tax payable	(0.9)	(0.8)	(2.1)	(1.4)	(1.4)	(1.4)
Deferred tax liability	-	-	-	(8.7)	(7.6)	(6.5)
Net assets	21.8	19.1	122.2	120.4	125.0	128.7
Non-controlling interest	(3.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Shareholders' equity	18.6	18.9	122.0	120.1	124.8	128.5

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

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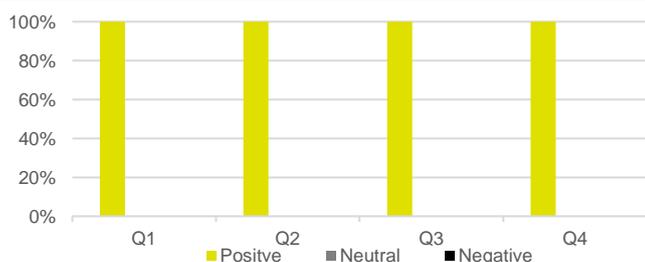
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12 Month Recommendation History



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