

7 June 2021

City of London Investment Group *

CLIG LN

Financials

Update leaves forecasts unchanged

What's new: Updates in April and early May reveal:

- Group consolidated Funds Under Management "FuM" of US\$11.3bn at the end of April 2021 is up 4.0% year to date (Dec20: US\$10.9bn).
- Strong investment performance across CLIG's investment strategies, was offset by clients rebalancing, resulting in 3Q net outflow of US\$278m.
- CLIG continues to maintain an active pipeline across all its major products.
- Income net of third-party commissions currently accrues at circa 74 bps (i.e. c. 73 bps of CLIM's FuM and c. 77 bps of KIM's FuM).
- Operating profit before profit-share run rate is £3.3m per month based on US\$1.38=£1 (at US\$1.43=£1 the run rate would be c £3.2m per month).
- Sterling has strengthened 13% from below \$1.25 to £1 to over \$1.41 now.

In May 2021, M1EF, the emerging markets index, rose 1.2% to 662. In the first week of June 2021, the M1EF index has risen 1.5% to 672.

CLIG's Group consolidated FuM on 31 May 2021 was \$11.5bn (see Exhibit 1).

Zeus view: Increasing funds under management in US dollars has been offset by Sterling strength. Overall, we nudge up our revenue expectations for FY(Jun)21E and FY(Jun)22E (page 3, exhibit 3) and leave our earnings forecasts unchanged.

Our forecasts assume Sterling strengthens further from US\$1.41 to US\$1.44 to £1. We will review our forecasts again in July, when we expect a year end trading update for the year to 30 June 2021.

Valuation: At 550p CLIG shares are trading on 11.6x PER and 6.0% dividend yield.

CLIG has a strong balance sheet with no debt and substantial net cash.

Over the past 5 years CLIG has delivered annualised Total Shareholder Returns (TSR) of 21% CAGR, with dividends providing 8%, earnings growth c 6% CAGR (Exhibit 5 on page 5 shows CLIG shares & M1EF-£ index over the past 5 years).

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	550p
Market Cap	£279m
Shares in Issue	51m
12m Trading Range	310p to 556p
Free float	61%
Next Event	Update: July 2021

Price Performance (p)



Source: Bloomberg

Financial Forecasts

Yr end June (£m)	2019A	2020A	2021E	2022E
Revenue	31.9	33.3	53.0	60.0
y.o.y growth (%)	(6.2)	4.4	57.7	12.4
Op profit	16.5	18.6	34.4	38.5
Profit margin (%)	52	56	66	65
Underlying PBT #	10.6	11.5	26.2	30.8
Underlying EPS (p) #	32.5	38.0	47.6	49.0
DPS (p)	27.0	30.0	33.0	33.0
Avg FuM (\$B)	5.2	5.7	9.7	11.3
Net cash	14.1	14.6	18.8	26.8
P/E	16.9	14.5	11.6	11.2
Div Yield (%)	4.9	5.5	6.0	6.0

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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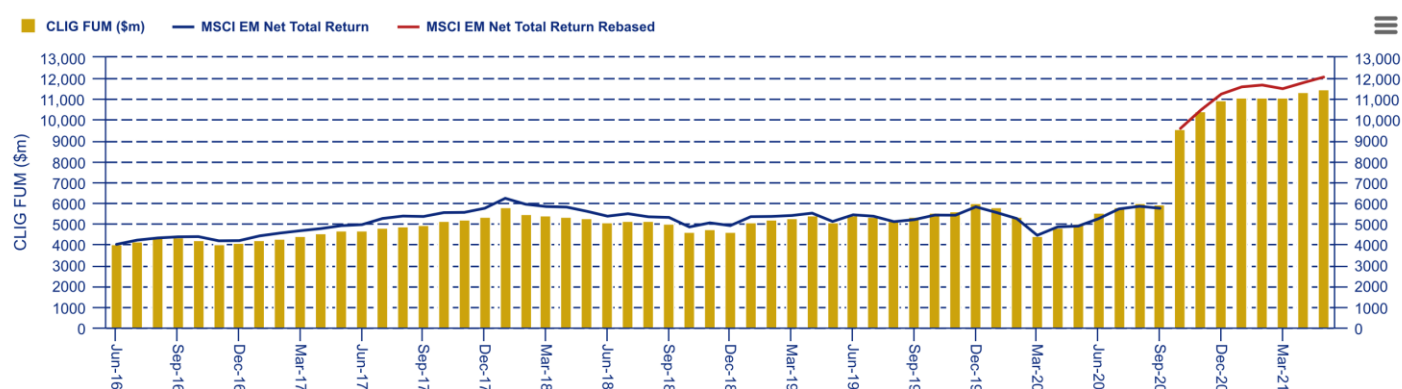
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Zeus forecasts & co guidance

On 31 May 2021, CLIG Funds under Management reached US\$11,499m (Exhibit 1).

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

Chart 1: CLIG Funds Under Management vs MSCI EM TR Index



*Beginning October 2020 consolidated FUM (CLIM-KIM) are shown and Index is rebased.

Source: CLIM, KIM, MSCI

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

Exhibit 2 reflects CLIG's trading updates which show KIM contributing US\$3.6bn in October 2020, net outflows being US\$83m in 1Q, US\$311m in 2Q and US\$278m in 3Q, with performance adding the balance. Overall, we raise our expectation of average FUM by 1.8% to US\$9,679m for FY21E and 4.5% from US\$11.0bn to US\$11.5bn for FY22E.

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

1H of FY21 Actual	3Q of FY21 Actual	4Q of FY21 Forecast	YE June, \$m	FY20 Actual	FY21E Forecast	FY22E Forecast
5,503	10,936	11,057	Opening FUM	5,389	5,503	11,500
(394)	(278)	-	Net inflows	338	(672)	-
2,249	399	443	Performance & Market	(224)	3,091	-
3,578	-	-	Acquisition of KIM	-	3,578	-
10,936	11,057	11,500	Closing FUM	5,503	11,500	11,500
98.7	1.1	4.0	Growth in FUM (%)	2.1	nc	-
8,220	10,996	11,279	Average FUM	5,730	9,679	11,500

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

Key assumptions

Our forecast for FY21E and FY22E (see Exhibits 3, 4, 6, 7, 8 & 9) is based on:

- Markets remaining at current levels
- CLIM and KIM having no net inflows in 2021/22.

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CLIG's January 2021 trading update revealed: "Following the completion of the merger with KIM on 1 October 2020, the Group's income currently accrues at a weighted average rate of approximately 73 basis points of CLIM's FuM and at approximately 77 basis points of KIM's FuM, net of third party commissions."

Exhibit 3 sets out our forecasts for CLIG for the years ending 30 June 2021 and 2022. Using the weighting of Group FuM at end March 2021 of 33% KIM and 67% CLIM, we use an average Group revenue margin of 74 basis points.

For forecasting, we use an average exchange rate of US\$1.36 = £1.00 for the current year and US\$1.44 = £1.00 for next year¹.

We nudge our revenue forecast for FY21E up to £52m (= US\$9,680/1.36 *0.0073) and our FY22E forecast up slightly to £59.0m (= \$11,500/1.44*0.0074).

We set our 2H21 operating profit (pre-profit share) at £3.3m per month (i.e. £19.6m) and our expectation for FY22E unchanged at £3.2m per month (impacted by Sterling's strength).

We leave our forecast for underlying PBT unchanged at £26.2m for FY21E and £30.8m for FY22E. Consequently, we leave our EPS and DPS forecasts unchanged.

Exhibit 3: CLIG's financial forecasts

YE June, £m	1H21 Actual	2H21E OLD	FY21E OLD	FY22E OLD	2H21E New	FY21E New	FY22E New
Net fee income	22.6	27.9	50.5	57.0	29.4	52.0	59.0
Costs	(8.0)	(9.0)	(17.0)	(18.5)	(9.6)	(17.6)	(20.5)
Op profit (pre-profit share)	14.6	18.9	33.5	38.5	19.8	34.4	38.5
Operating profit margin (%)	62	66	64	65	67	66	65
Profit share & EIP *	(3.4)	(3.6)	(7.3)	(7.7)	(4.8)	(8.2)	(7.7)
Underlying Profit before tax	11.2	15.0	26.2	30.8	15.0	26.2	30.8
Underlying. Profit after tax	9.0	11.7	20.7	24.0	11.7	20.7	24.0
Underlying EPS (p)	23.8	23.9	47.6	49.0	23.9	47.6	49.0
CLIG shares ex ESOT (m)	37.8	49.0	43.5	49.0	49.0	43.5	49.0
Total DPS (p)	11.0	nc	33.0	33.0	nc	33.0	33.0

Source: Company (historic); Zeus Capital (forecasts) * note: from July 2020 CLIM's profit share is expected to be 30% of CLIM's pre-bonus profit (i.e. without the 5% EIP which was included in 2019/20)

Our FY21E forecast underlying PAT excludes £1.7m exceptional costs, £1.1m a quarter amortisation charge for intangible assets on the KIM acquisition and investment gains of £0.4m. Our estimate for 2H Profit After Tax of £11.7m, which is in line with Exhibit 4.

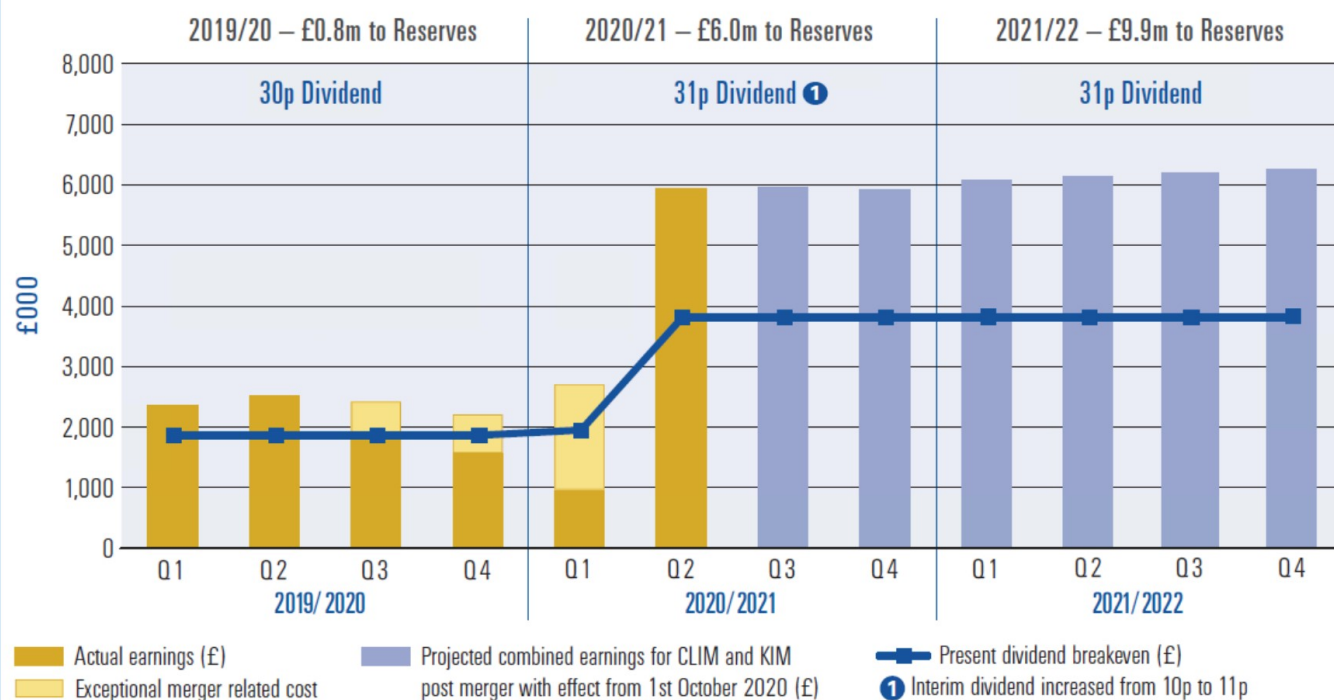
Our FY22E forecast underlying PAT forecast of £24m is in line with Exhibit 4 which is set out in the published interim accounts.

¹ Bloomberg data indicates the current exchange rate is US\$1.4157 = £1

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Exhibit 4: CLIG Template for guidance purposes only***Template – dividend cover**

Actual and assumed over three financial years



Notes: Excludes unrealised gains on seed investments. Assumptions made in 2019 interim accounts for 2020/21 have not been included as they related to CLIG pre-merger

Key assumptions:

- Number of CLIG Shares in issue (26.6m) less those held by the Employee Benefit Trust (1.7m) as at 30th September 2020
- Number of CLIG Shares in issue (50.7m) less those held by the Employee Benefit Trust (1.4m) as at 31st December 2020
- Excludes unrealised gain/loss on seed investments
- Excludes amortisation of any intangibles arising on the merger

	CLIM	KIM
• Starting FuM as at:	1-Jan-21	1-Jan-21
• Net increase in FuM for the remainder of this financial year (straight-lined to June 2021):	Zero	Zero
• Net increase in FuM in 2021/2022 (straight-lined to June 2022):	US\$250m	US\$135m
• Market growth:	0%	0%
• Overheads for 2020/21:	No change	No change
• Overheads for 2021/22:	+3% compared to 2020/21	No change
• Corporation tax based on an estimated average rate:	21%	24%
• Exchange rate assumed to be for entire period:	£1/US\$1.37	£1/US\$1.37

Source: Company website

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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 21% CAGR. This can be analysed into 3 components:

1. Earnings growth of 6% 5-yr CAGR
2. Change in earnings multiple 7%
3. Dividends paid which we annualise the contribution at 8%

Exhibit 5 shows CLIG share price and the Emerging Market Index (M1EF) in Sterling. Over the past 5 years CLIG shares have risen 13%, (*n.b. 21% with dividends reinvested*) so performed in line with the index (*up 14% CAGR*), and with dividends outperformed the index materially.

Exhibit 5: Emerging Market index in £ (LHS) & CLIG share price (RHS)



Source: Bloomberg chart 6 June 2021

M1EF index in US\$ = 672 and US\$:£ exchange rate is 1.4157 so M1EF in £ is 474.7

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 the current year, we expect CLIG's adj EPS to rise by 25% to 47.6p and a further 1% the year after (without assuming any net inflows). Beyond June 2022, we expect net inflows of c 5% pa to result in 5%+ earnings growth.

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In addition, CLIG continues to grow its net cash. ² On our forecasts CLIG's net cash rises to £19m by end June 2021 and £27m by end June 2022. Exhibits 6 to 9 set out our forecast P&L, reserve movements, cashflow and balance sheet for CLIG.

Group Financials

Exhibit 6: Group P&L, £m

	FY19 June	1H20 Dec	FY20 June	1H21 Dec	FY21E June	FY22E June
Revenue (gross fees)	31.9	17.3	33.3	23.7	53.0	60.0
Finder's commissions	(0.8)	(0.2)	(0.2)	(0.4)	(1.0)	(1.0)
Administrative expenses *	(14.7)	(7.2)	(14.5)	(8.7)	(17.6)	(20.5)
Interest income	0.1	-	-	-	-	-
Operating profit	16.5	9.9	18.6	14.6	34.4	38.5
Profit share & EIP charge	(5.9)	(3.8)	(7.0)	(3.4)	(8.2)	(7.7)
Underlying PBT	10.6	6.1	11.6	11.2	26.2	30.8
Investment gain/(loss)	0.8	0.2	(0.9)	0.4	0.4	-
KIM deal costs	-	-	(1.3)	(1.7)	(1.7)	-
KIM intangibles amortisation	-	-	-	(1.1)	(3.3)	(4.4)
Profit before tax *	11.4	6.3	9.4	8.8	21.6	26.4
Minority interest	(0.2)	(0.0)	0.2	-	-	-
Tax	(2.4)	(1.3)	(2.0)	(2.2)	(5.5)	(6.8)
Profit after tax *	8.8	5.0	7.6	6.6	16.1	19.6

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 7: Movement in shareholders' equity, £m

	FY19 June	1H20 Dec	FY20 June	1H21 Dec	FY21E June	FY22E June
Shareholders' equity at opening	21.5	18.9	18.9	18.9	18.9	126.4
Profit after tax	8.8	5.0	7.6	6.6	16.1	19.6
Other comprehensive income	-	-	-	(0.2)	(0.4)	-
PY Final dividend paid	(4.5)	(4.5)	(4.5)	(5.0)	(5.0)	(9.8)
Interim dividend paid	(2.3)	-	(2.5)	-	(4.9)	(5.6)
Special dividend paid	(3.4)	-	-	-	-	-
Purchase of KIM for 24.1m shares	-	-	-	101.8	101.8	-
Purchase of shares	(1.2)	(2.0)	(2.0)	(0.4)	(0.4)	-

² Net cash 31 May 2010 was £8.4m; 31 May 2015 was £10.2m; 30 June 2020 was £14.6m; 31 December 2020 was £17.5m

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ESOT & other share based	(0.7)	1.2	1.2	0.7	0.7	-
Other movements	0.7	-	0.2	(0.4)	(0.4)	-
Shareholders' equity at year end	18.9	18.6	18.9	122.0	126.4	130.6

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

Our forecasts assume 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.

Exhibit 8: Group Cash Flow, £m

Period end	FY19 June	1H20 Dec	FY20 June	1H21 Dec	FY21E June	FY22E June
Profit before tax	11.4	6.3	9.4	8.8	21.6	26.4
Amortisation of intangible assets	-	-	-	1.1	3.3	4.4
Non-cash items & working cap adj	1.1	0.2	3.5	2.1	(2.5)	(0.1)
Cash generated from operations	12.5	6.5	12.9	12.0	22.4	30.7
Interest received/(paid)	0.1	-	-	-	-	-
Tax paid	(2.3)	(1.0)	(2.0)	(1.7)	(5.5)	(6.8)
Net cash generated from op's	10.3	5.5	10.9	10.3	16.9	23.9
Net cash used in investing	(7.5)	(0.1)	(1.2)	(1.8)	(2.0)	(0.5)
Net cash flow before financing	2.8	5.4	9.7	8.5	14.9	23.4
Capital from non-controlling interest	3.2	-	-	-	-	-
Ordinary dividends paid	(10.2)	(4.5)	(7.0)	(5.0)	(9.9)	(15.4)
Purchase of shares	(1.2)	(2.0)	(2.0)	(0.4)	(0.4)	-
ESOT & lease financing	(0.7)	(0.2)	(0.2)	(0.1)	(0.1)	-
Net increase/(decrease) in cash	(6.1)	(1.3)	0.5	3.0	4.5	8.0
Cash & equivalents at start of period	19.7	13.8	13.8	14.6	14.6	18.8
FX & other adjustments	0.2	-	0.3	(0.1)	(0.3)	-
Cash & equivalents at period end	13.8	12.5	14.6	17.5	18.8	26.8

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

CLIG maintains a very healthy net cash position. We expect Sterling strength to result in a small FX adjustment to cash and to other comprehensive income.

Exhibit 9: Group Balance Sheet, £m

	FY19 June 2019	Mid-FY20 Dec 2019	FY20 June 2020	1H21 Dec 2020	FY21E June 2021	FY22E June 2022
Non-current assets	1.2	1.1	1.1	0.8	0.8	0.8
Intangibles	-	-	-	110.3	108.1	103.7
Available for sale assets	7.7	7.7	4.0	4.3	4.3	4.3
Right of use assets	-	2.0	1.9	1.9	1.9	1.9
Lease liabilities	-	(2.0)	(2.0)	(1.9)	(1.9)	(1.9)
Working capital	0.3	1.4	0.3	(1.3)	(3.8)	(3.2)
Cash & equivalents	13.8	12.5	14.6	17.5	18.8	26.8

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Tax payable	(0.7)	(0.9)	(0.8)	(2.1)	(1.6)	(1.6)
Net assets	22.3	21.8	19.1	122.2	126.6	130.8
Non-controlling interest	(3.4)	(3.2)	(0.2)	(0.2)	(0.2)	(0.2)
Shareholders' equity	18.9	18.6	18.9	122.0	126.4	130.6

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

We assume no amortisation of intangibles on acquisition.

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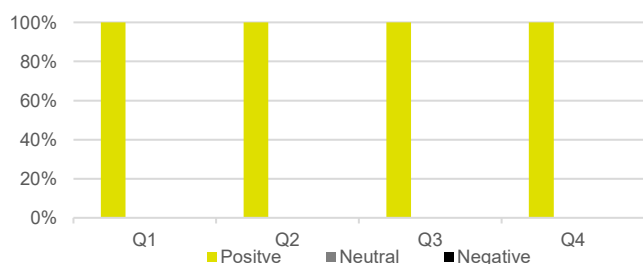
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12 Month Recommendation History



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