

<b>Price</b>	<b>385p</b>
Market Cap	£195m
Shares in Issue	50.7m
12m Trading Range	344p-470p
Free Float	59%
Next Event	Finals: 20 Sept

#### Price performance (p)



Source: Bloomberg

#### Financial forecasts

Yr end June (£'m)	2021A	2022A	2023E
Revenue, net	52.5	58.2	54.6
yoy growth (%)	57.7	10.9	(6.2)
Operating profit	35.6	38.4	31.9
Profit margin (%)	67.8	66.0	58.4
Adj. PBT #	26.7	27.9	23.4
PAT	17.0	18.1	14.8
Adj. EPS (p)	48.1	44.2	35.5
DPS (p)	33.0	46.5	33.0
Net cash	25.5	22.7	21.5
P/E	8.0	8.7	10.8
Div yield (%)	8.6	12.1	8.6
On 30 June £1=	1.38	1.21	1.27

#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 nomad and broker client of Zeus

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# City of London Investment Group

## CLIG LN - Financial Services

### Pre-close beats Zeus forecasts

Ahead of final results on 18 September, City of London Investment Group provides a detailed pre-close statement, which has unaudited estimates for operating profit and adjusted PBT. These are just above our forecasts and include a proposed 22p final dividend per share, in line with expectations.

For the year to 30 June 2023:

- ◆ **Group FuM rose 2.2% to US\$9,424m**, with net inflows and capital growth in “Opportunistic Value strategy” and single digit outflows across other strategies
  - Wider fund discounts were a headwind and will be “the focus of marketing efforts”
  - Net outflows were US\$357m, as clients reduced exposure to markets due to “volatility, pension fund de-risking and competition from cash products”
- ◆ **Unaudited profit before amortisation fell 14.0% to £23.4m** (Zeus forecast: £23.0m)
  - In the six months to December 2022 Sterling weakened relative to US Dollar: in 2023 Sterling has strengthened;
  - 4Q23 income Group income accrued at 71 bps, net of commissions (as in 3Q);
  - Fixed costs fell to £1.9m a month (3Q: £2.0m a month);
  - Operating profit before tax run-rate nudged up to £2.6m per month (3Q: £2.5m)
- ◆ **Profit after c. £3.9m tax charge will be c. £14.8m** (2022: £18.1m after £5.0m tax charge)
- ◆ Basic EPS of c. 30.4p (2022: 36.9p) & fully diluted EPS c. 29.8p (2022: 36.4p) including amortisation of capitalised goodwill
- ◆ **Final dividend per share of 22p, providing a total of 33p**
- ◆ **Functional and presentational currency of the Group changed to US\$** with effect 1 July 2023; dividends will continue to be declared in Sterling

**Zeus view:** Overall, CLIG’s operating profit, adj PBT and adj EPS for the year to June 2023 are 1.3%, 1.7% and 2.9% above our forecasts. We expect net cash will be c £21.5m (previous forecast: £21.1m). See pages 3 to 6 for comparisons between unaudited results and Zeus forecasts.

As CLIG’s results for future periods will be reported in US\$, we will publish a separate note with forecasts to June 2024E and 2025E, with comparatives in US\$.

Given CLIG’s strong balance sheet, we expect CLIG to maintain its dividend, in pence per share. CLIG’s dividend cover template (page 2, Exhibit 1) suggests 33p annual dividend should be covered by cash earnings on credible assumptions.

**Valuation:** CLIG has substantial net cash (Zeus forecast 30 June 2023: £21.5m; 31 Dec 2022: £19.1m) and we expect CLIG generate over 33p a share of net cash per annum, *ceteris paribus*.

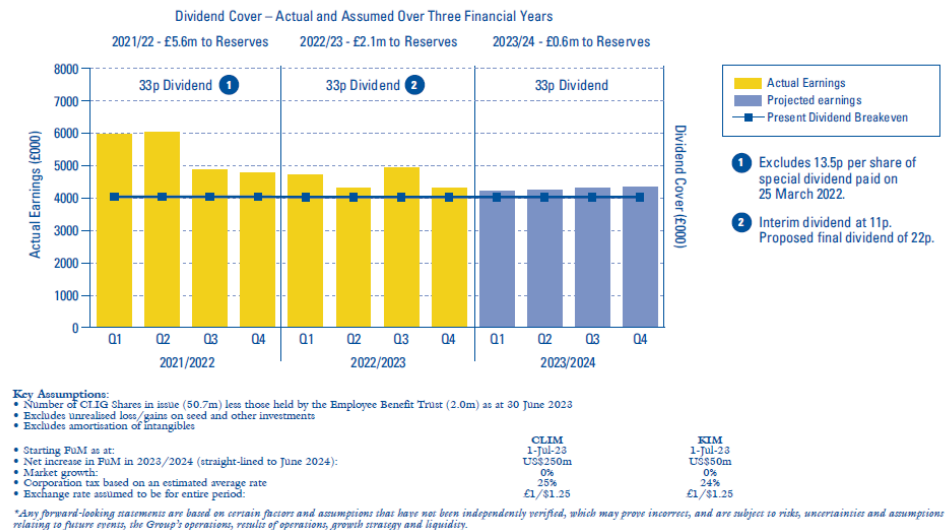
At 385p, CLIG is trading cum 22p final DPS, on an ex-Div dividend yield of 9.1%, which is very attractive given the Group’s excellent record, business model and financial strength.

# Dividend cover template

As in previous periods, CLIG has provided a template, which shows the “quarterly estimated cost of dividend against actual post-tax profits for last year, the current year and the assumed post-tax profit for the next financial year, based upon specified assumptions.”

## Exhibit 1: Dividend Cover Template

### CLIG Template – For Guidance Purposes Only\*



Note: Zeus forecasts 33p dividend per share for years to June 2023 and 2024  
Source: CLIG pre-close trading update of 25 July 2023

The assumptions in the calculations of dividend cover (Exhibit 1) are credible as:

- FUM rise of 3.2% straight lined over the year (i.e. no market growth and net inflows of 3.2%); n.b. In the first 24 days of July 223, M1EF Index is up 2.9% and Dow Jones Index is up 3.0%
- Corporation tax of 25% for CLIM and 24% for KIM, which is above the actual effective rate for the year to June 2023 which was 22%
- Exchange rate of £1=US\$1.25, which is within 1.6% of the current rate of £1=US\$1.27

We expect CLIG to have c. £21.5m of net cash on 30 June 2023, which is 42p a share. We see 33p a share dividend for next year being covered by cash earnings.

## Functional and presentational currency of the Group changed to US\$

The change is with effect 1 July 2023.

## Exhibit 2: FY24E & FY25E indicative forecasts

Yr end June	2023E updated in £m	2023E in US\$m	2024E in US\$m	2024E in US\$m
Revenue, net	54.6	69.3	68.0	70.0
Operating profit	31.9	40.5	39.8	41.0
Profit margin (%)	58.4	58.4	58.5	58.6
Adj. PBT #	23.4	29.7	29.0	30.0
Adj. PAT #	18.0	22.8	21.8	22.5
Adj. EPS (pence or cents)	35.5	45.0	43.0	44.4

Source: Zeus estimates using 50.7m shares in issue with no adjustment for the 2.0m held by the EBT

Dividends will continue to be declared in Sterling.

## Zeus analysis of full year results

We set out below the unaudited estimated in CLIG's pre-close for the 12-months to 30 June 2023 and differences from our forecasts (as set on 28 April 2023).

### Exhibit 3: FY23 results compared to Zeus forecasts

Yr end June (£'m)	2021A	2022A	2023E previous	2023E updated	Diff (%)
Revenue, net	52.5	58.2	54.6	54.6	UNCH
yoy growth (%)	57.7	10.9	(6.2)	(6.2)	UNCH
Operating profit	35.6	38.4	31.5	31.9	1.3
Profit margin (%)	67.8	66.0	57.7	58.4	1.2
Adj. PBT #	26.7	27.9	23.0	23.4	1.7
Adj. PAT #	20.7	21.7	17.7	18.0	1.7
Adj. EPS (p)	48.1	44.2	34.5	35.5	2.9

Note: # excludes goodwill amortisation charge and exceptional  
Source: Company (historical data) ; Zeus Research estimates

CLIG's FuM have risen in the 12 months, as shown in Exhibit 4.

### Exhibit 4: Increase in CLIG FuM for year to 30 June 2023

	FuM (\$ million)			Net Flows	Strategy Index	
	Jun-23E	Jun-22	% change			% change
EM	3,580	3,703	(3)	(206)	MSCI EM Net TR	1.7%
KIM	3,520	3,433	3	(129)	Not applicable	
INTL	1,983	1,812	9	(51)	MSCI ACWI ex US	12.7%
OV	244	193	26	35	ACWI/Barclays Global Agg	7.5%
Other*	97	83	17	(6)		
	<b>9,424</b>	<b>9,224</b>		<b>(357)</b>		

Source: CLIG pre-close trading update of 25 July 2023

For context, we show the growth in FuM over the period June 2021 to June 2023.

### Exhibit 5: CLIG Funds under management, US\$ million

Dec-21	Dec-22	Mar-23	Jun-23	Funds under management - line of business	Jun-21	Jun-22	Jun-23
4,800	3,571	3,661	3,580	Emerging markets	5,393	3,703	3,580
2,147	1,894	1,984	1,983	International	1,880	1,812	1,983
232	240	237	244	Opportunistic value	231	193	244
22	77	91	97	Other in REIT	26	83	97
<b>7,201</b>	<b>5,782</b>	<b>5,973</b>	<b>5,904</b>	<b>CLIM total</b>	<b>7,530</b>	<b>5,791</b>	<b>5,904</b>
<b>3,949</b>	<b>3,369</b>	<b>3,494</b>	<b>3,520</b>	<b>KIM total</b>	<b>3,919</b>	<b>3,433</b>	<b>3,520</b>
<b>11,150</b>	<b>9,151</b>	<b>9,467</b>	<b>9,424</b>	<b>Group FUM</b>	<b>11,449</b>	<b>9,224</b>	<b>9,424</b>

Source: Company (historical data); nd = not yet disclosed

CLIG's net inflows for periods are set out in Exhibit 6.

## Exhibit 6: Net inflows for CLIM & KIM, US\$ million

1H23	3Q23	4Q23	YE June, \$m	FY21	FY22	FY23
(66)	(14)	(126)	Emerging markets	(275)	(316)	(206)
13	(23)	(41)	International	(14)	453	(51)
47	(12)	-	- Opportunistic value	(103)	1	35
-	-	(6)	Other in REIT	(169)	74	(6)
<b>(5)</b>	<b>(49)</b>	<b>(174)</b>	<b>CLIM total</b>	<b>(561)</b>	<b>212</b>	<b>(228)</b>
<b>(103)</b>	<b>1</b>	<b>(27)</b>	<b>KIM total</b>	<b>(235)</b>	<b>(110)</b>	<b>(129)</b>
<b>(108)</b>	<b>(48)</b>	<b>(201)</b>	<b>CLIG total</b>	<b>(796)</b>	<b>102</b>	<b>(357)</b>

Source: Company (historical data); Zeus calculation for 4Q to June 2023

The rise in CLIG's FUM in the year to June 2023 has been driven by market effects.

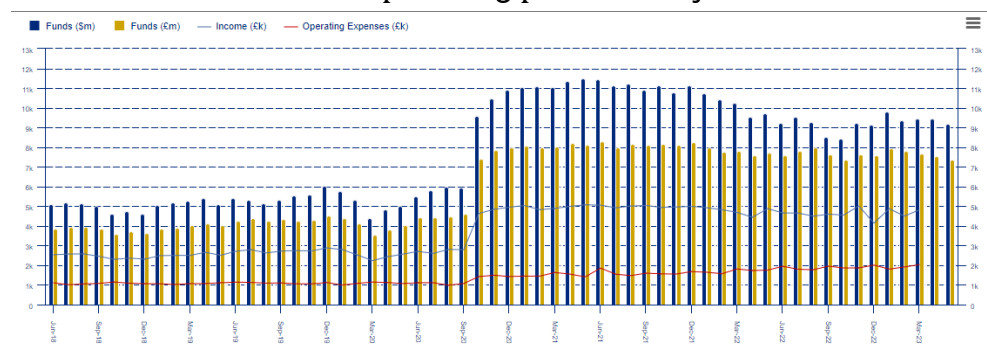
## Exhibit 7: Group movement in FUM, US\$ million

1H23	3Q23	4Q23	YE June, \$m	FY21	FY22	FY23
11,449	9,151	9,151	Opening FUM	5,512	11,449	9,224
(5)	(48)	(48)	Net inflows	(561)	212	(357)
-	-	-	- Karpus acquisition (from 1 Oct 2020)	3,400	-	-
(2,293)	364	364	Performance & Market effects	3,098	(2,437)	557
<b>9,151</b>	<b>9,467</b>	<b>9,467</b>	<b>Closing FUM</b>	<b>11,449</b>	<b>9,224</b>	<b>9,424</b>
1.2083	1.2337	1.2337	Period end exchange rate USD/GBP	1.3831	1.2178	1.2703

Source: Company (historical data)

The 5 year overview of CLIG's FUM and profitability (Exhibit 8) shows the positive impact of the acquisition of Karpus (KIM), which completed in October 2020.

## Exhibit 8: CLIG FUM & operating profitability



Source: <https://cliq.com/funds-under-management/> data to May 2023 ; June 2023 will be added soon

This chart will change when the income and operating expenses are reported in US\$.

Consolidated financial statements & Zeus forecast for FY(Jun)23

We set out below the reported results for CLIG for the years to June 2021 and 2022 ("FY21" & "FY22"), the interims to December 2021 ("1H22" & "1H23") and Zeus forecast for the year to June 2023 ("FY23").

Exhibit 9: CLIG consolidated P&L, £ million

1H22	1H23	YE June, £m	FY21	FY22	FY23E previous	FY23E updated	Diff (%)
31.4	28.7	<b>Turnover</b>	55.1	61.3	57.4	57.4	UNCH
(0.8)	(0.8)	Finder's commission	(1.1)	(1.6)	(1.6)	(1.6)	UNCH
(0.8)	(0.6)	Custody & admin	(1.6)	(1.5)	(1.2)	(1.2)	UNCH
29.8	27.3	<b>Fee net of commission</b>	52.5	58.2	54.6	54.6	UNCH
(0.1)	0.1	Interest income	(0.1)	(0.1)	0.4	0.4	UNCH
29.8	27.4	<b>Total net income</b>	52.3	58.1	55.0	55.0	UNCH
(9.3)	(11.2)	Overheads	(16.7)	(19.7)	(23.5)	(23.1)	1.7
20.4	16.2	<b>Operating profit</b>	35.6	38.4	31.5	31.9	1.3
(4.3)	(3.9)	Profit share	(7.9)	(9.2)	(7.6)	(7.6)	UNCH
(0.7)	(0.7)	EIP/options	(1.0)	(1.3)	(0.9)	(0.9)	UNCH
15.5	11.7	<b>Adjusted profit before tax</b>	26.7	27.9	23.0	23.4	1.7
0.0	0.2	Investment gains/(losses)	0.5	(0.7)	-	-	
-	-	Acquisition - related costs	(1.7)	-	-	-	
(1.9)	(2.4)	Amortisation of intangibles	(3.3)	(4.1)	(4.8)	(4.8)	UNCH
13.6	9.5	<b>Profit before tax</b>	22.2	23.2	18.3	18.7	2.2
(3.0)	(2.2)	Tax	(5.3)	(5.1)	(4.2)	(3.9)	(7.1)
10.6	7.3	<b>Profit after tax</b>	17.0	18.1	14.1	14.8	5.0

Note: Zeus forecasts focus on fee net of commission and adjusted profit before tax  
Source: Company (historical data) ; Zeus Research estimates

Foreign currency differences arise on translation of CLIG's overseas operations. In the six months to December 2022 Sterling weakened relative to US Dollar: in 2023 Sterling has strengthened.

Exhibit 10: Movement in shareholder equity, £ million

1H22	1H23	YE June, £m	FY21	FY22	FY23E previous	FY23E updated	Diff (%)
10.6	7.3	Profit after tax for the period	17.0	18.1	14.1	14.8	5.0
2.1	0.9	Foreign currency translation differences	(6.7)	12.8	-	-	
(9.5)	(10.7)	Ordinary dividends paid	(9.7)	(14.9)	(16.1)	(16.1)	UNCH
-	-	Special dividend paid	-	(6.6)	-	-	
(2.2)	(1.5)	ESOT & other financing	(1.7)	(2.3)	(3.0)	(3.0)	UNCH
-	-	Other non-cash items including FX	102.3	1.6	-	-	
0.9	(4.0)	<b>Increase/(decrease) in equity</b>	101.2	8.6	(5.0)	(4.3)	(14.0)
120.1	128.8	At the beginning of the period	18.9	120.1	128.8	128.8	-
121.0	124.7	<b>At the end of the period</b>	120.1	128.8	123.7	124.5	0.6

Note: Retained earnings, by City of London Investment Group plc at June 2022, were £19.7m (June 2021: £14.9m).  
Source: Company (historical data) ; Zeus Research estimates

CLIG operational cash generation is strong with low working capital strain.

## Exhibit 11: Consolidated cashflow, £ million

1H22	1H23	YE June, £m	FY21	FY22	FY23E previous	FY23E updated	Diff (%)
15.5	11.7	<b>Adjusted profit before tax</b>	26.7	27.9	23.0	23.4	1.7
1.0	(0.4)	Adjustment: non-cash items & working capital	2.3	4.2	-	-	-
<b>16.5</b>	<b>11.3</b>	<b>Cash generated from operations</b>	<b>29.0</b>	<b>32.1</b>	<b>23.0</b>	<b>23.4</b>	<b>1.7</b>
(0.1)	0.1	Interest received/(paid)	(0.1)	(0.1)	(0.1)	(0.1)	UNCH
(3.5)	(2.4)	Tax paid	(5.8)	(7.0)	(5.0)	(5.0)	UNCH
<b>12.9</b>	<b>9.0</b>	<b>Net cash generated from operations</b>	<b>23.0</b>	<b>24.9</b>	<b>17.9</b>	<b>18.3</b>	<b>2.2</b>
(2.1)	(0.2)	Net cash generated from investing	0.9	(4.1)	-	-	-
<b>10.9</b>	<b>8.8</b>	<b>Net cash flow before financing</b>	<b>23.9</b>	<b>20.8</b>	<b>17.9</b>	<b>18.3</b>	<b>2.2</b>
(9.5)	(10.7)	Ordinary dividends paid	(9.7)	(14.9)	(16.1)	(16.1)	UNCH
-	-	Special dividends paid	-	(6.6)	-	-	-
-	-	Share issue costs	(1.0)	-	-	-	-
0.1	-	Proceeds from ESOT sales	0.8	0.3	-	-	-
(2.3)	(1.5)	ESOT & other financing	(2.5)	(2.7)	(3.0)	(3.0)	UNCH
(0.2)	(0.2)	Payment of lease liabilities	(0.5)	(0.4)	(0.4)	(0.4)	UNCH
<b>(1.1)</b>	<b>(3.6)</b>	<b>Net increase/(decrease) in cash</b>	<b>11.0</b>	<b>(3.4)</b>	<b>(1.6)</b>	<b>(1.2)</b>	<b>(25.0)</b>
25.5	22.7	Cash & equivalents at start of period	14.6	25.5	22.7	22.7	UNCH
0.0	0.0	REIT cash	0.0	0.0	0.0	0.0	-
0.0	0.0	Effect of exchange rate changes	(0.1)	0.5	0.0	0.0	-
<b>24.5</b>	<b>19.1</b>	<b>Cash &amp; equivalents at period end</b>	<b>25.5</b>	<b>22.7</b>	<b>21.1</b>	<b>21.5</b>	<b>1.9</b>

Note: The effect of exchange rate movements on cash and equivalents is small  
Source: Company (historical data); Zeus Research estimates

CLIG has substantial cash resources, relative to its liabilities and fixed costs.

## Exhibit 12: Consolidated balance sheet, £ million

Dec-21	Dec-22	YE June, £m	Jun-21	Jun-22	FY23E previous	FY23E updated	Diff (%)
9.6	10.9	Non-current assets	8.0	10.8	10.9	10.9	UNCH
101.1	108.6	Goodwill capitalised	101.0	110.1	106.3	106.3	UNCH
(3.1)	(3.7)	Working capital	(4.0)	(5.7)	(6.6)	(5.8)	(12.1)
<b>24.5</b>	<b>19.1</b>	<b>Cash &amp; equivalents</b>	<b>25.5</b>	<b>22.7</b>	<b>21.1</b>	<b>21.5</b>	<b>1.9</b>
(1.4)	(0.8)	Tax payable	(1.4)	(0.5)	(0.5)	(0.5)	UNCH
(8.4)	(8.2)	Deferred tax	(8.7)	(8.6)	(7.5)	(7.5)	UNCH
<b>122.4</b>	<b>126.0</b>	<b>Net assets</b>	<b>120.3</b>	<b>128.8</b>	<b>123.7</b>	<b>124.5</b>	<b>0.6</b>
(0.2)	-	Non-controlling interest	(0.2)	-	-	-	-
<b>122.2</b>	<b>126.0</b>	<b>Shareholders' equity</b>	<b>120.1</b>	<b>128.8</b>	<b>123.7</b>	<b>124.5</b>	<b>0.6</b>

Source: Company (historical data); Zeus Research estimates

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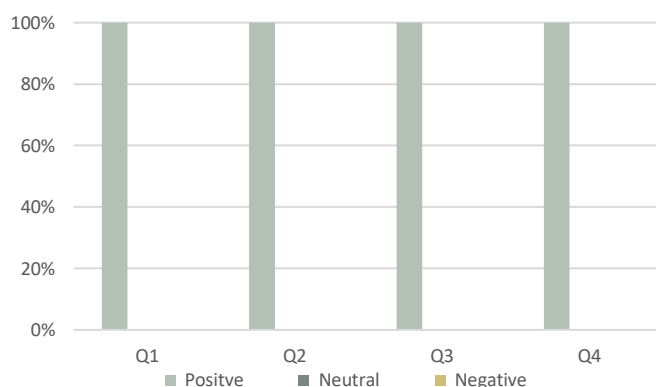
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