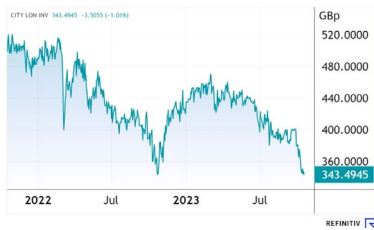




17 October 2023

## Financial Services



Source: Refinitiv

## Market data

EPIC/TKR	CLIG
Price (p)	347.0
12m high (p)	470.0
12m low (p)	343.5
Shares (m)	50.7
Mkt cap (£m)	175.9
EV (£m)	152.4
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	Barry Aling
	+44 (0)207 711 0771
	<a href="http://www.clig.com">www.clig.com</a>

## Key shareholders

George Karpus	31.5%
Hargreaves Lansdown	7.6%
Aberforth Partners	7.1%
Interactive Investor	6.0%
AJ Bell	2.8%
Other directors & staff	10.0%

## Diary

23 Oct	AGM
31 Dec	Half-year end

## Analyst

Brian Moretta [bm@hardmanandco.com](mailto:bm@hardmanandco.com)

## CITY OF LONDON INVESTMENT GROUP

## Weak markets weigh on FUM

City of London has announced its trading statement for 1Q'24. The main feature of the quarter was soft markets, with the MSCI Emerging Markets total return index declining 2.9% and the MSCI All-Country World ex US Index down 3.8%. Widening discounts also led to underperformance across the CLIM strategies and group FUM declined 6% to \$8.88bn from \$9.42bn. There were net outflows as well. The Emerging Markets strategy's net outflow of \$53m was in line with our forecast rate, while the International strategy also saw \$71m of net outflows. KIM also experienced net withdrawals of \$25m.

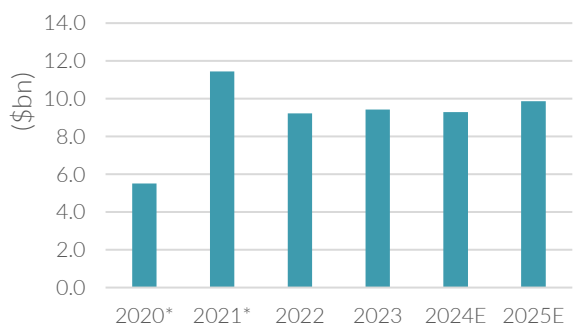
- **Operations:** This statement is the first since City of London changed its reporting currency to US dollars. The run-rate fixed expenses of \$2.3m per month is unchanged from 4Q'23, while the run rate operating profit before profit-share of ca. \$3.4m per month is a slight improvement.
- **Estimates:** The decline in FUM has weighed on our estimates. Our 2024E EPS has been reduced by 10% from 44.4¢ to 40.0¢ and our 2025E EPS has been reduced by 9% from 46.0¢ to 41.8¢. We have left our dividend forecasts unchanged.
- **Valuation:** After the recent performance, the 2024E P/E of 13.5x is roughly in line with that of the peer group. A 2024E dividend yield of 9.5% 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 38% 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. Now that the Karpus transaction has settled down, the prospects for future dividend increases may be more dependent on markets and the ability to attract new business.

## Financial summary and valuation

Year-end Jun (\$m)	2020 (£m)	2021 (£m)	2022*	2023	2024E	2025E
FUM (\$bn)	5.50	11.45	9.22	9.42	9.29	9.86
Revenue	33.26	55.12	81.55	68.73	65.58	68.35
Statutory PTP	9.41	22.25	30.88	22.13	20.35	21.48
Statutory EPS (¢)	30.3	39.4	44.9	38.4	31.4	33.1
Underlying EPS (¢)	38.0	48.1	57.4	44.5	40.0	41.8
DPS (p)	30.0	33.0	33.0	33.0	33.0	33.0
Special dividend (p)			13.5			
P/E (x)	11.5	8.8	9.4	11.0	13.5	12.8
Dividend yield	8.6%	9.5%	13.4%	9.5%	9.5%	9.5%

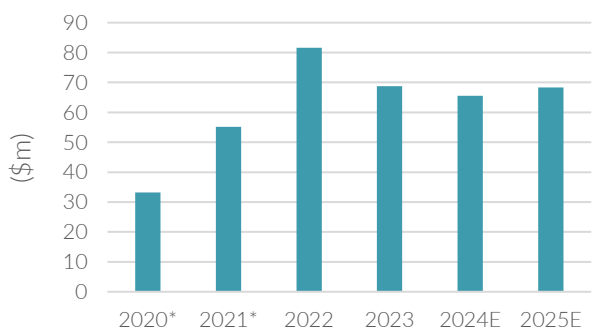
\*2022 figures include a special dividend of 13.5p; Source: Hardman & Co Research

Funds under management (FUM)



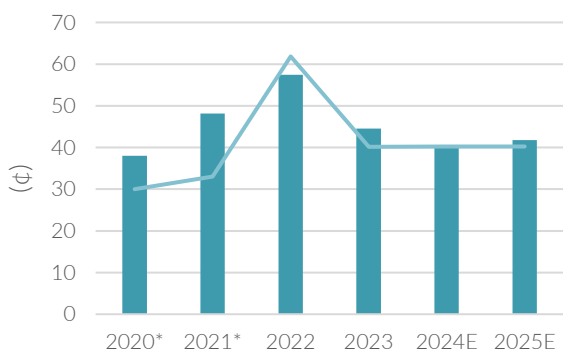
- ▶ Net outflows in 2023, after positive 2022
- ▶ Addition of Karpus in 2021 added \$3.58bn
- ▶ More normal market conditions should see a return to steadier growth
- ▶ Assumed steady net new business flows and equity market growth of 5% p.a.

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

\* 2020 and 2021 figures in GBP. Source: Company data, Hardman & Co Research

# Commentary

## Funds

Funds under management (FUM) movements during 1Q'24				
(\$m)	Jun'23	Jun'23	Net flows	Other movements
Emerging Markets	3,398	3,580	(53)	(129)
International	1,830	1,983	(71)	(82)
Opportunistic Value	239	244		(5)
Other	88	97	(3)	(6)
<b>CLIM total</b>	<b>5,555</b>	<b>5,904</b>	<b>(127)</b>	<b>(222)</b>
<b>KIM total</b>	<b>3,326</b>	<b>3,520</b>	<b>(25)</b>	<b>(169)</b>
<b>Total</b>	<b>8,881</b>	<b>9,424</b>	<b>(152)</b>	<b>(391)</b>

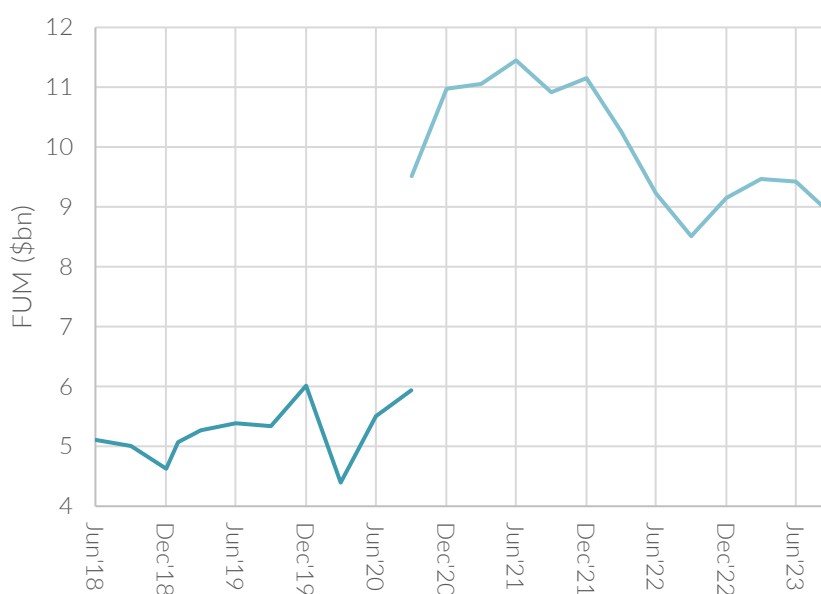
Source: Hardman & Co Research

It was a weaker quarter for FUM movements as City of London experienced weak market, underperformance and some net outflows.

Within CLIM, underperformance was driven by the continuing widening of closed-end fund discounts in weak markets combined with weak NAV performance. While City of London continues to use the wide levels of discounts as an opportunity in its marketing, we observed in our previous note that discounts being close to their widest for two decades does not prevent further widening in the short term. As and when it does reverse, it could provide a substantial tailwind to performance if discounts return to their long-term averages.

KIM's performance was mixed, with taxable fixed income and SPAC strategies outperforming while other equity and fixed-income strategies underperformed. The benefit of the investment in additional business development in this business will hopefully come through later in the year and start bringing more inflows.

### 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

## Finances

This was the first statement in the new reporting currency of US Dollars, with the Q4'23 comparisons in sterling. We compare using the current exchange rate of \$1.22/£.

On this basis, run-rate fixed costs of \$2.3m per month are the same as the £1.9m from 4Q'23. The run-rate operating profit before profit share of \$3.4m per month is ahead of the £2.6m from the previous quarter.

## Dividend

The exchange rate for US shareholders for the final dividend will be \$1.2175/£. Accordingly, the 22p per share final dividend will be 26.8¢ for them.

## Estimate updates

The decline in FUM has weighed on our estimates. Our 2024E EPS has been reduced by 10% from 44.4¢ to 40.0¢ and our 2025E EPS has been reduced by 9% from 46.0¢ to 41.8¢.

# Financials

Summary financials						
Year-end Jun	2020	2021	2022*	2023	2024E	2025E
FUM (\$bn)	5.50	11.45	9.22	9.42	9.29	9.86
<b>P&amp;L (\$m)</b>						
Revenue			81.55	68.73	65.58	68.35
Expenses			49.63	47.82	45.93	47.57
Operating profit			31.92	20.90	19.65	20.79
Statutory PTP			30.88	22.13	20.35	21.48
Earnings			24.11	17.50	15.32	16.18
Statutory EPS (¢)			44.9	38.4	31.4	33.1
Underlying EPS (¢)			57.4	44.5	40.0	41.8
Total DPS (p)	30.0	33.0	46.5	33.0	33.0	33.0
Key metrics						
	2020	2021	2022*	2023	2024E	2025E
<b>Growth</b>						
FUM		108.1%	-19.4%	2.2%	-1.4%	6.1%
Revenue		65.7%	47.9%	-15.7%	-4.6%	4.2%
Operating profit		103.2%	35.4%	-34.5%	-6.0%	5.8%
Underlying EPS		26.7%	19.3%	-22.5%	-10.2%	4.4%
DPS (excl. special div.)		10.0%	0.0%	0.0%	0.0%	0.0%
<b>Operating margins</b>						
Net FUM fee margin	0.75%	0.75%	0.73%	0.72%	0.71%	0.70%
Operating margin	34.9%	42.8%	39.1%	30.4%	30.0%	30.4%
Tax rate	21.7%	23.6%	24.0%	24.0%	24.7%	24.7%
Dividend cover (x, incl. special div.)	1.0	1.2	0.8	0.9	0.8	0.8
Rolling 5-year cover (x, excl. special div.)	1.2	1.3	1.2	1.1	1.1	0.8
Rolling u/l 5-year cover (x, excl. special div.)	1.2	1.3	1.3	1.3	1.0	1.0
Underlying EPS sensitivity						
					2024E	2025E
<b>No net new business</b>						
Underlying EPS (p)					39.3	38.6
change					-1.8%	-7.4%
<b>0% market growth (was 5% p.a.)</b>						
Underlying EPS (p)					39.2	38.3
change					-1.9%	-8.2%

\*2022 figures include a special dividend of 13.5p; Source: Company data, Hardman & Co Research  
£1=\$1.22

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