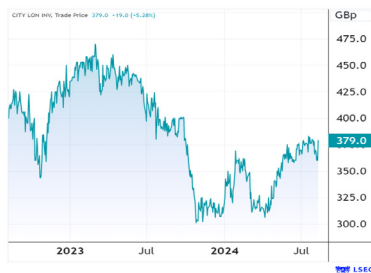




8 August 2024

Financial Services



Source: LSEG, 2024

Market data

EPIC/TKR	CLIG
Price (p)	363.5
12m high (p)	410.0
12m low (p)	300.0
Shares (m)	50.7
Mkt cap (£m)	184.2
EV (£m)	164.1
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	Rian Dartnell
	+44 (0)207 711 0771
	www.clig.com

Key shareholders

George Karpus	31.5%
Hargreaves Lansdown	8.6%
Aberforth Partners	7.2%
Interactive Investor	6.5%
AJ Bell	3.6%
Other directors & staff	9.7%

Diary

17 Sep	Annual results
18 Oct	1Q FUM statement
31 Dec	Half-year-end

Analyst

Brian Moretta bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Positive markets add to FUM and maintain dividend

City of London has announced its FUM for 4Q'24 and the full year. It was another positive quarter for the group, with FUM rising 1% from \$10.10bn to \$10.24bn. Over the financial year, FUM have increased 8.7% and are at their highest level since before the market weakness, in early 2022. Much of the positive effects this quarter were driven by markets: the MSCI Emerging Markets Index rose 4%, although the MSCI All-World ex-US index was flat. Inflows were mixed, with a positive quarter for the International strategy and outflows from Emerging Markets, KIM and Opportunistic Value. Nevertheless, 2H'24 was a great improvement over 1H'24.

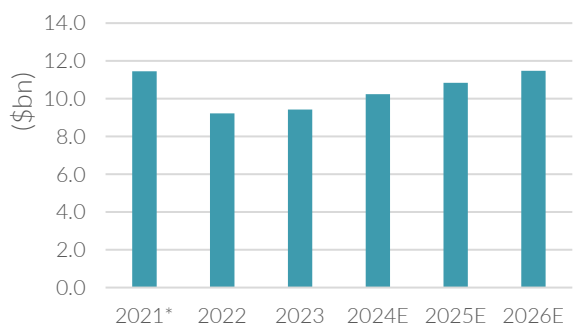
- ▶ **Funds and dividend:** Over the year, performance was generally very good. Most strategies outperformed, with only two main strategies not doing so. The full-year dividend is expected to be the same as for the previous year. This was a final dividend of 22p, making 33p for the year.
- ▶ **Estimates:** With FUM almost in line with our forecasts, the main change was an adverse exchange rate movement. Our 2024E underlying EPS has decreased from 43.5¢ to 43.4¢, our 2025E EPS has decreased by 1% from 51.0¢ to 50.6¢, and our 2026E EPS has decreased by 1% from 55.9¢ to 55.5¢.
- ▶ **Valuation:** After the recent performance, the 2025E P/E of 11.2x is a noticeable discount to the peer group. A 2025E dividend yield of 9.1% 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 36% 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. Going forward, the prospects for future dividend increases will be dependent on market growth and the ability to attract significant new business at good margins.

Financial summary and valuation

Year-end Jun (\$m)	2021 (£m)	2022*	2023	2024E	2025E	2026E
FUM (\$bn)	11.45	9.22	9.42	10.24	10.84	11.47
Revenue	55.12	81.55	68.73	68.71	74.70	78.40
Statutory PTP	22.25	30.88	22.13	22.46	27.14	30.30
Statutory EPS (¢)	39.4	44.9	38.4	34.7	41.9	46.8
Underlying EPS (¢)	48.1	57.4	44.5	43.4	50.6	55.5
Underlying EPS (p)	48.1	44.2	36.5	33.6	39.2	43.0
DPS (p)	33.0	33.0	33.0	33.0	33.0	33.0
Special dividend (p)		13.5				
P/E (x)	9.2	10.4	12.2	13.5	11.2	10.0
Dividend yield	9.1%	12.8%	9.1%	9.1%	9.1%	9.1%

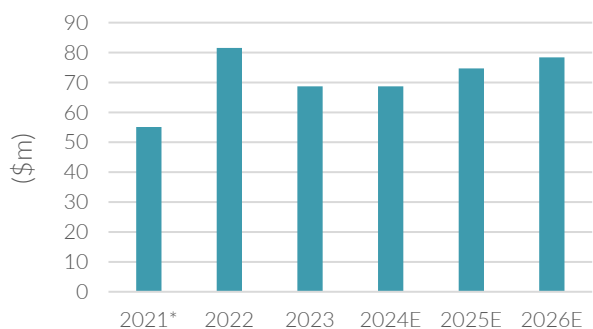
*2022 figures include a special dividend of 13.5p; Source: Hardman & Co Research

Funds under management (FUM)



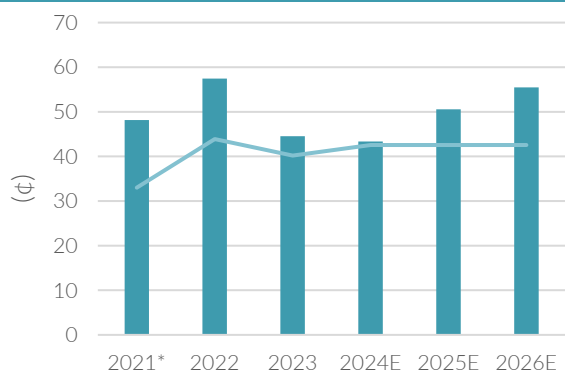
- ▶ Net outflows in 2023 and 2024, after positive 2022
- ▶ Addition of Karpus in 2021 added \$3.58bn
- ▶ More normal market conditions should see a return to steadier growth
- ▶ Assumed steady net new business flows and equity market growth of 5% p.a.

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

*2021 figures in GBP
Source: Company data, Hardman & Co Research

Commentary

Funds

Funds under management (FUM) movements during 4Q'24				
(\$m)	Jun'24	Mar'24	Net flows	Other movements
Emerging Markets	3,568	3,601	(204)	171
International	2,394	2,285	30	79
Opportunistic Value	251	302	(64)	13
Other	104	87	0	17
CLIM total	6,317	6,275	(238)	280
KIM total	3,924	3,827	(12)	109
Total	10,241	10,102	(250)	389

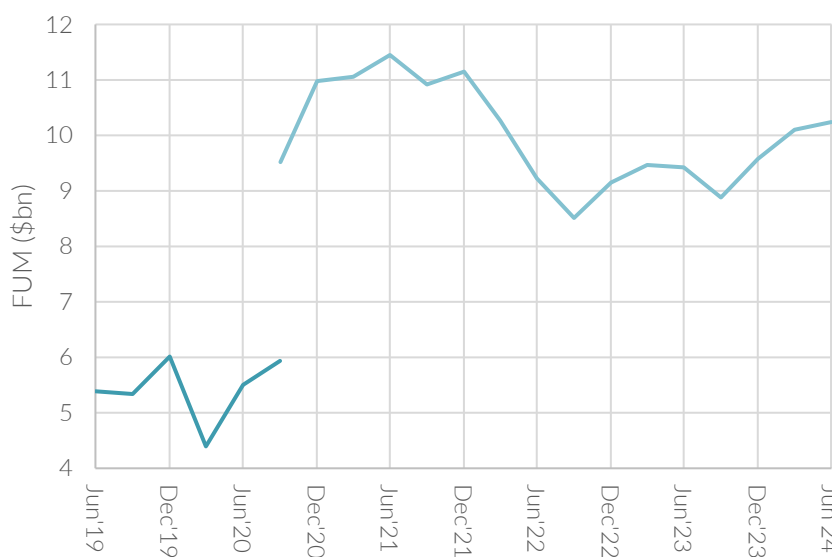
Source: Hardman & Co Research

The fourth quarter was a broadly positive one for markets, whose growth represented almost 4% of FUM. Unfortunately, this was offset by net outflows of \$250m. Overall, the trend over the year is one of improvement with net outflows in the second half of the financial year (\$26m) much lower than the first half (\$294m).

There was a mixed pattern on the inflows. The Emerging Markets strategy continued its recent trend of net outflows, with ongoing geopolitical uncertainty increasing investor concerns. The International strategy again saw net inflows while Opportunistic Value saw its first quarter of net outflows of the year. The International strategy was the outstanding attractor of new business for the whole year, at \$153m.

After a strong 3Q'24, there were net outflows in Karpus in 4Q'24. We note that this is much reduced compared with previous quarters, showing the marketing efforts are still having a positive effect. For the year as a whole, net outflows of \$4m are almost *de minimis* and much improved over previous years, with the second half being positive.

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

City of London provided performance commentary for the whole financial year. Within CLIM, the International, Opportunistic Value and Frontier strategies all outperformed while the Emerging Markets strategy underperformed over the year.

Karpus also saw continued good performance across most of its strategies, with its fixed income, international equity, conservative balanced and SPAC strategies all outperforming. US equity is the only strategy listed as underperforming.

As has been noted in previous reports, the discount levels for the closed-end funds in many strategies are at, or close to, the widest they have been for a long time. City of London continues to highlight this in its marketing efforts. If global uncertainty calms down, then the strategies could do very well.

Dividend

As per the changes earlier this year, no financial information was given with the statement. There was guidance that the dividend is expected to be in-line with the previous year, which matches our forecast. Last year saw a final dividend of 22p for a total for the year of 33p.

Estimate updates

With FUM being almost exactly in line with our forecast, the fund flows have only had a small drag on our estimates due to mix changes. However, there has been a more noticeable exchange rate movement. Our last forecasts were updated at what turned out to be the most recent high for the dollar, and the rate has moved from \$1.23 to \$1.29. This has had the effect of increasing the UK expenses and slightly reducing our estimates.

Our 2024E underlying EPS has decreased from 43.5¢ to 43.4¢, while our 2025E is decreased by 1% from 51.0¢ to 50.6¢ and our 2026E EPS is also 1% lower at 55.5¢, from 55.9¢. Our dividend forecasts remain unchanged.

Financials

Summary financials						
Year-end Jun	2021	2022*	2023	2024E	2025E	2026E
FUM (\$bn)	11.45	9.22	9.42	10.24	10.84	11.47
P&L (\$m)						
Revenue		81.55	68.73	68.71	74.70	78.40
Expenses		49.63	47.82	46.95	48.26	48.80
EBITDA		38.20	27.34	27.36	32.03	35.20
Operating profit		31.92	20.90	21.77	26.44	29.60
Statutory PTP		30.88	22.13	22.46	27.14	30.30
Earnings		24.11	17.50	16.92	20.43	22.82
Statutory EPS (¢)		44.9	38.4	34.7	41.9	46.8
Underlying EPS (¢)		57.4	44.5	43.4	50.6	55.5
Underlying EPS (p)	48.1	44.2	36.5	33.6	39.2	43.0
Total DPS (p)	33.0	46.5	33.0	33.0	33.0	33.0

Key metrics						
	2021	2022*	2023	2024E	2025E	2026E
Growth						
FUM		-19.4%	2.2%	8.7%	5.9%	5.8%
Revenue		47.9%	-15.7%	0.0%	8.7%	5.0%
Operating profit		35.4%	-34.5%	4.1%	21.5%	12.0%
Underlying EPS (¢)		19.3%	-22.5%	-2.7%	16.7%	9.7%
DPS (excl. special div.)		0.0%	0.0%	0.0%	0.0%	0.0%
Operating margins						
Net FUM fee margin	0.75%	0.73%	0.72%	0.70%	0.70%	0.70%
Operating margin	42.8%	39.1%	30.4%	31.7%	35.4%	37.8%
Tax rate	23.6%	24.0%	24.0%	24.7%	24.7%	24.7%
U/I dividend cover (x, incl. special div.)	1.5	1.0	1.1	1.0	1.2	1.3
Rolling u/I 5-year cover (x, excl. special div.)	1.3	1.3	1.3	1.2	1.2	1.2

Underlying EPS sensitivity			2025E	2026E
No net new business				
Underlying EPS (¢)			50.1	54.2
change			-0.9%	-2.3%
0% market growth (was 5% p.a.)				
Underlying EPS (¢)			49.0	50.8
change			-3.0%	-8.5%

*2022 figures include a special dividend of 13.5p
Source: Company data, Hardman & Co Research
£1=\$1.29

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