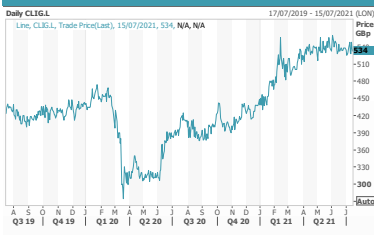




16 July 2021

Financial Services



Source: Refinitiv

Market data

EPIC/TKR	CLIG
Price (p)	534.0
12m High (p)	560.0
12m Low (p)	376.0
Shares (m)	50.7
Mkt Cap (£m)	270.6
EV (£m)	253.1
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	Deepnranjan Agrawal
Chairman	Barry Aling
	+44 207 711 0771
	www.clig.com

Key shareholders

George Karpus	31.5%
Aberforth Partners	7.0%
Hargreaves Lansdown	6.4%
Interactive Investor	5.0%
Barry Olliff	2.4%
Directors & staff	12.2%

Diary

13 Sep	Preliminary results
6 Oct	1Q FUM statement
18 Oct	AGM

Analyst

Brian Moretta 020 3693 7075
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CITY OF LONDON INVESTMENT GROUP

It's an all-time high

City of London has announced its final trading update for FY'21. The year has shown dramatic progress. The merger with Karpus has been complemented by strong markets, boosting FUM substantially. FUM finished the year at \$11.45bn, a 26% increase from the \$5.50bn CLIM had a year ago plus \$3.58bn from Karpus when the merger took place in October. The benefits of strong markets have been offset by steady outflows from rebalancing and redemptions but boosted by outperformance across the strategies. The net result is the FUM increase is somewhat behind market movements.

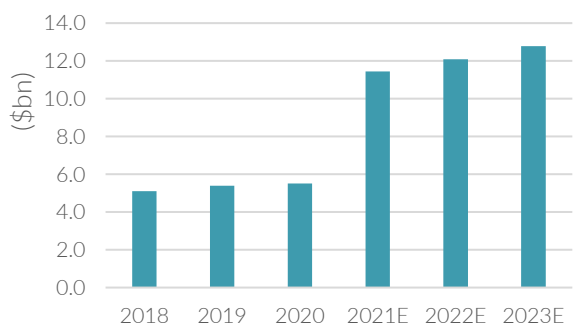
- **Operations:** For the full year, estimated profit after tax will be £17.0m, an increase of 124% on the previous year. We estimate underlying EPS to increase by 29%. As expected, an increased final dividend of 22p has been announced, making the full-year amount of 33p a 10% increase over FY'20.
- **Estimates:** Although the results are comfortably ahead of our expectations, only the increase in FUM improves future earnings. The net result is small upgrades to our forecasts, with both our 2022E and 2023E EPS increasing by 3%.
- **Valuation:** Despite the recent good performance, the 2022E P/E of 12.5x remains at a discount to the peer group. The 2022E yield of 6.7% is attractive, in our view, 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 47% 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 shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. After a special dividend in FY'19, dividend increases in FY'20 and FY'21 and with the EPS boost from Karpus, the prospects for future dividend increases look very good.

Financial summary and valuation

Year-end Jun (£m)	2018	2019*	2020	2021E	2022E	2023E
FUM (\$bn)	5.11	5.39	5.50	11.45	12.08	12.77
Revenue	33.93	31.93	33.26	54.40	65.48	68.92
Statutory PTP	12.79	11.40	9.41	22.28	29.18	31.34
Statutory EPS (p)	39.5	34.9	30.3	39.4	42.8	46.2
Underlying EPS (p)	39.5	34.9	38.0	48.9	51.6	54.9
DPS (p)	27.0	27.0	30.0	33.0	36.0	39.0
Special dividend (p)		13.5				
P/E (x)	13.5	15.3	17.6	13.6	12.5	11.6
Dividend yield	5.1%	7.6%	5.6%	6.2%	6.7%	7.3%

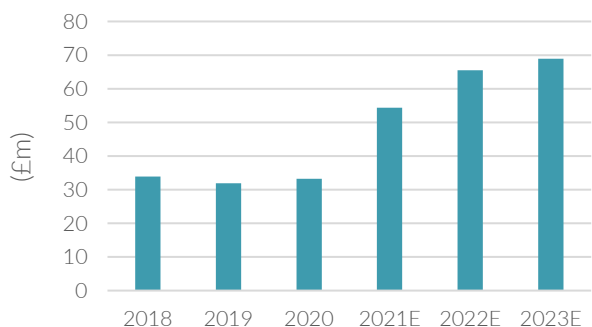
*2019 figures include a special dividend of 13.5p; Source: Hardman & Co Research

Funds under management (FUM)



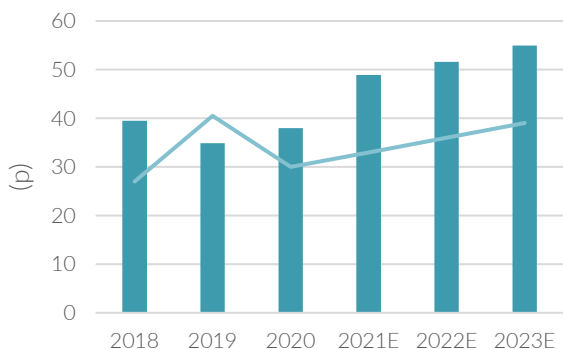
- ▶ Net inflows from 2014 to 2020 but net outflows in 2021
- ▶ Addition of Karpus in 2021 added \$3.58bn
- ▶ Market recovery since spring 2020 has more than offset sharp market fall
- ▶ Assumed steady new business flows and equity market growth of 5% p.a.

Revenue



- ▶ Revenue linked strongly to FUM
- ▶ Ongoing slow decrease in revenue margins from new business
- ▶ Karpus's revenue margin higher than City of London's
- ▶ 2021 boosted by Karpus and strong markets

Underlying EPS (bar) and DPS (line)



- ▶ Profitability maintained historically by cost flexibility
- ▶ Exceptional transaction costs reduce statutory 2020 and 2021E EPS
- ▶ Special dividend of 13.5p in 2019
- ▶ Dividend increased in 2020 and 2021E; we believe our forecasts for 2022 and 2023 are conservative

Source: Company data, Hardman & Co Research

Commentary

Funds

Funds under management (FUM)				
(\$m)	Jun'21	Mar'21	Net flows	Other movements
Emerging Markets	5,393	5,250	-102	245
International	1,880	1,734	55	91
Opportunistic Value	231	233	-13	11
Other/REIT	26	25	3	-2
CLIM total	7,530	7,242	-57	345
KIM total	3,919	3,815	-66	170
Total	11,449	11,057	-123	515

Source: Hardman & Co Research

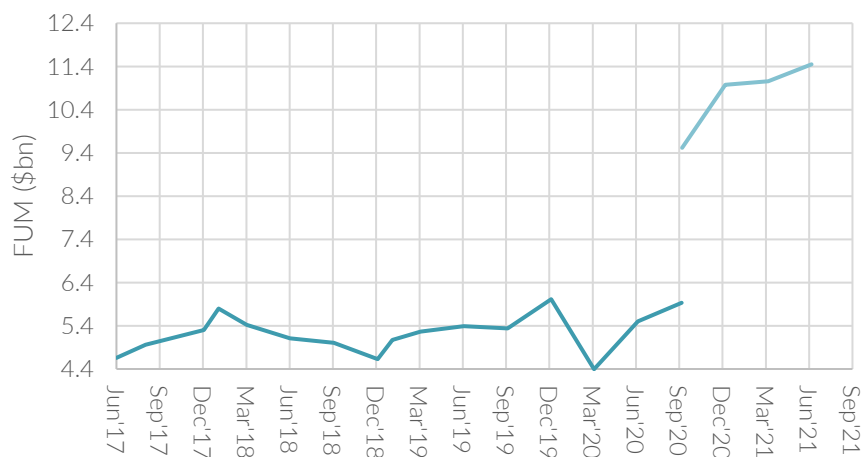
Another strong quarter for markets underpinned a further increase in FUM in 4Q'21, augmented by strong performance. This continues to be offset by rebalancing outflows, albeit these were smaller in total than in previous quarters and the International strategy returned to net inflows.

The strong performance this year continued into 4Q, with International, EM and KIM all beating their benchmarks.

Both operating subsidiaries finished the financial year with all-time high FUM levels. Over the year (taking KIM from 1 October 2020), FUM grew from \$9.08bn to \$11.45bn, an increase of 26%. CLIM alone added just over \$2bn from its \$5.50bn as at June 2021. Strong market gains were offset by steady rebalancing and liquidations of \$774m.

The only news on new business is that there is an active pipeline across all of its major CEF products.

CLIG FUM progress since FY'18



Note: Jump at Sep'20 due to Karpus transaction; Source: Company data, Hardman & Co Research

Operations

City of London supplied full-year profit figures, which were almost 10% ahead of our expectations. The group average revenue rate of 74bps is in line with the historical figures, as are overheads. The unaudited profit before amortisation of intangibles, exceptional merger costs and tax is estimated at £27.2m, just over

£0.5m ahead of our forecast. While no breakdown is available yet, we would attribute this to strong markets boosting both fees and gains.

The estimated taxation of £5.3m is £0.7m below our estimate, leading to estimated earnings of £17.0m, which would be an increase of 124% on last year's figure. Even allowing for the extra shares in issue, the estimated basic EPS of 39.4p is a 30% increase on the previous year. On an underlying basis, we estimate the EPS increase is 29% to 48.9p.

Dividends

As per our forecast, City of London has announced an increased final dividend of 22p, bringing the total for the year to 33p. This a 10% increase over the previous year's total of 30p. With the improved earnings, rolling five-year cover has increased to 1.29x, compared with the company's target of 1.2x. We look forward to future increases with increased confidence.

Previously, City of London had highlighted a technical infringement of the dividend rules and held a special EGM in June to rectify this. The required amendment was passed.

Estimate updates

While the results were meaningfully ahead of our forecasts, we believe the tax difference is technical, so only the increased market levels have an effect on our forward estimates. Our underlying 2022E EPS has changed from 50.0p to 51.6p, a 3% increase, and underlying 2023E EPS also increases by 3% to 54.9p.

Financials

Summary financials						
Year-end Jun	2018	2019*	2020	2021E	2022E	2023E
FUM (\$bn)	5.11	5.39	5.50	11.44	12.08	12.77
P&L (£m)						
Revenue	33.93	31.93	33.26	54.40	65.48	68.92
Expenses	21.40	21.43	21.66	31.24	36.31	37.59
Operating profit	12.53	10.50	11.60	23.16	29.16	31.33
Statutory PTP	12.79	11.40	9.41	22.28	29.18	31.34
Earnings	10.06	9.05	7.37	17.01	21.13	22.78
Statutory EPS (p)	39.5	34.9	30.3	39.4	42.8	46.2
Underlying EPS (p)	39.5	34.9	38.0	48.9	51.6	54.9
DPS (p)	27.0	40.5	30.0	33.0	36.0	39.0
Key metrics						
	2018	2019*	2020	2021E	2022E	2023E
Growth (%)						
FUM		5.5	2.1	108.0	5.6	5.7
Revenue		-5.9	4.2	63.5	20.4	5.3
Operating profit		-16.2	10.4	99.6	25.9	7.4
Underlying EPS		-11.6	8.9	28.7	5.5	6.5
DPS (excl. special div.)		50.0	-25.9	10.0	9.1	8.3
Operating margins (%)						
Net FUM fee margin	0.80	0.76	0.75	0.74	0.74	0.74
Operating margin	36.9	32.9	34.9	42.6	44.5	45.5
Tax rate	21.4	20.6	21.7	23.0	24.0	24.0
Dividend cover (x, excl. special div.)	1.5	0.9	1.0	1.2	1.2	1.2
Rolling 5-year cover (x, excl. special div.)	1.2	1.3	1.2	1.3	1.2	1.2
Rolling u/l 5-year cover (x, excl. special div.)			1.2	1.3	1.3	1.3
Underlying EPS sensitivity						
					2022E	2023E
No net new business						
EPS (p)					51.0	52.8
change					-1.2%	-3.8%
0% market growth (was 5% p.a.)						
EPS (p)					50.2	50.6
change					-2.8%	-7.9%

*2019 figures include a special dividend of 13.5p; Source: Company data, Hardman & Co Research
£1=\$1.38

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