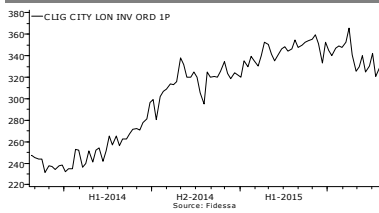


FTSE sector: Financial Services



Source: Fidessa

Market data

EPIC/TKR	CLIG
Price (p)	323.7
12m High (p)	367.5
12m Low (p)	272.0
Shares (m)	26.9
Mkt Cap (£m)	87.1
EV (£m)	76.9
Market	LSE

Description

City of London is an investment manager specialising in using closed end funds to invest in emerging markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

www.citlon.com

Next event

Trading Update	Jan 2016
Interim Results	Feb 2016

Analysts

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City of London Investment Group

AGM trading update

City of London issued a brief trading statement this morning ahead of their AGM. Funds under management were \$3.92bn as of the end of 15th October. This is 9% up on the \$3.6bn figure as of the end of September, in line with the bounce in emerging markets.

- ▶ **Pipeline:** The company reaffirmed the pipeline of potential mandates at \$750m across all classes of business, with the hope of gaining at least \$250m of those. So far it has confirmed mandate wins of \$75m, giving some optimism that the \$250m figure may prove conservative.
- ▶ **Profitability:** The statement gave no news on profitability, which is not surprising given the short time since the last statement.
- ▶ **Valuation:** The prospective P/E of 14.1 times is a discount to the peer group. The yield of 7.3% is very attractive and should at the very least provide support for the shares in the current volatile markets.
- ▶ **Risks:** To date City of London has not experienced the sorts of outflows that some other emerging market fund managers have, aided by its good performance and strong client servicing. Further EM volatility may increase that risk.
- ▶ **Investment summary:** City of London has continued to show robust performance in challenging market conditions. The valuation remains reasonable. Without a market recovery the dividend may be uncovered in 2016, but with over £10m of cash the company can easily cover the £0.2m gap that current market levels imply.

Financial summary and valuation

Year end Jun (£m)	2012*	2013*	2014*	2015	2016E	2017E
FUM (\$bn)	4.48	3.71	3.90	4.20	4.22	4.84
Revenue (£m)	34.14	29.36	24.22	25.36	23.24	25.52
Statutory PTP	11.46	8.86	7.24	8.93	8.42	10.18
Statutory EPS (p)	33.8	24.9	20.7	26.4	23.3	30.3
Dividend (p)	24	24	24	24	24	24
P/E (x)	9.7	13.2	15.9	12.5	14.1	10.9
Yield	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%

Source: Hardman & Co Research

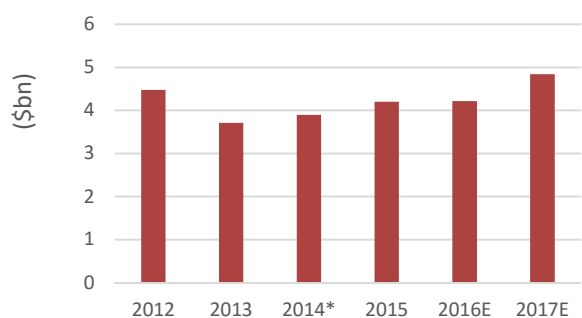
* 2012 and 2013 had May year ends. 2014 had 13 months in financial year.

Summary and Estimates

With the bounce in emerging markets our forecast FUM has increased accordingly, with the year end 2016E now almost unchanged compared to 2015. However the weak first quarter does mean our fee forecasts are below the 2015 figure. Our 2016E eps has increased from 22.2p to 23.3p, with a slight currency offset to the FUM improvement.

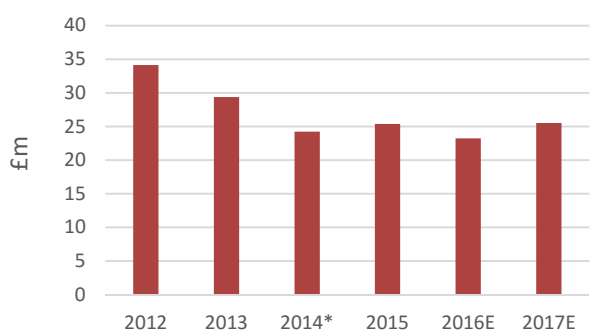
There has been a larger effect on the 2017E. Given current market volatility we'd attach a low confidence to that estimate, but note that if it is at that level then there is the possibility of a dividend increase too.

Funds Under Management



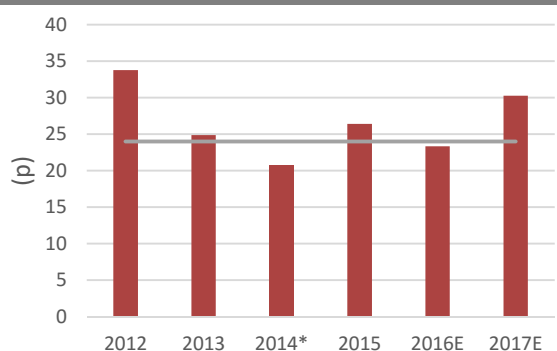
- ▶ FUM decline to 2013 primarily due to outflows
- ▶ Net inflows resumed in 2014
- ▶ Rebound in emerging markets means end 2016E FUM now same as 2015

Revenues



- ▶ Revenues strongly linked to FUM
- ▶ Slight decrease in revenue margins from new business
- ▶ Some currency effects, particularly in 2015

eps and dividend



- ▶ Profitability maintained by cost flexibility
- ▶ Dividend shortfall in 2014 covered from reserves
- ▶ Whether 2016 dividend is covered is contingent on market conditions
- ▶ With £10m of cash on balance sheet can easily cover expected shortfall in 2016

Source: Company data; Hardman & Co Research

Financials

Summary Financials

	May Year End 2012	2013	June Year End 2014*	2015	2016E	2017E
FUM (\$bn)	4.48	3.71	3.90	4.20	4.22	4.84
P&L (£m)						
Revenue	34.14	29.36	24.22	25.36	23.24	25.52
Expenses	23.11	21.01	17.22	16.63	14.67	15.39
Operating Profit	11.03	8.36	7.00	8.73	8.57	10.13
PBT	11.46	8.86	7.24	8.93	8.42	10.18
Earnings	8.50	6.27	5.20	6.61	5.80	7.53
eps (p)	33.8	24.9	20.7	26.4	23.3	30.3
dps (p)	24	24	24	24	24	24

Key Metrics

	2012	2013	2014*	2015	2016E	2017E
Growth (%)						
FUM		-17.1	5.0	7.7	0.4	14.8
Revenue		-14.0	-17.5	4.7	-8.4	9.8
Operating Profit		-24.2	-16.3	24.7	-1.8	18.2
EPS		-26.3	-16.9	27.5	-11.6	29.8
DPS		0	0	0	0.4	14.8
Operating Margins (%)						
Net FUM fee margin	0.87	0.92	0.88	0.85	0.85	0.83
Operating Margin	32.3	28.5	28.9	34.4	36.9	39.7
Tax Rate	25.9	29.3	28.2	26.0	26.0	26.0
Dividend cover	1.41	1.04	0.86	1.10	0.97	1.26

eps Sensitivity

	2016E	2017E
No net new business		
eps (p)	23.2	27.4
% change	-0.5	-9.4
0% market growth (was 5% pa)		
eps (p)	23.2	28.2
% change	-0.6	-6.8

Source: City of London Investment Group, Hardman & Co Research

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