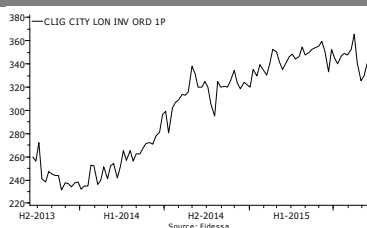


FTSE sector: Financial Services



Source: Fidessa

Market data

EPIC/TKR	CLIG
Price (p)	330.0
12m High (p)	367.5
12m Low (p)	317.5
Shares (m)	26.9
Mkt Cap (£m)	88.8
EV (£m)	78.6
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

Interim Results	15 Feb 2016
Interim Div. Paid	11 Mar 2016
3Q Update	12 Apr 2016

Analysts

Brian Moretta	020 7929 3399
	bm@hardmanandco.com

City of London Investment Group

First half trading update

City of London issued a trading update this morning with its figures to the end of 2015. Funds under management were \$3.8 billion. This compares with \$4.2bn at the start of the year and \$3.6bn at the end of the first quarter. Markets have been the main driver of the decline, though this has been offset by good performance and new fund flows. The fall in FUM over the first half was 11%, compared to a decline of 17% in the MSCI Emerging Markets TR Index.

- ▶ **Pipeline:** New business acquisition has been going well. As well as the first half inflows, there is another \$200m won which will be funded over the next few months. This has been spread across several areas of the business.
- ▶ **Profitability:** The market declines have had a corresponding effect on profits. The first half profit before tax was £3.6m, a decline of 16% on the previous year's £4.3m. After tax this is below the dividend run rate, and whether cover is restored in 2H2016 is very dependent on market movements.
- ▶ **Valuation:** The prospective P/E of 14.6 times is now at a slight premium 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 sort of outflows that some other emerging market fund managers have, aided by its good performance and strong client servicing. Further EM volatility may increase the risk of such outflows however.
- ▶ **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 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	4.00	4.61
Revenue (£m)	34.14	29.36	24.22	25.36	22.50	25.00
Statutory PTP	11.46	8.86	7.24	8.93	7.82	9.70
Statutory EPS (p)	33.8	24.9	20.7	26.4	22.6	28.5
Dividend (p)	24	24	24	24	24	24
P/E (x)	9.8	13.3	15.9	12.5	14.6	11.6
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.

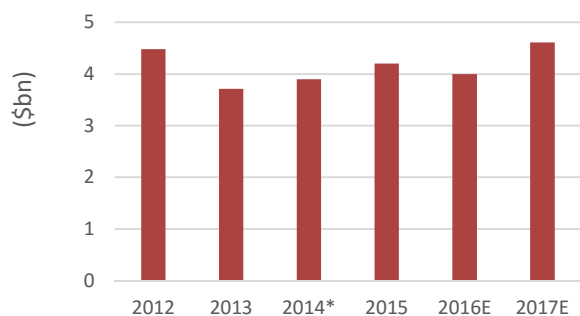
Summary and Estimates

The decline in FUM has had a corresponding effect on our estimates. We have also taken some account of the market declines so far this year and have removed our usual assumption of a slight market increase for the remainder of this financial year.

The company has indicated an improved outlook for new business flows, particularly in emerging markets where it has returned the target for the FY2017 to \$500m. It is worth noting that City of London has managed to attract new business despite difficult markets, which bodes well for the future. However, given the current market volatility we have left our new business estimates unchanged, though note that this may leave our figures somewhat conservative.

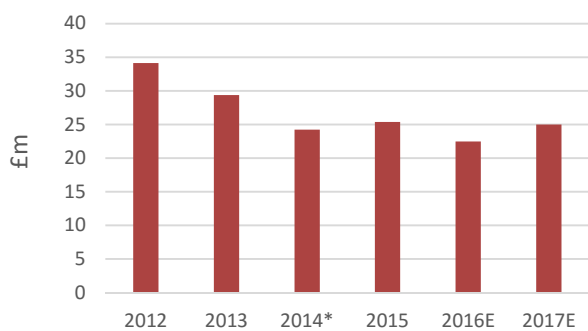
The strengthening dollar continues to have a positive effect on forward estimates, though the first half figure was in line with our estimates. We now forecast 22.9p of eps for 2016E, a slight decline from our previous 23.3p. This remains below the expected dividend of 24p, though the gap continues to be easily coverable from City of London's substantial reserves. Although our forecasts suggest cover will return on a run rate basis in 2H2016, that is clearly contingent on market movements and new business flows.

Funds Under Management



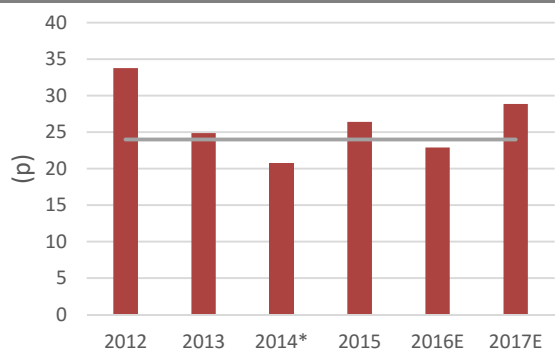
- ▶ FUM decline to 2013 primarily due to outflows
- ▶ Net inflows resumed in 2014
- ▶ Weakness in 2016 being substantially offset by new business flows

Revenues



- ▶ Revenues strongly linked to FUM
- ▶ Slight decrease in revenue margins from new business
- ▶ Some currency effects, particularly in 2015 and 2016

eps and dividend



- ▶ Profitability maintained by cost flexibility
- ▶ Dividend shortfall in 2014 covered from reserves
- ▶ Whether 2017 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		June Year End			
	2012	2013	2014*	2015	2016E	2017E
FUM (\$bn)	4.48	3.71	3.90	4.20	4.00	4.61
P&L (£m)						
Revenue	34.14	29.36	24.22	25.36	22.50	25.00
Expenses	23.11	21.01	17.22	16.63	14.52	15.34
Operating Profit	11.03	8.36	7.00	8.73	7.97	9.65
PBT	11.46	8.86	7.24	8.93	7.82	9.70
Earnings	8.50	6.27	5.20	6.61	5.63	7.08
eps (p)	33.8	24.9	20.7	26.4	22.6	28.5
dps (p)	24	24	24	24	24	24

Key Metrics

	2012	2013	2014*	2015	2016E	2017E
Growth (%)						
FUM		-17.1	5.0	7.7	-4.8	15.3
Revenue		-14.0	-17.5	4.7	-11.3	11.1
Operating Profit		-24.2	-16.3	24.7	-8.6	21.1
EPS		-26.3	-16.9	27.5	-14.2	25.7
DPS		0	0	0	0	0
Operating Margins (%)						
Net FUM fee margin	0.87	0.92	0.88	0.86	0.85	0.83
Operating Margin	32.3	28.5	28.9	34.4	35.4	38.6
Tax Rate	25.9	29.3	28.2	26.0	27.0	27.0
Dividend cover	1.41	1.04	0.86	1.10	0.94	1.19

eps Sensitivity

	2016E	2017E
No net new business		
eps (p)	22.5	25.3
% change	-0.6	-11.2
0% market growth (was 5% pa)		
eps (p)	22.6	27.6
% change	0.0	-3.1

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

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