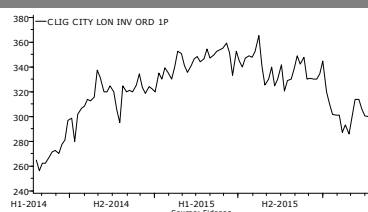


FTSE sector: Financial Services



Source: Fidessa

Market data

EPIC/TKR	CLIG
Price (p)	301.0
12m High (p)	367.5
12m Low (p)	286.0
Shares (m)	26.9
Mkt Cap (£m)	81.0
EV (£m)	70.8
Market	Full

Description

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

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

www.citlon.com

Key shareholders

Directors & staff	21.4%
Blackrock	7.9%
Hargreave Hale	7.7%
Slater Investments	3.7%
Polar Capital	3.3%

Next event

18 Jul 2016	Pre-close update
12 Sep 2016	Preliminary results
10 Oct 2016	1 st Quarter update
13 Oct 2016	Ex-div date

Analysts

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City of London Investment Group

Q3 boosted by market recovery

City of London issued a trading statement for the FY third quarter. Funds under management have benefitted from the equity market recovery and finished the quarter at \$3.9bn, a 3% rise over the figure at the end of 2015. Unfortunately this lagged the MSCI Emerging Markets Index rise of 6%. The main factor in this lag was underperformance, with discounts on the underlying Closed End Funds widening and an overweight exposure to small-cap companies within those funds. This follows a lengthy period of outperformance and annualised figures remain first or second quartile across all periods.

- ▶ **New Business:** Over the third quarter inflows slightly exceeded outflows. Other than saying the pipeline remains robust there was no news on future prospects. After the recent market volatility it seems likely that investors may sit on their hands for a while.
- ▶ **Operations:** The net revenue margin remains at approximately 85 basis points. Profitability has been improved by the growth in FUM and some currency benefit. Operating profit is now £1.0m per month before profit-share.
- ▶ **Valuation:** The prospective P/E of 14.2 times is now at a slight premium to the peer group. The yield of 7.6% is very attractive and should at the very least provide support for the shares in the current volatile markets. At current market levels we'd expect dividend cover to be restored in 2017.
- ▶ **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. Unless the market surges suddenly the dividend will probably be uncovered in 2016, but with over £8m of cash the company can easily cover the gap that current market levels imply.

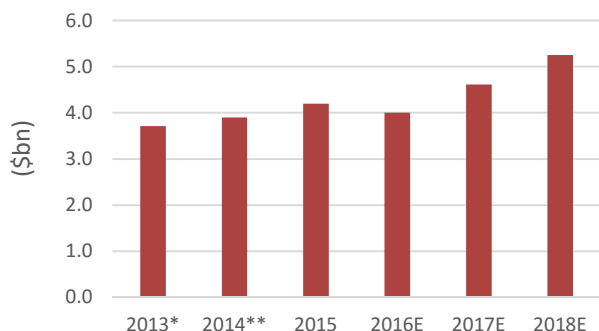
Financial summary and valuation

Year end Jun (£m)	2013*	2014**	2015	2016E	2017E	2018E
FUM (\$bn)	3.71	3.90	4.20	4.00	4.61	5.25
Revenue (£m)	29.36	24.22	25.36	22.46	25.84	28.82
Statutory PTP	6.27	5.20	6.61	5.55	7.39	8.93
Statutory EPS (p)	24.9	20.7	26.4	22.3	29.7	35.9
Dividend (p)	24.0	24.0	24.0	24.0	24.0	24.0
P/E (x)	12.1	14.5	11.4	13.5	10.1	8.4
Yield	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

Source: Hardman & Co Research

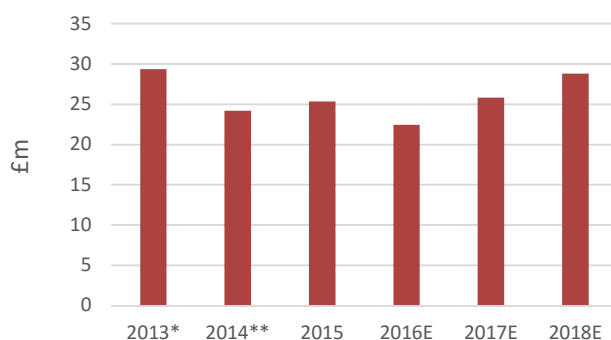
* 2013 and 2014 had May year ends. 2014 had 13 months in financial year.

Funds under Management



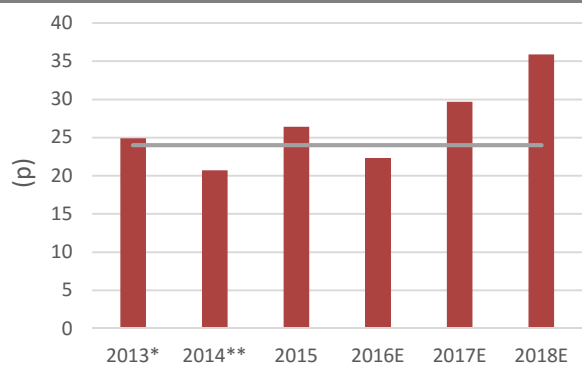
- ▶ Net inflows from 2014
- ▶ Market weakness in 2016 being substantially offset by new business flows
- ▶ Assumed steady new business flows and market growth of 5% pa in 2017 and 2018

Revenues



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

eps (bar) and Dividend (line)



- ▶ Profitability maintained by cost flexibility
- ▶ Dividend shortfall in 2014 covered from reserves
- ▶ If market remains at current levels, then we would expect dividend to be covered in 2017
- ▶ With over £8m of cash on balance sheet can easily cover expected shortfall in 2016

Source: Company data; Hardman & Co Research

Estimate Changes

The interim results came out at around the bottom of the market weakness in February and our estimates were based off the then FUM of \$3.5bn. The improvement to \$3.9bn has led to upgrades of 5% for 2016E and 16% for 2017E. These have been supported also by the strength of the US Dollar.

Although the dividend still looks like being uncovered for the current financial year, at current market levels it would be covered on a run rate basis in the fourth quarter.

Corporate News

City of London also announced two corporate changes today. Rian Dartnell, one of the non-executive Directors, will be resigning as of 1st July after five years on the Board. He will be replaced by Mark Driver. He is a founding partner of Horseman Capital Management and has long experience of emerging markets.

In addition, City of London has appointed Zeus Capital Limited as its sole broker.

Financials

Summary Financials						
Year End June	2013*	2014**	2015	2016E	2017E	2018E
FUM (\$bn)	3.71	3.90	4.20	4.00	4.61	5.25
P&L (£m)						
Revenue	29.36	24.22	25.36	22.46	25.84	28.82
Expenses	21.01	17.22	16.63	14.60	15.77	16.65
Operating Profit	8.36	7.00	8.73	7.86	10.07	12.18
PBT	8.86	7.24	8.93	7.70	10.12	12.23
Earnings	6.27	5.20	6.61	5.55	7.39	8.93
eps (p)	24.9	20.7	26.4	22.3	29.7	35.9
dps (p)	24.0	24.0	24.0	24.0	24.0	24.0
Key Metrics						
	2013*	2014**	2015	2016E	2017E	2018E
Growth (%)						
FUM		5.0	7.7	-4.8	15.3	13.9
Revenue		-17.5	4.7	-11.4	15.1	11.5
Operating Profit		-16.3	24.7	-10.0	28.2	20.9
EPS		-16.9	27.5	-15.5	33.1	20.8
DPS		0	0	0	0	0
Operating Margins (%)						
Net FUM fee margin	0.92	0.88	0.86	0.85	0.83	0.82
Operating Margin	28.5	28.9	34.4	35.0	39.0	42.2
Tax Rate	29.3	28.2	26.0	27.0	27.0	27.0
Dividend cover	1.0	0.9	1.1	0.9	1.2	1.5
eps Sensitivity						
				2016E	2017E	2018E
No net new business						
eps (p)				22.3	27.7	29.7
% change				0.0	-6.9	-17.2
0% market growth (was 5% pa from June 2016)						
eps (p)				22.3	28.8	32.3
% change				0.0	-3.1	-9.8

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

* May year end

** 13 month year as year end change.

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