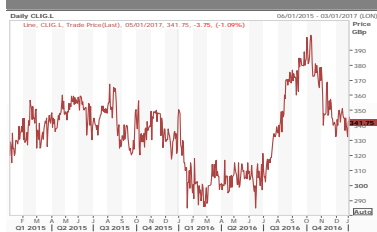


Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CLIG
Price (p)	341.8
12m High (p)	398.5
12m Low (p)	285.0
Shares (m)	26.9
Mkt Cap (£m)	92.0
EV (£m)	81.7
Market	LSE

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	20.3%
Blackrock	9.2%
Hargreave Hale	4.9%
Slater Investments	3.3%
Polar Capital	3.0%

Next event

17 Jan 2017	Q2 Trading update
20 Feb 2017	Half year results

Analysts

Brian Moretta	020 7929 3399
	bm@hardmanandco.com

City of London Investment Group

Swings and roundabouts

After three positive quarters for emerging markets, the fourth quarter of 2016 has been disappointing with the MSCI Emerging Markets Index falling 5%. The big reasons behind this move are fairly clear – the attitude of Donald Trump towards many emerging market countries, particularly China and Mexico, suggests relationships may deteriorate. His attitude towards trade deals in particular may have a wide impact, though as often the reality is likely to fall short of the rhetoric. A rise in US interest rates, with the prospect of more to come, may have a short-term impact on capital flows too.

- ▶ **Local news:** There has been other disappointing news around too. India has been withdrawing Rs500 and Rs1000 notes from circulation, but it has been badly handled and will slow GDP. Another terrorist attack in Turkey has not helped sentiment either.
- ▶ **Forecasts:** With the recent retreat of indices, we have adjusted our forecasts to reflect these moves. Our basic eps for 2017E is reduced to 34.5p and 2018E to 37.0p.
- ▶ **Valuation:** The prospective P/E of 9.2 times is at a significant discount to the peer group. The historic yield of 7.0% 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. At current FUM and exchange rates, dividend cover will be more than restored in FY2017 adding to investors comfort.

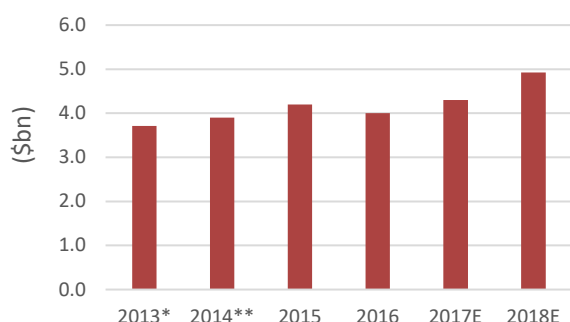
Financial summary and valuation

Year end Jun (£m)	2013*	2014*	2015	2016	2017E	2018E
FUM (\$bn)	3.71	3.90	4.20	4.00	4.30	4.93
Revenue (£m)	29.36	24.22	25.36	24.41	29.41	31.89
Statutory PTP	6.27	5.20	6.61	5.85	8.57	9.21
Statutory EPS (p)	24.9	20.7	26.4	23.3	34.5	37.0
Dividend (p)	24.0	24.0	24.0	24.0	25.0	26.0
P/E (x)	13.7	16.5	12.9	14.7	9.9	9.2
Yield	7.0%	7.0%	7.0%	7.0%	7.3%	7.6%

Source: Hardman & Co Research

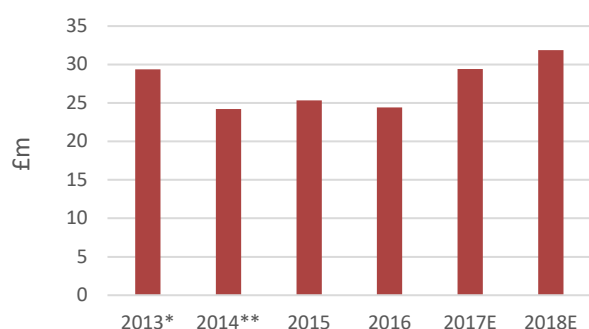
* 2013 and 2014 had May year ends. 2014 had 13 months in financial year.

Funds under Management



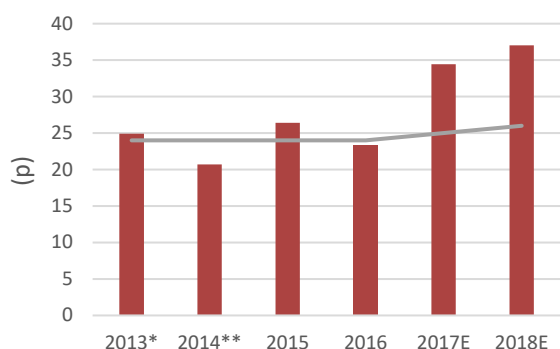
- ▶ Net inflows from 2014
- ▶ Market weakness in 2016 substantially offset by new business flows
- ▶ Assumed steady new business flows and market growth of 5% pa in 2017 and 2018

Revenues



- ▶ Revenues strongly linked to FUM
- ▶ Slight decrease in revenue margins from new business
- ▶ Some currency effects, particularly from strong US Dollar from 2015 to 2017

eps (bar) and dividend (line)



- ▶ Profitability historically maintained by cost flexibility
- ▶ Dividend shortfall in 2014 and 2016 covered from reserves
- ▶ If market remains at current levels then we'd expect dividend to be covered and increased in 2017

Source: Company data; Hardman & Co Research
 * 2013 and 2014 had May year ends. 2014 had 13 months in financial year

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