

19 February 2019

City of London Investment Group*

CLIG LN

Financials

13.5p special DPS

What's new. CLIG's interims released yesterday are precisely in line with the update given on 16 January, except that it revealed:

- Group FUM rose 9.7% in January 2019 to US\$5.1bn: with Sterling strengthening from \$1.28/£1 to \$1.30/£1, Group FUM rose circa 8% to £3.9bn.
- 9.0p interim DPS (1H18 interim DPS: 9.0p) will be accompanied by a 13.5p special DPS: both dividends will be paid on 22 March 2019.

The interims confirmed the following, which were included in the Jan 2019 update:

- In 1H to Dec 2018, FuM fell 9.4% to US\$4.625m, with the MXEF Index down 9.7%; Year-on-Year FUM fell 12.5%, while the MXEF Index fell 16.6%;
- 1H flows were \$42m negative: \$136m of net inflows to the Developed and Opportunistic Value strategies (1Q \$124m; 2Q \$12m), and \$157m net outflow from Emerging Market (1Q \$95m; 2Q \$62m) and \$21m of net outflow from Frontier (1Q \$21m; 2Q none) strategies.
- 1H investment performance was negative: the statement echoes the 1Q statement which referred to "underlying close-end fund manager underperformance" and "widening discounts.
- Unaudited 1H PBT of £5.2m is 21% below 1H18 PBT: £6.6m. The run rate for operating profit before profit share of 30% and estimated EIP charge of 5% is now approximately £1.2m per month (1Q19: £1.4m a month);

The statement reminds readers that despite "recent headwinds faced by our active investment approach ... each of our key strategies continue to rank in the 1st quartile within their respective peer groups over the past five year period and in the 1st or 2nd quartile over the past three year period ending December 2018."

Zeus view. We maintain our forecasts, which we adjusted on 16 January 2019.

At 31 December 2018, the group had £18.7m (70p per share) of net cash. We expect the interim and special dividends to cost £5.7m in total. We agree with the Chairman, who observes that the payment of the Special dividend "represents a fair balance between the need to reward shareholders while maintaining sufficient reserves to capitalise on any opportunities that may raise."

Valuation. CLIG shares at 400p are trading cum 22.5p and go "ex div" on 8 March 2019. Ex div, CLIG is trading on a 7.2% dividend yield and PER of under 10x.

Price	400p
Market Cap	£107m
Shares in Issue	26.7m
12m Trading Range	459p-350p
Free float	83%

Price Performance



Source: Bloomberg

Financial Forecasts

YE June, £m	2017A	2018A	2019E	2020E
Revenue	31.3	33.9	32.0	33.0
Op profit	16.4	19.2	17.1	18.3
Profit margin (%)	52	57	54	55
Profit share	(4.9)	(6.6)	(5.9)	(6.3)
PBT	11.6	12.8	11.4	12.2
Profit margin (%)	37	38	36	37
PAT	9.1	10.1	8.8	9.4
EPS fd (p)	36.7	39.3	34.2	36.5
Dividend cover (x)	1.47	1.46	1.27	1.35
DPS ex special (p)	25.0	27.0	27.0	27.0
Avg FuM (\$b)	4.4	4.9	5.2	5.3
Net cash at YE	13.9	19.7	18.2	20.5
P/E (x)	10.9	10.2	11.7	11.0
Div Yield (%)	6.3	6.8	6.8	6.8

Source: Audited Accounts and Zeus Capital estimates

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Zeus forecasts

Emerging Markets fell in 1H

In the 6 months to 31 December 2018 CLIG's FuM fell 9.4% to US\$4,625m, while the MXEF Index fell 9.7%. Year-on-Year CLIG's FUM fell 12.5%, while the MXEF Index fell 16.6%.

MXEF has rallied in 2019

In January 2019, the MXEF Index rose 8.7% to 1,050 (see Exhibit 4). We maintain our new forecast of market level for 30 June 2019 to 1,070 (which is 1.9% above 31 January 2019 levels).

Exhibit 1: Movement in CLIG's FUM, US\$m

1H18 12/17	2H18 6/18	1H19 12/18	2H19E 6/19	YE June, \$m Period end	2018 June	2019E June	2020E June
4,663	5,329	5,107	4,625	Opening FUM	4,663	5,107	5,207
62	123	(42)	167	Net inflows	185	100	250
604	(347)	(440)	440	Performance & Market	259	-	-
5,329	5,107	4,625	5,207	Closing FUM	5,107	5,207	5,457
14.3	(4.2)	(9.4)	12.6	Growth in FUM (%)	9.5	2.0	4.8
4,996	5,218	4,866	4,916	Average FUM	4,885	5,157	5,332
1,158	1,070	966	1,070	MXEF closing value	1,070	1,070	1,070

Source: Company (historic); Zeus Capital (forecasts)

Growth in non-EM strategies

In 1H19 there was a \$42m net outflow:

- Net inflows of \$136m for CLIG's Developed and Opportunistic Value strategies
- Net outflows of \$157m for CLIG's EM strategy
- Net outflow of \$21m for CLIG's Frontier strategy

The interim update revealed that for 3Q "[CLIG has] received notification of \$125 million of net inflows in aggregate across all strategies". The pipeline is "active" particularly in non-EM CEF strategies (i.e. Developed & Opportunistic Value).

Exhibit 2: CLIG's financial forecasts

1H18	2H18	1H19	2H19E	YE June, £m	2018A	2019E	2020E
17.1	16.8	15.6	16.4	Total income	33.9	32.0	33.0
9.6	9.8	7.6	9.5	Op profit (pre-profit share)	19.2	17.1	18.3
6.6	6.2	5.2	5.2	Profit before tax	12.8	11.4	12.2
5.2	4.9	4.1	4.7	Profit after tax	10.1	8.8	9.4
20.0	19.4	15.9	18.3	Diluted EPS (p)	39.3	34.2	36.5
9.0	18.0	9.0	18.0	DPS excluding special dividend (p)	27.0	27.0	27.0
-	-	13.5	-	Special DPS (p)	-	13.5	-
9.0	18.0	22.5	18.0	Total DPS including special (p)	27.0	40.5	27.0

Source: Company (historic); Zeus Capital (forecasts)

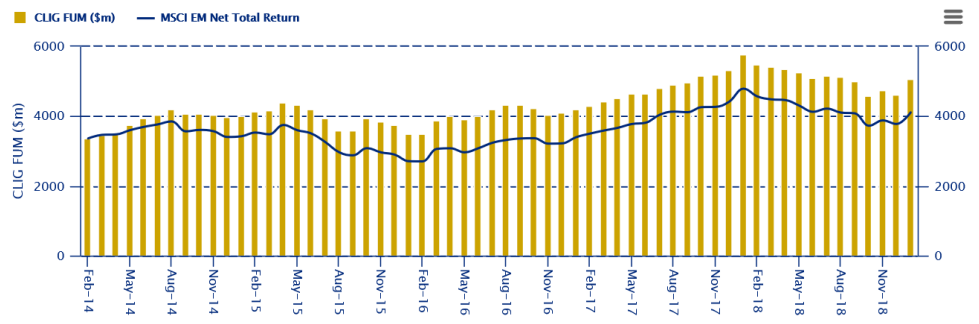
Key charts & variables

Correlation with MXEF Index

CLIG's interims and full year report and accounts contain many tables and charts which provide evidence of the improving profitability and scope for further improvement. One chart, Exhibit 3, which is updated monthly on CLIG's website shows the strong correlation between CLIG's Funds Under Management (FUM) and the Morgan Stanley Emerging Markets Index.

FUM on 31 January 2019 was \$5,072m; previously on 31 December 2018 FUM was \$4,625m; on 30 September 2018 was \$5,008m; on 30 June 2018 it was \$5,107m (see Exhibit 3).

Exhibit 3: CLIG FUM & MXEF Index



Source: <http://citlon.co.uk/shareholders/announcements.php>

MXEF 1050; £1= \$1.31 on 31 Jan 19

Over the past 4 years (see Exhibits 4 & 5), the MXEF index rose from a low of 688 in early 2016 to a high of 1,273 in early 2018, before falling to 1,001 on 14 January 2019; the US\$:£ exchange rate has fallen from 1.70 in July 2014 to a low of 1.20 in January 2017, bouncing up to over 1.40 in January 2018 before falling back down to 1.31 on 31 January 2019.

Exhibit 4: MXEF index to 31/1/19 (\$)



Source: Bloomberg data; Zeus Capital chart

Exhibit 5: US\$: £ cross to



Source: Bloomberg data; Zeus Capital chart

Forecasts based on current variables

The MXEF index is trading on a forward PER of under 12x, price to sales of under 1.2x and EV/EBITDA of under 8.5x. While we see potential for the MXEF Index to rise substantially (see Exhibit 4), we base our forecasts on the MXEF rising to 1,070 and the US\$:£ exchange rate remaining close to 1.28 (i.e. similar to US\$:£ exchange rate of 1.2933 on 18 February 2019).

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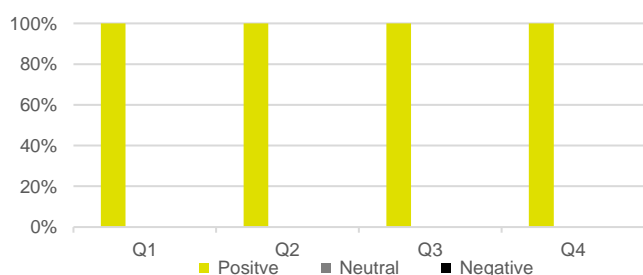
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12 Month Recommendation History



Recommendation distribution at 31 December 2018 Source: Zeus Capital

Corporate Relationship

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Nomad & Joint Broker	10
Joint Broker	2
Nomad	1
Financial Adviser & Broker	3
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At 31 December 2018 Source: Zeus Capital

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