

17 September 2018

City of London Investment Group*

CLIG LN

Financials

Annual Report & Accounts in line with pre-close statement

What's new. CLIG's audited accounts released this morning are in line with its pre-close statement for the year to 30 June 2018, released on 17 July, which revealed strong growth, despite the recent fall in market values. In summary:

- **10% rise in Group Funds under Management to US\$5.1bn (£3.9bn)**, with Emerging Market products contributing 82% and diversification products (i.e. Developed Market, Opportunistic Value and Frontier products) 18%.
- **Revenues rose 8.3% to £33.9m (FY(June)17: £31.1m)**: this is above our forecast (*Zeus forecast was £33.5m; our previous estimate was £34.0m*)
- **10.3% rise in PBT to £12.8m (as indicated in the pre-close update)**, with a 22% tax charge 11.0% rise in PAT to £10.1m (*as indicated in the pre-close update*).
- **7.1% rise in fully diluted EPS to 39.3p (as indicated in the pre-close update)** and **8.0% rise in Full Year DPS to 27p (precisely in line with Zeus forecast)**.
- **Net cash was £19.7m** which is 9.4% above Zeus expectations: (*Zeus forecast was £18.0m; previously estimate was £18.8m*).

The Chairman's outlook is sanguine: "Emerging Markets ... are currently out of favour [while CLIG's] diversified products are largely focussed on Developed markets, including the US which is enjoying the Trump stimulus ... shareholders [can] decide whether to sell EMs and buy into Developed markets or do the reverse."

Zeus view. In rising markets CLIG delivered FuM, revenue, EPS and DPS growth. The recent fall in emerging markets has depressed profits and EPS. We are impressed by the success of CLIG's diversification products, where the relative performance has been positive and \$400m of net inflows have increased FUM to \$900m (up 95% on 30 June 2017: \$461m).

We leave our forecasts, which were adjusted in July 2018, unchanged.

Valuation. CLIG shares at 410p are cum 18.0p final DPS (4.4% yield on the final DPS alone). CLIG shares goes "ex" on Thursday 11 October. CLIG's investment process and growing non-Emerging-Market capability supports expectations of continued growth even in flat markets. Compared to market PER of 12.8x for Emerging Markets and 11.2x for the FT All Share, CLIG PER of 10.1x is very attractive. Its forward dividend yield of 6.8% is a clear indication of value.

Price	410p
Market Cap	£109m
Shares in Issue inc ESOT	26.9m
12m Trading Range	459p-366p
Free float	84%

Price Performance



Source: Bloomberg

Financial Forecasts

YE June, £m	2017A	2018A	2019E	2020E
Revenue	31.3	33.9	35.3	36.5
Op profit	16.4	19.2	20.4	21.8
Profit margin (%)	52	57	58	60
Profit share	(4.9)	(6.6)	(6.9)	(7.4)
PBT	11.6	12.8	13.5	14.4
Profit margin (%)	37	38	38	39
PAT	9.1	10.1	10.4	11.1
EPS fd (p)	36.7	39.3	40.4	43.1
Dividend cover (x)	1.47	1.46	1.44	1.49
DPS (p)	25.0	27.0	28.0	29.0
Avg FuM (\$b)	4.4	4.9	5.3	5.6
Net cash at YE	13.9	19.7	23.3	27.3
P/E (x)	11.2	10.4	10.1	9.5
Div Yield (%)	6.1	6.6	6.8	7.1

Source: Audited Accounts and Zeus Capital estimates

*City of London Investment Group is a Broking client of Zeus Capital Limited

Analyst:

Robin Savage +44 20 3829 5611
robin.savage@zeuscapital.co.uk

Zeus Capital Contacts:

Mike Cuthbert	+44 20 3829 5621
John Goold	+44 20 3829 5601
Dominic King	+44 20 3829 5607
Ben Robertson	+44 20 3829 5625
Victoria Ayton	+44 20 3829 5603
Mike Seabrook	+44 20 3829 5626
Rupert Woolfenden	+44 20 3829 5623
Ronayne O'Mahony	+44 20 3829 5624
Ryan Mendy	+44 20 3829 5615

Email: firstname.surname@zeuscapital.co.uk

17 September 2018

Our forecasts remain unchanged

Emerging Markets rise 2016/17 & fall

As we noted in our 17 July 2018 research note, in calendar year 2016, the MXEF\$ rose 8.6%; in 2017 the MXEF\$ Index rose 34.3%. In 2018, year to date the index is down 7.2% (see Exhibit 4). The forward PER for Emerging Markets as a whole has fallen from over 12x to under 11x forward PER. The rise in Emerging Market valuations reflected the combination of growth and increasing PER multiples. The fall in Emerging Markets in 2018 has reduced PER multiples to two-year lows.

8.7% fall in calendar Q2

In the quarter ended 30 June 2018, the MXEF\$ index fell 8.7% to 1070 (10.8% below our forecast and 15.9% below the high of 1273 on 26 January 2018); over the 6 months to 30 June 2018 the MXEF fell 7.6%. This fall in markets resulted in a \$0.6bn (i.e. 10%) fall in group FUM to \$5.1bn (previously \$5.7bn) and 5.7% fall in average FY18 FUM. This has resulted in actual PBT, PAT and EPS for FY(Jun)18 being 3.8%, 0.9%, 2.5% below Zeus forecasts (see Exhibit 2).

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

1H to Dec 2016	2H Jun 2017	1H to Dec 2017	2H Jun 2017	YE June, \$m	2017A	2018A	2019E
4,047	4,140	4,663	5,329	Opening FUM	4,047	4,663	5,107
57	(363)	62	123	Net inflows	(306)	185	250
36	886	604	(347)	Performance & Market effects	922	259	143
4,140	4,663	5,329	5,107	Closing FUM	4,663	5,107	5,500
2.3	12.6	14.3	(4.2)	Growth in FUM (%)	15.2	9.5	7.7
4,094	4,401	4,996	5,218	Average FUM	4,355	4,885	5,304
862	1,011	1,158	1,070	MXEF closing value	1,011	1,070	1,100

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

Growth in non-EM strategies

Net inflows of \$185m included \$400m (1H: \$151m; 2H: \$249m) of net inflows from non-Emerging Market, "non-EM", strategies. Non-EM strategies now contribute \$900m of FuM (up 95% from \$461m of FUM), which is 18% (June 2017: 10%) of group FUM. We continue to expect around \$250m of net inflows for FY(Jun)19E.

Re-based forecasts

The 2018 profit before and after tax is precisely in line with the unaudited trading update released on 17 July 2018. The total income and operating profit are ahead of our July 2018 estimates. We maintain our forecast for 2019E.

Exhibit 2: CLIG's financial forecasts

1H18	2H18	YE June, £m	2017A	2018A	2019E	2018E Previous	2019E Previous
17.1	16.8	Total income	31.3	33.9	35.3	33.5	35.3
9.6	9.8	Operating profit (pre-profit share)	17.1	19.2	20.4	18.5	20.4
6.6	6.2	Profit before tax	11.6	12.8	13.5	# 12.8	13.5
5.2	4.9	Profit after tax	9.1	10.1	10.4	# 10.1	10.4
20.0	19.4	Diluted EPS (p)	36.7	39.3	40.4	# 39.3	40.4
9.0	# 18.0	DPS (p)	25.0	27.0		# 27.0	

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

as set out in the pre-close statement

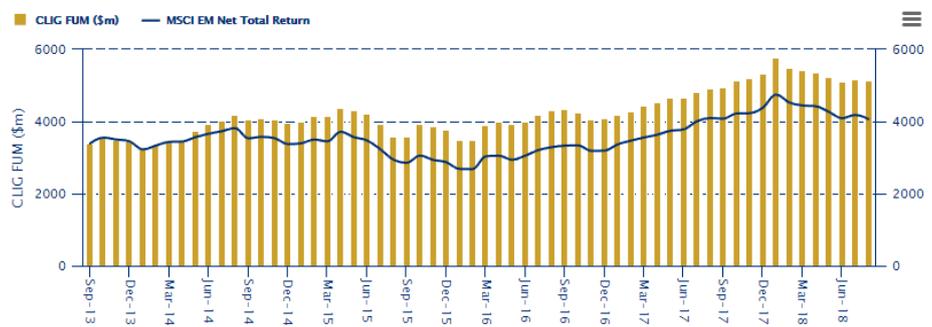
Key charts & variables

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 30 June 2018 was \$5,107m. The August 2018 FUM was \$5,138m (see Exhibit 3).

Exhibit 3: CLIG FUM & MXEF Index



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

MXEF 1018; Sterling \$1.31=£1

Over the past 4 years (see Exhibits 4 & 5), the MXEF index has risen to 1075, from a low of 700 in early 2016; the US\$:£ exchange rate has moved from 1.70 in July 2014 to a low of 1.20 in January 2017 and then back to 1.31 now.

Exhibit 4: MXEF index (\$)



Source: Bloomberg data; Zeus Capital chart

Exhibit 5: US\$: £ exchange rate



Source: Bloomberg data; Zeus Capital chart

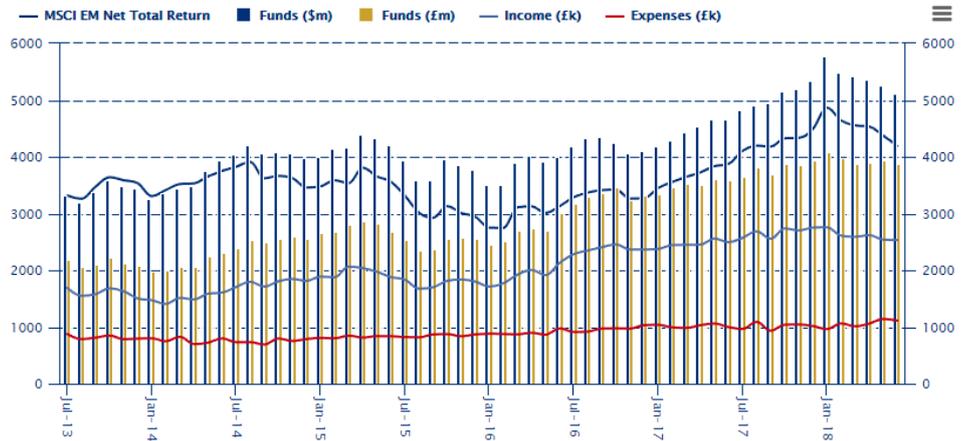
Forecasts based on current variables

The MXEF index is trading on a forward PER of under 11.5x, price to sale of under 1.2x and EV/EBITDA of under 8x. While we see potential for the MXEF Index to rise substantially (see Exhibit 4), we base our forecasts on the MXEF rising 8% to 1100 and the USD:£ exchange rate at 1.30 (i.e. current levels to 2sf).

Charting increase in income & PBT

Costs well controlled with revenue rising

Exhibit 6: Funds Under Management, revenues & costs



Source: <https://citlon.com/investor-relations/funds-under-management.php>

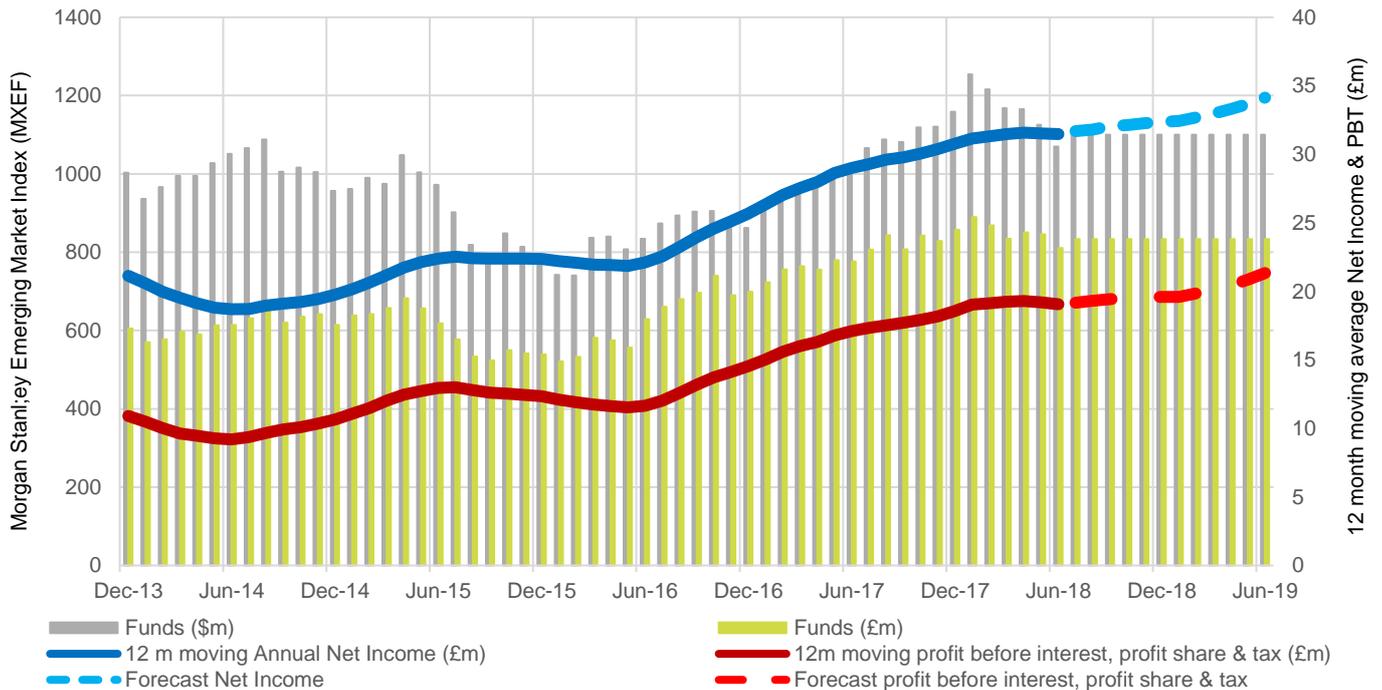
Encouraging rise in revenue & PBT

The data in Exhibit 6 has been used to create a 12 month moving average net income and PBT (Exhibit 7) assuming the MXEF-\$ index returns to 1,100 and the US\$: £ exchange rate is 1.3.

Trends consistent with Exhibit 7

The monthly data is consistent with actual FY(Jun)18E net revenue of £33.9m (FY19E: £35.3m). The profit before interest, profit share and tax for FY(Jun)18 of £19.4m (after profit share of £5.9m, EIP charge of £0.5m), is consistent with PBT of £12.8m (FY19E: £13.5m).

Exhibit 7: CLIG FUM, revenue & profits with forecast, £m



Source: Company (historical) Zeus Capital research forecasts

17 September 2018

DISCLAIMER

Robin Savage is the author of this Investment Research. Robin Savage is an Investment Research Analyst and has been employed by Zeus Capital to produce this research. There is no planned update to this research recommendation. The previous recommendation for City of London Investment Group was Positive published 17/07/18.

Unless otherwise stated any share prices used in this document are taken after market close on the business day prior to the date of publication. The date of completion and first dissemination of this research recommendation are the same and are as per the date-time displayed at the top of the document, unless otherwise stated. If the document references views of analysts other than the author named above then please refer to the price chart or rating history table for the date/time of completion and first dissemination with respect to that view.

This document is issued by Zeus Capital Limited (Incorporated in England & Wales No. 4417845), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority ("FCA") for designated investment business, (Reg No. 224621) and is a member firm of the London Stock Exchange.

This document is for information purposes only and neither the information contained, nor the opinions expressed, within this document constitute or are to be construed as an offer or a solicitation of an offer to buy or sell the securities or other instruments mentioned in it. It or any part of it does not form the basis of and should not be relied upon in connection with any contract. Subject to the nature and contents of the document, the investments described herein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested. Certain investments contained in the document may have tax implications for private customers whereby levels and basis of taxation may be subject to change. Zeus Capital Limited does not provide tax advice and investors should seek advice from a tax adviser.

Zeus Capital Limited uses reasonable efforts to obtain information from sources which it believes to be reliable but the contents of this document have been prepared without any substantive analysis being undertaken into the companies concerned or their securities and it has not been independently verified. No representation or warranty, either express or implied, is made nor responsibility of any kind is accepted by Zeus Capital Limited, its directors or employees either as to the accuracy or completeness of any information stated in this document.

Opinions expressed are the current opinions of Zeus Capital Limited as of the date appearing on this material only. The information and opinions are provided for the benefit of Zeus Capital Limited clients as at the date of this document and are subject to change without notice. Opinions and information disclosed in this publication may have been disclosed to the issuer prior to publication and subsequently amended. There is no regular update series for research issued by Zeus Capital Limited.

The document is not to be construed as a solicitation or recommendation of investment advice and no personal recommendation is being made to you; the securities referred to may not be suitable for you and should not be relied upon in substitution for the exercise of independent judgement. You should make your own investment decisions based upon your own financial objectives and financial resources. Neither past performance nor forecasts are a reliable indication of future performance and Investors may realise losses on any investments, including possible loss of the principal amount invested. Products are not insured by any government or government agencies and are neither guaranteed, insured, nor a deposit account or other obligation of any depository institution.

Zeus Capital Limited and any company or person connected with it (including its officers, directors and employees) may have a position or holding in any investment mentioned in this document or a related investment, and such positions or holdings may be inconsistent with this research recommendation, and may from time to time dispose of any such securities or instrument. In the last 12 months Zeus Capital Limited may have been a manager, or co-lead manager, in the underwriting or placement of securities to the issuers of securities mentioned in this document within the last 12 months, or may have had corporate finance mandates or may have received compensation for investment banking services from such companies. Zeus Capital Limited may be, or may have been, party to an agreement with the issuer of the securities mentioned in this document relating to the production of this recommendation. Zeus Capital Limited may receive or may intend to seek compensation for investment banking services from such companies within the next 3 months. A senior executive or director of Zeus Capital Limited or a connected person may be an officer, director or adviser of any issuer of securities mentioned in this document. Accordingly, recipients of this document should not rely on this document being impartial and information may be known to Zeus Capital Limited or persons connected with it which is not reflected in its material.

Zeus Capital Limited had in place a number of mechanisms for identifying and managing potential conflicts which include:

Policies and procedures to identify, consider, manage and monitor potential conflicts of interests.

Internal guidance and training regarding the identification of possible conflicts before they arise.

Procedures to ensure that potential conflicts are escalated to the appropriate level within Zeus Capital Limited.

Internal arrangements (including physical separation and other information barriers) for regulating the flow of information between and within business areas.

Zeus Capital Limited shall not be liable for any direct or indirect damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised as professional customers or eligible counterparties under the rules of FCA. It is not intended for retail customers.

This document is being supplied to you solely for your information and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose. This material is not directed at you if Zeus Capital Limited is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you and persons into whose possession this material comes should inform themselves about, and observe any such restrictions.

Important Disclosures for United States Persons

Zeus Capital Limited may distribute research, in reliance on Rule 15a-6(a)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), directly to persons in the United States ("U.S.") that are "major US institutional investors" as defined pursuant to Rule 15a-6(b)(4) (each an "MII"). With respect to any distribution of this report to a U.S. person, the information contained in this report (i) is intended solely for use by MII, (ii) was prepared by the analyst named on the cover of this report, who is a non-U.S. research analyst and, as such, may not be subject to all requirements applicable to U.S.-based analysts, (iii) is not subject to all of the independence and disclosure standards applicable to research reports prepared for retail investors, and (iv) may not be used or relied upon by anyone that is not a MII for any purpose. Any U.S. person receiving this report represents and agrees, by virtue of its acceptance thereof, that it is a MII and that it understands the risks involved in executing transactions in such securities

17 September 2018

Any MII that is the recipient of this research and wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of Beech Hill Securities, Inc. (a U.S. broker-dealer registered with the Securities and Exchange Commission and a Member of the Financial Industry Regulatory Authority, Inc.) via telephone at +1 (212) 350-7200 or at its offices at 880 Third Avenue, 16th Floor, New York, NY 10022. Any transaction by such persons (other than a registered U.S. broker-dealer or bank acting in a broker-dealer capacity) must be effected with or through Beech Hill Securities, Inc.

Neither the report nor any analyst who prepared or approved the report is subject to the full scope of U.S. legal or regulatory requirements pertaining to research reports or research analysts. Zeus Capital Limited is neither registered as a broker-dealer under the Exchange Act nor a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

To the extent this report relates to non-U.S. securities, note that investing in non-U.S. securities may entail particular risks. Such securities may not be registered under the U.S. Securities Act of 1933, as amended, and the issuer of such securities may not be subject to U.S. reporting and/or other requirements. Financial statements included in a research report with respect to such securities, if any, may have been prepared in accordance with non-U.S. accounting standards that may not be comparable to the financial statements of U.S. companies. Available information regarding the issuers of such securities may be limited, and such issuers may not be subject to the same auditing and reporting standards as U.S. issuers. Fluctuations in the values of national currencies, as well as the potential for governmental restrictions on currency movements, can significantly erode principal and investment returns. Market rules, conventions and practices may differ from U.S. markets, adding to transaction costs or causing delays in the purchase or sale of such securities. Securities of some non-U.S. companies may not be as liquid as securities of comparable U.S. companies.

The information contained herein may include forward-looking statements within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company's products or services, changes in foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

Neither Beech Hill Securities, Inc. nor any affiliate thereof accepts any liability whatsoever for any direct or consequential loss of any kind arising out of the use or reliance on the information given. Research does not take into account the specific investment objectives and financial situation of any recipient, nor does it provide individually tailored investment advice or offer tax, regulatory, accounting or legal advice. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of any transaction. Investors seeking to buy or sell any financial instruments discussed or recommended in any research report should seek independent financial advice relating thereto.

The products discussed in this report are not FDIC insured, may lose value and are not guaranteed by any Beech Hill Securities, Inc. or Zeus Capital Limited party.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

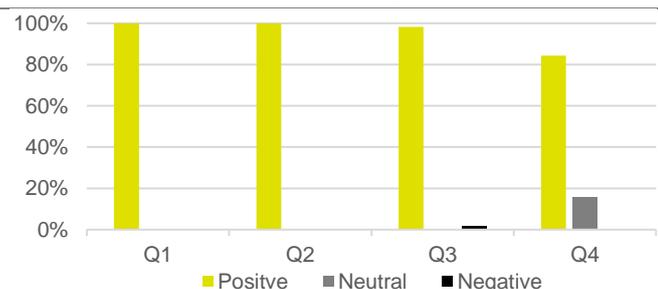
Additional Disclosures

This material was produced by Zeus Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient.

This document does not constitute an offer of, or an invitation by or on behalf of Zeus Capital Limited or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Zeus Capital Limited or its Affiliates consider to be reliable. Zeus Capital Limited does not accept any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. By accepting this document you agree that you have read the above disclaimers, acknowledge them and agree to be bound by all of the foregoing limitations, restrictions and provisions.

1. Zeus Capital Limited or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. Zeus Capital Limited or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. Zeus Capital Limited or its Affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.
4. However, one or more person of Zeus Capital Limited, or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. As of the publication of this report Zeus Capital Limited, does not make a market in the subject securities.
6. Zeus Capital Limited, or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

12 Month Recommendation History



Recommendation distribution at 30 June 2018 Source: Zeus Capital

Corporate Relationship

Nomad & Broker	7
Nomad & Joint Broker	10
Joint Broker	3
Nomad	1
Financial Adviser & Broker	3
Research client	4

At 30 June 2018 Source: Zeus Capital

Zeus London Office
10 Old Burlington Street
London
W1S 3AG
Tel: +44 20 3829 5000

Zeus Manchester Office
82 King Street
Manchester
M2 4WQ
Tel: +44 161 831 1512

Zeus Birmingham Office
3 Brindleyplace
Birmingham
B1 2JB
Tel: +44 121 231 7210