**Market data**

EPIC/TKR	CLIG
Price (p)	375.0
12m High (p)	398.5
12m Low (p)	285.0
Shares (m)	26.9
Mkt Cap (£m)	100.9
EV (£m)	90.5
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

Key shareholders

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

Next event

2 March	Ex-dividend date for interim
17 March	Interim dividend paid
11 April	Q3 Trading update

Analysts

Brian Moretta	020 7929 3399
	bm@hardmanandco.com

City of London Investment Group**H1 results confirm dividend cover**

City of London has published its interim report for 1H2017. With the headline figures having been announced in last month's trading statement, the report contains few surprises. As previously indicated, the movements in the dollar/sterling exchange rate have greatly increased most lines in the P&L. Gross revenue of £15.4m is 31% ahead of the 1H2016 figure. With more revenue earned in dollars than expenses, earnings have seen a bigger increase, by 64% to £4.27m.

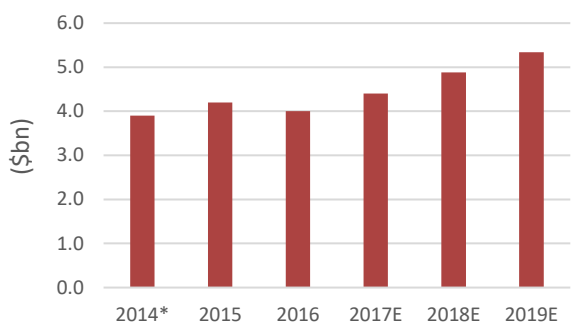
- ▶ **Dividend:** An unchanged interim dividend of 8p has been announced. A decision on the final dividend has been deferred until the end of the financial year, with the hope that the outlook for the following year will be clearer then.
- ▶ **Funds under management:** Emerging markets, like many others, have had a good start to 2017 and at the end of February FUM had increased to \$4.2bn. There was no further update on new business flows other than indicating there are prospects across the product range.
- ▶ **Valuation:** The prospective P/E of 9.8 times is at a significant discount to the peer group. The historic yield of 6.4% 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 return to a comfortable position and investors can perhaps start thinking about future increases.

Financial summary and valuation

Year end Jun (£m)	2014*	2015	2016	2017E	2018E	2019E
FUM (\$bn)	3.90	4.20	4.00	4.40	4.88	5.34
Revenue (£m)	24.22	25.36	24.41	31.31	33.95	34.60
Statutory PTP	5.20	6.61	5.85	8.59	9.55	9.83
Statutory EPS (p)	20.7	26.4	23.3	34.5	38.4	39.5
Dividend (p)	24.0	24.0	24.0	25.0	26.0	27.0
P/E (x)	18.1	14.2	16.1	10.9	9.8	9.5
Yield	6.4%	6.4%	6.4%	6.7%	6.9%	7.2%

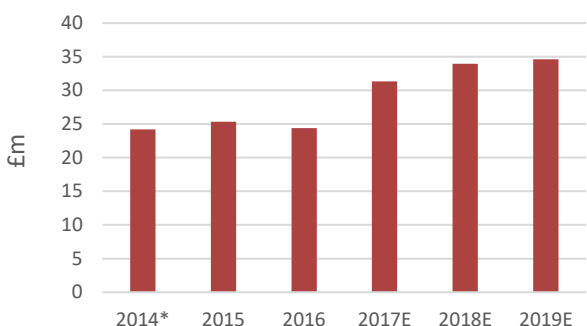
Source: Hardman & Co Research
* 2014 had 13 months in financial year.

Funds under Management



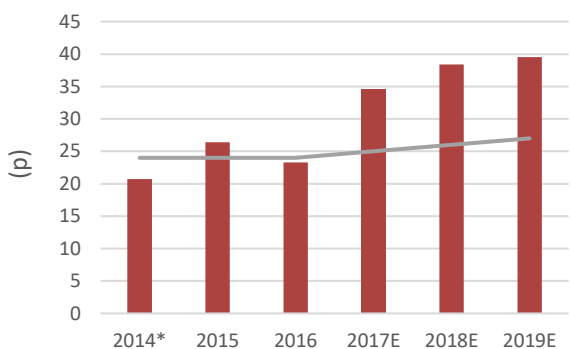
- ▶ Net inflows from 2014
- ▶ Market weakness in 2016 substantially offset by new business flows
- ▶ Assumed steady new business flows and market growth of 5% pa in 2017 and 2018

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 would expect dividend to be covered and increased in 2017

Source: Company data; Hardman & Co Research

Results Commentary

With January's trading statement having given the headline figures, the remaining figures are largely in line with expectations. The movements in almost all lines are large, with exchange rate movements being the largest factor. With 92% of revenues being earned in the US, but with 40% of the cost base in sterling, the company has been a significant beneficiary of the changes in the dollar/sterling rate since Brexit.

Operationally the company has turned in a solid performance. Over the period emerging markets had periods of strength and weakness, with a peak in September. City of London's FUM finished the half at \$4.1bn, slightly ahead of the \$4.0bn at the end of June. We note that there has been further improvement in January to \$4.2bn, albeit this appears to have lagged the rise in the MSCI Emerging Markets Index of 6%.

As is usual, the cash conversion was excellent at 97%, with a small increase in working capital over the period. The balance sheet remains strong, with cash of £10.5m being 3% more than a year ago. Given the dividend looks like being covered again in 2017 we would expect to see that improved further.

Estimate Updates

We usually add to our estimates with the interim announcement, and have introduced estimates for FY2019. These largely use the same assumptions as for 2018E, though we have slowed new business growth to \$100m in each of emerging markets and diversified products. While the pipeline remains strong, the political uncertainties that abound lead us to believe that decision making could be a little slower over the next couple of years.

With the company's target cover of 1.2x over a five-year period we don't see any sharp changes in the dividend in the near future. Our forecasts are for an increase of 1p in each of FY2017, FY2018 and FY2019. If new business arrives then there may be scope to move that faster, but that is also dependent on market moves too.

Financials

Summary Financials						
	2014*	June Year End				
		2015	2016	2017E	2018E	2019E
FUM (\$bn)	3.90	4.20	4.00	4.40	4.88	5.34
P&L (£m)						
Revenue	24.22	25.36	24.41	31.31	33.95	34.60
Expenses	17.22	16.63	16.66	19.84	21.08	21.34
Operating Profit	7.00	8.73	7.76	11.47	12.87	13.26
PBT	7.24	8.93	7.97	11.61	12.90	13.29
Earnings	5.20	6.61	5.85	8.59	9.55	9.83
eps (p)	20.7	26.4	23.3	34.5	38.4	39.5
dps (p)	24.0	24.0	24.0	25.0	26.0	27.0
Key Metrics						
	2014*	2015	2016	2017E	2018E	2019E
Growth (%)						
FUM		7.7	-4.8	10.1	10.9	9.3
Revenue		4.7	-3.7	28.3	8.4	1.9
Operating Profit		24.7	-11.1	47.9	12.2	3.0
EPS		27.5	-11.7	48.3	11.1	3.0
DPS		0.0	0.0	4.2	4.0	3.8
Operating Margins (%)						
Net FUM fee margin	0.88	0.86	0.86	0.85	0.84	0.84
Operating Margin	28.9	34.4	31.8	36.6	37.9	38.3
Tax Rate	28.2	26.0	26.5	26.0	26.0	26.0
Dividend cover	0.9	1.1	1.0	1.4	1.5	1.5
eps Sensitivity						
				2017E	2018E	2019E
No net new business						
eps (p)				34.2	35.2	35.6
% change				-0.9	-8.4	-9.9
0% market growth (was 5% pa from Sept 2016)						
eps (p)				34.2	35.5	35.9
% change				-1.0	-7.5	-9.2

Source: City of London Investment Group, Hardman & Co Research
* 13-month year as year end change.

Disclaimer

Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.

The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/>

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly, we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.

Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.

This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.

This report may not be reproduced in whole or in part without prior permission from Hardman & Co.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.

*Hardman & Co Research Limited (trading as Hardman & Co)
11/12 Tokenhouse Yard
London
EC2R 7AS
T +44 (0) 207 929 3399*

Follow us on Twitter @HardmanandCo

(Disclaimer Version 2 – Effective from August 2015)

Hardman Team

Management Team

+44 (0)20 7929 3399

John Holmes	jh@hardmanandco.com	+44 (0)207 148 0543	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 148 0544	CEO

Marketing / Investor Engagement

+44 (0)20 7929 3399

Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Antony Gifford	ag@hardmanandco.com	+44 (0)7539 947 917
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)207 148 0546

Analysts

+44 (0)20 7929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Thomas Wigglesworth	tcw@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com
Jason Streets	js@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com
------------------	---------------------

Mining

Ian Falconer	if@hardmanandco.com
--------------	---------------------

Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com
Angus McPhail	am@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Services

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Utilities

Nigel Hawkins	nh@hardmanandco.com
---------------	---------------------

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

