

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.

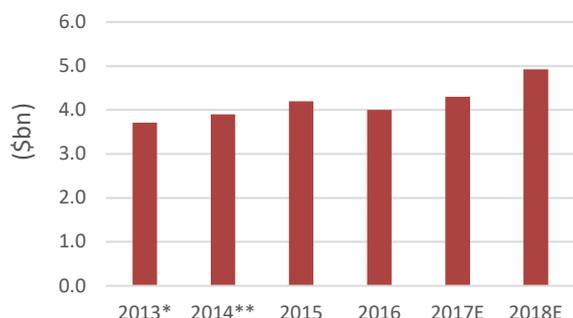
Financial summary and valuation

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

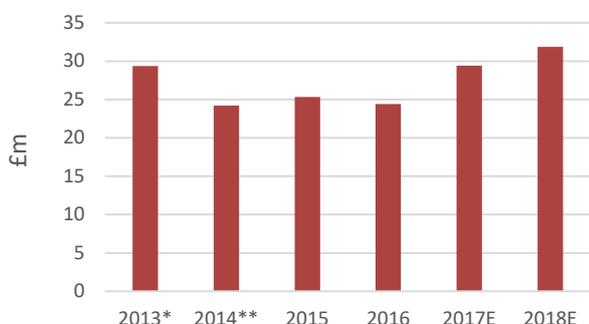
* 2013 and 2014 had May year ends. 2014 had 13 months in financial year.

Funds under Management



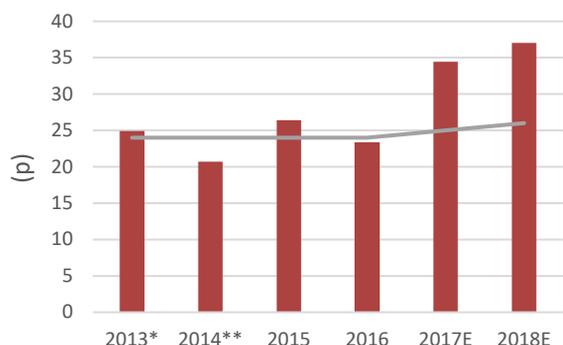
- ▶ Net inflows from 2014
- ▶ Market weakness in 2016 substantially offset by new business flows
- ▶ Assumed steady new business flows and market growth of 5% pa in 2017 and 2018

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

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

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

