



U.S. Global Investors (GROW)

Updated December 16th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$4.60	5 Year CAGR Estimate:	-7.2%	Market Cap:	\$66 M
Fair Value Price:	\$3.10	5 Year Growth Estimate:	2.6%	Ex-Dividend Date:	12/11/21
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.7%	Dividend Payment Date:	12/28/21
Dividend Yield:	0.7%	5 Year Price Target	\$3.50	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

U.S. Global Investors, Inc. is a publicly owned investment manager, primarily providing its services to investment companies as well as to pooled investment vehicles. It has a market cap of \$66 million USD. The company handles equity and fixed income mutual funds, hedge funds for its clients, and exchange traded funds. It invests in fixed income markets and public equity around the world. To make its equity investments the firm also invests in G.A.R.P. and value stocks. The company uses a fundamental and quantitative analysis with top-down and bottom-up stock picking approach to make its investments. Headquartered in San Antonio, Texas, U.S. Global Investors, Inc. was founded in 1968 and provides management and other services to U.S. Global Investors Funds and U.S. Global ETFs. It is primarily known for its expertise in gold, precious metals, natural resources, and emerging markets.

U.S. Global Investors, Inc. released its third quarter results on November 6th, 2020. Total operating revenues increased by 300% to \$3.2 million year-over-year. Net income came in at \$1.9 million, up by 30% sequentially. Average AUM for the quarter grew to \$2.0 billion, up by 290% from the same quarter a year ago. The company also reported net working capital of approximately \$9.3 million, with cash and cash equivalents of \$2.6 million and \$12.6 million in securities at fair value which added to the company's adequate liquidity to meet its current obligations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.51	\$0.11	-\$0.00	-\$0.04	-\$0.26	-\$0.24	-\$0.03	\$0.04	-\$0.22	-\$0.30	\$0.06	\$0.08
BVPS	\$2.60	\$2.42	\$2.27	\$2.10	\$1.64	\$1.63	\$2.57	\$1.38	\$1.12	\$1.23	\$1.23	\$1.40
DPS	\$0.24	\$0.24	\$0.15	\$0.06	\$0.06	\$0.04	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.04
Shares¹	15.4	15.4	15.5	15.5	15.4	15.3	15.2	15.2	15.1	15.1	15.1	15.0

The company is currently experiencing rapid topline growth which we expect to continue over the next half decade as its network and brand power continue to improve incrementally. The company is betting heavily on its precious metals, crypto, and airlines funds to drive assets under management higher.

Furthermore, its economies of scale should drive enhanced profitability, enabling it to grow its dividend slightly as well. Finally, management currently has a share repurchase program underway that could also drive earnings-per-share growth over time. Overall, we see book value per share growing at a low single-digits annualized rate over the next half decade.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	11.8	36.5	---	---	---	---	---	27.6	---	---	76.7	43.8
Avg. P/B	2.32	1.66	1.12	1.48	0.71	0.83	1.52	0.80	1.29	2.93	3.70	2.50
Avg. Yld.	4.0%	6.0%	5.9%	1.9%	5.2%	3.0%	0.8%	2.7%	2.1%	0.8%	0.7%	1.1%

¹ In millions

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While the price-to-book and price-to-earnings ratios have both been very erratic over the past decade, given recent trends and applying a factor of safety to account for uncertainty in the business model, we believe that a price-to-book ratio of 2.5 represents a fair starting baseline.

Based on this assumption, the stock is overvalued at present and could experience multiple compression in the years to come. Furthermore, the yield is also low relative to its history which adds more weight to the argument that the stock is overvalued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47.1%	242.2%	---	---	---	---	---	70.3%	---	---	50.0%	50.0%

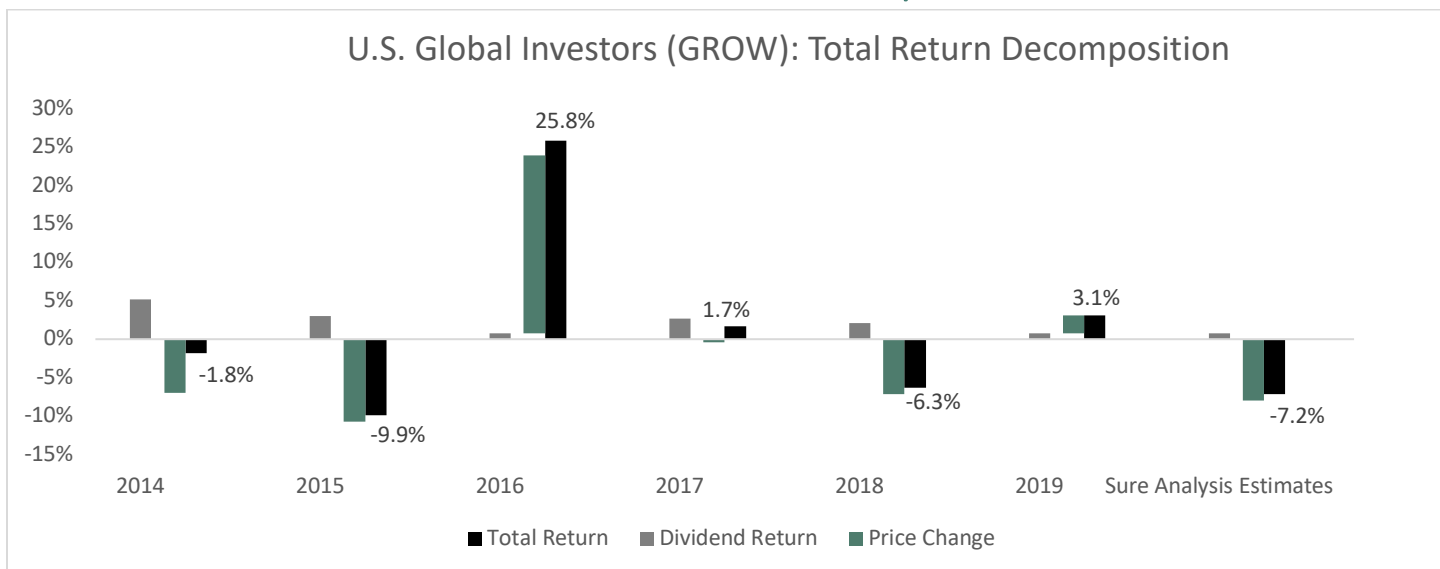
The business does not have a big competitive advantage given its small size. However, it is known for its expertise in the precious metals and emerging markets sectors. Given that these are smaller, more niche spaces, it gives it a better chance to compete and develop sticky relationships with clients. A good sign of its competitive positioning is that one of the largest holders of its funds is BlackRock, a top name in the asset management and investments space. It has also been experimenting with cryptocurrency and airlines funds, which seem a bit curious given that they are outside of its areas of expertise. However, they have turned out to be fast-growing popular funds, which has helped the company grow AUM in recent years.

That said, we do not see the security being a safe and reliable income stock. The balance sheet is fairly strong, but earnings per share have been very erratic, dividend cuts have been common and steep, and the business model is too susceptible to competition and disruption to be trusted as a long-term investment opportunity.

Final Thoughts & Recommendation

U.S. Global Investors is a bit of a gamble given how erratic its earnings and dividends have been over the past decade. While the company appears to be trending in the right direction thanks to some popular funds that it has recently launched, there is not enough of a competitive advantage or track record here to have confidence in continued robust growth moving forward. As a result, although we assume some positive growth over the next half decade, we rate the security a sell with -7.2% projected annualized total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	41	22	17	9	7	6	7	6	3	4
Gross Profit	22	10	6	2	2	1	3	2	1	2
Gross Margin	53.7%	42.6%	36.4%	23.5%	26.4%	10.7%	44.5%	31.8%	16.6%	36.6%
SG&A Exp.	11	6	6	5	5	4	4	4	3	4
D&A Exp.	0	0	0	0	0	0	0	0	0	0
Operating Profit	11	3	(0)	(3)	(4)	(4)	(1)	(2)	(3)	(2)
Operating Margin	26.9%	12.7%	-1.1%	-38.4%	-47.8%	-75.9%	-12.9%	-36.5%	-79.7%	-53.7%
Net Profit	8	2	(0)	(1)	(4)	(4)	(1)	1	(3)	(5)
Net Margin	19.1%	6.8%	-1.1%	-11.4%	-55.0%	-66.8%	-7.6%	10.3%	-97.9%	-105%
Free Cash Flow	8	2	0	(15)	(1)	3	1	(0)	(1)	(0)
Income Tax	4	1	0	(0)	1	(0)	0	0	(1)	(0)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	46	42	39	38	31	26	26	29	24	19
Cash & Equivalents	27	21	18	6	4	4	4	6	1	2
Accounts Receivable		0	1	3	2	1	1	1	0	1
Total Liabilities	5	3	2	2	2	1	1	3	2	2
Accounts Payable	0	0	0	0	0	0	0	1	0	0
Long-Term Debt	---	---	---	---	---	---	---	---	---	0
Shareholder's Equity	41	39	37	35	29	25	24	26	22	17
D/E Ratio	---	---	---	---	---	---	---	---	---	0.03

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	18.0%	3.5%	-0.5%	-2.5%	-11.7%	-12.9%	-2.0%	2.4%	-12.9%	-22.0%
Return on Equity	20.3%	3.8%	-0.5%	-2.7%	-12.7%	-13.8%	-2.1%	2.6%	-14.3%	-24.3%
ROIC	20.3%	3.8%	-0.5%	-2.7%	-12.4%	-13.6%	-2.1%	2.6%	-14.0%	-23.8%
Shares Out.	15.4	15.4	15.5	15.5	15.4	15.3	15.2	15.2	15.1	15.1
Revenue/Share	2.66	1.45	1.12	0.55	0.48	0.36	0.44	0.41	0.23	0.30
FCF/Share	0.50	0.12	0.03	(0.98)	(0.05)	0.20	0.05	(0.00)	(0.07)	(0.02)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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