U.S. Global Investors (GROW)

Updated September 4th, 2022 by Samuel Smith

Key Metrics

Current Price:	$3.8	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$56.2 M
Fair Value Price:	$4.5	**5 Year Growth Estimate:**	1.1%	**Ex-Dividend Date:**	09/9/22
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.7%	**Dividend Payment Date:**	9/26/22
Dividend Yield:	2.4%	**5 Year Price Target**	$5.0	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $56.2 million. 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 fiscal year 2022 results on September 3rd, 2022. FY2022 operating income stood at $11.1 million, up by 36% year-over-year. Operating margin was 45%, up from 38% year-over-year. Total operating revenues increased 14% to $24.7 million year-over-year. Moreover, the company reported a net income of $5.5 million, down from $32.0 million in the year-ago period. Meanwhile, average AUM for the fiscal 2022 stood at $3.9 billion, up by 18% from $3.4 billion year-over-year. Lastly, U.S. Global Investors also reported net working capital of ~$33.9 million, with cash and cash equivalents of approximately $22.3 million, and $13.8 million in securities at fair value as of June 30, 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	-$0.00	-$0.04	-$0.26	-$0.24	-$0.03	$0.04	-$0.22	-$0.30	$0.06	$0.37	***$0.37***	***$0.42***
BVPS	$2.27	$2.10	$1.64	$1.63	$2.57	$1.38	$1.12	$1.23	$2.14	$3.78	***$3.78***	***$4.00***
DPS	$0.15	$0.06	$0.06	$0.04	$0.03	$0.03	$0.03	$0.03	$0.09	$0.09	***$0.09***	***$0.10***
Shares[1]	15.5	15.4	15.3	15.2	15.2	15.1	15.1	15.1	15.0	15.0	***15.0***	***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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/B	1.12	1.48	0.71	0.83	1.52	0.80	1.29	2.93	1.5	1.2	***1.0***	***1.2***
Avg. Yld.	5.9%	1.9%	5.2%	3.0%	0.8%	2.7%	2.1%	0.8%	2.8%	2.0%	***2.4%***	***2.1%***

[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 1.2 represents a fair starting baseline.

Based on this assumption, the stock is undervalued at present and could experience multiple expansion in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	70.3%	---	---	150%	24.3%	***24.3%***	***23.8%***

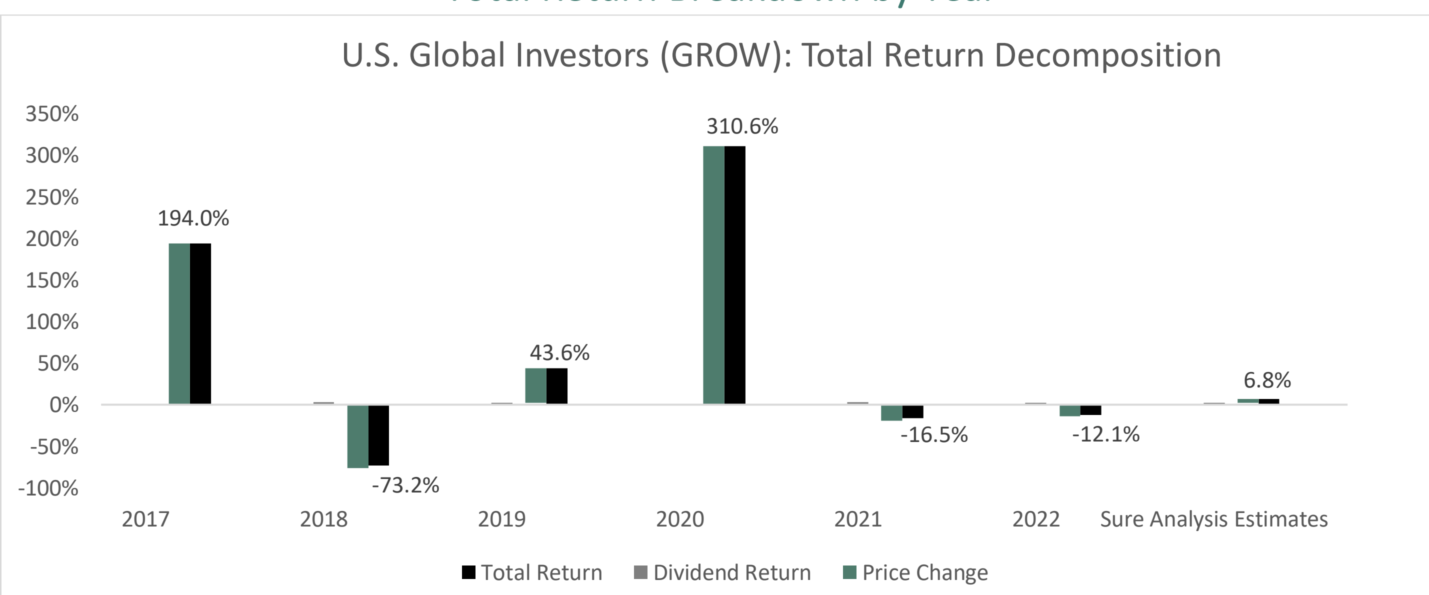
The business does not have a big competitive advantage given its small size. However, it is known for its expertise in the precious metals and emerging markets sectors. Given that these are smaller, more niche spaces, it gives it a better chance to compete and develop sticky relationships with clients. 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. Overall, the stock offers mediocre 6.8% total return potential over the next half decade. As a result, we rate the security a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	22	17	9	7	6	7	6	3	4	22
Gross Profit	10	6	2	2	1	3	2	1	2	14
Gross Margin	42.6%	36.4%	23.5%	26.4%	10.7%	44.5%	31.8%	16.6%	36.6%	66.0%
SG&A Exp.	6	6	5	5	4	4	4	3	4	6
D&A Exp.	0	0	0	0	0	0	0	0	0	0
Operating Profit	3	(0)	(3)	(4)	(4)	(1)	(2)	(3)	(2)	8
Operating Margin	12.7%	-1.1%	-38.4%	-47.8%	-75.9%	-12.9%	-36.5%	-79.7%	-53.7%	37.7%
Net Profit	2	(0)	(1)	(4)	(4)	(1)	1	(3)	(5)	32
Net Margin	6.8%	-1.1%	-11.4%	-55.0%	-66.8%	-7.6%	10.3%	-97.9%	-104.6%	147.6%
Free Cash Flow	2	0	(15)	(1)	3	1	(0)	(1)	(2)	5
Income Tax	1	0	(0)	1	(0)	0	0	(1)	(0)	5

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	42	39	38	31	26	26	29	24	19	62
Cash & Equivalents	21	18	6	4	4	4	6	1	2	14
Accounts Receivable	0	1	3	2	1	1	1	0	1	3
Total Liabilities	3	2	2	2	1	1	3	2	2	8
Accounts Payable	0	0	0	0	0	0	1	0	0	0
Long-Term Debt	-	-	-	-	-	-	-	-	0	-
Shareholder's Equity	39	37	35	29	25	24	26	22	17	54
LTD/E Ratio	-	-	-	-	-	-	-	-	0.03	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.5%	-0.5%	-2.5%	-11.7%	-12.9%	-2.0%	2.4%	-12.9%	-22.0%	78.8%
Return on Equity	3.8%	-0.5%	-2.7%	-12.7%	-13.8%	-2.1%	2.6%	-14.3%	-24.3%	89.9%
ROIC	3.8%	-0.5%	-2.7%	-12.4%	-13.6%	-2.1%	2.6%	-14.0%	-23.8%	89.4%
Shares Out.	15.5	15.5	15.4	15.3	15.2	15.2	15.1	15.1	15.1	15.0
Revenue/Share	1.45	1.12	0.55	0.48	0.36	0.44	0.41	0.23	0.30	1.44
FCF/Share	0.12	0.03	(0.98)	(0.05)	0.20	0.05	(0.00)	(0.07)	(0.13)	0.31

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