



U.S. Global Investors (GROW)

Updated December 20th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$2.8	5 Year CAGR Estimate:	9.3%	Market Cap:	\$39.8 M
Fair Value Price:	\$3.6	5 Year Growth Estimate:	1.8%	Ex-Dividend Date:	1/09/24 ¹
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.9%	Dividend Payment Date:	1/26/24 ²
Dividend Yield:	3.2%	5 Year Price Target	\$4.0	Years Of Dividend Growth:	0
Dividend Risk Score:	C	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 \$39.8 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.

On December 14th, U.S. Global Investors reported its financial results for the first fiscal quarter ending September 30, 2023. The company reported an operating income of \$215,000 on revenues of \$3.1 million but faced a net loss of \$176,000. The firm experienced a significant decline in assets under management (AUM), dropping 28% to \$2.1 billion, largely due to outflows from the U.S. Global Jets ETF. Despite market challenges, the company actively repurchased shares, buying back nearly five times the number from the previous year. The global airline industry showed signs of a strong recovery, with record passenger numbers and optimistic forecasts for future profits. The luxury stock sector underwent a correction due to various factors, including interest rate hikes and reduced consumer spending. However, the global luxury market remained resilient, achieving record sales. The company maintained healthy liquidity, with a net working capital of approximately \$37.7 million and total assets of \$54.1 million, ensuring adequate capital to meet obligations.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-\$0.04	-\$0.26	-\$0.24	-\$0.03	\$0.04	-\$0.22	-\$0.30	\$0.06	\$0.37	\$0.37	\$0.37	\$0.42
BVPS	\$2.10	\$1.64	\$1.63	\$2.57	\$1.38	\$1.12	\$1.23	\$2.14	\$3.78	\$3.73	\$3.56	\$3.90
DPS	\$0.06	\$0.06	\$0.04	\$0.03	\$0.03	\$0.03	\$0.03	\$0.09	\$0.09	\$0.09	\$0.09	\$0.10
Shares³	15.4	15.3	15.2	15.2	15.1	15.1	15.1	15.0	15.0	14.3	14.5	14.0

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 airline 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-digit annualized rate over the next half-decade.

¹ Estimated

² Estimated

³ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/B	1.48	0.71	0.83	1.52	0.80	1.29	2.93	1.50	1.20	0.75	0.79	1.00
Avg. Yld.	1.9%	5.2%	3.0%	0.8%	2.7%	2.1%	0.8%	2.8%	2.0%	3.2%	3.2%	2.6%

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 1.0 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

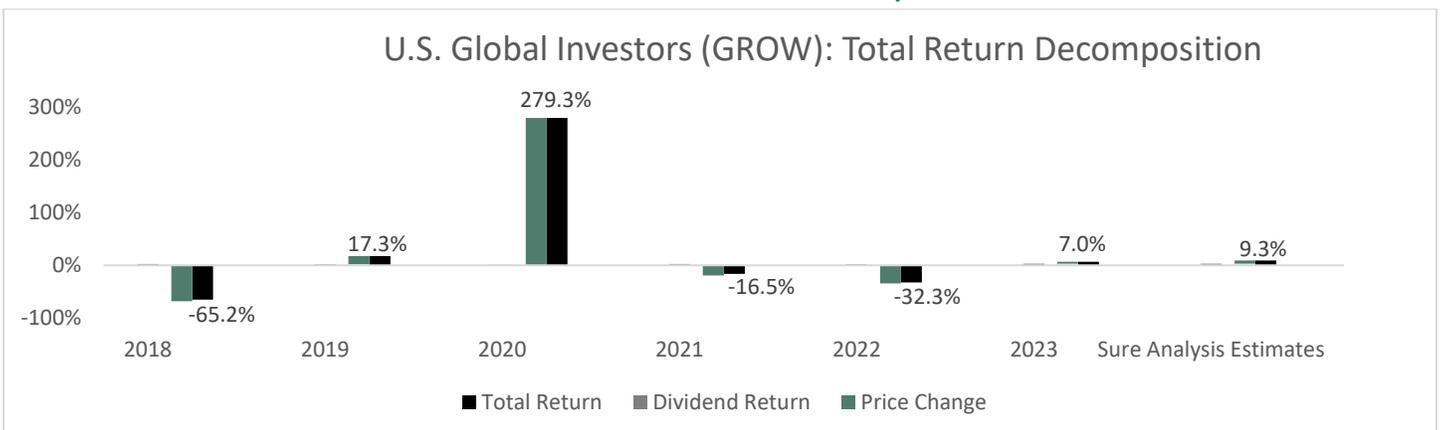
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-150%	-23%	-17%	-100%	75%	-14%	-10%	150%	24%	24%	24%	24%

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, 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 reasonably attractive 9.3% annualized total return potential over the next half decade due to its decent dividend yield and significant discount to book value, though its growth is likely going to be anemic. As a result, we rate it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9	7	6	7	6	3	4	22	25	15
Gross Profit	2	2	1	3	2	1	2	14	19	10
Gross Margin	23.5%	26.4%	10.7%	44.5%	31.8%	16.6%	36.6%	66.0%	75.5%	68.2%
SG&A Exp.	5	5	4	4	4	3	4	6	7	7
D&A Exp.	0	0	0	0	0	0	0	0	(0)	(0)
Operating Profit	(3)	(4)	(4)	(1)	(2)	(3)	(2)	8	11	4
Operating Margin	-38.4%	-47.8%	-75.9%	-12.9%	-36.5%	-79.7%	-53.7%	37.7%	45.0%	23.4%
Net Profit	(1)	(4)	(4)	(1)	1	(3)	(5)	32	4	3
Net Margin	-11.4%	-55.0%	-66.8%	-7.6%	10.3%	-97.9%	-105%	147.6%	15.5%	20.9%
Free Cash Flow	(15)	(1)	3	1	(0)	(1)	(2)	5	10	3
Income Tax	(0)	1	(0)	0	0	(1)	(0)	5	1	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	38	31	26	26	29	24	19	62	58	56
Cash & Equivalents	6	4	4	4	6	1	2	14	22	25
Accounts Receivable	3	2	1	1	1	0	1	3	2	1
Total Liabilities	2	2	1	1	3	2	2	8	4	3
Accounts Payable	0	0	0	0	1	0	0	0	1	1
Long-Term Debt	-	-	-	-	-	-	0	-	-	-
Shareholder's Equity	35	29	25	24	26	22	17	54	54	52
LTD/E Ratio	-	-	-	-	-	-	0.03	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-2.5%	-11.7%	-12.9%	-2.0%	2.4%	-12.9%	-22.0%	78.8%	6.3%	5.5%
Return on Equity	-2.7%	-12.7%	-13.8%	-2.1%	2.6%	-14.3%	-24.3%	89.9%	7.0%	5.9%
ROIC	-2.7%	-12.4%	-13.6%	-2.1%	2.6%	-14.0%	-23.8%	89.4%	7.0%	5.9%
Shares Out.	15.4	15.3	15.2	15.2	15.1	15.1	15.1	15.0	15.0	14.3
Revenue/Share	0.55	0.48	0.36	0.44	0.41	0.23	0.30	1.44	1.65	1.03
FCF/Share	(0.98)	(0.05)	0.20	0.05	(0.00)	(0.07)	(0.13)	0.31	0.69	0.20

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

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