

## **ASX Announcement**

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# **BKI Net Operating Result up 16%, Increases Ordinary Dividends**

## **ASX and Media Release - Half Year Result to 31 December 2014**

### **1H2015 Performance Highlights**

- Ordinary dividend and distribution income increased 10.7% to \$20.2m.
- Net Operating Result before special dividend income increased 15.7% to \$20.8m.
- MER reduced further to 0.16% as at 31 December 2014.
- Basic Earnings per Share up 2.2% to 3.80cps from 3.72cps.
- Fully Franked Ordinary Dividend of 3.55cps, up from 3.45cps.
- Successful Share Purchase Plan in July 2014 raising \$47.8m

### **BKI Performance Overview**

BKI Investment Company Limited ("BKI") today announced Half Year Results to 31 December 2014. Net Operating Result before special dividend income increased 15.7% to \$20.8m, while Basic Earnings per Share before special dividend income increased 2.2% to 3.80cps. Special dividend income for the first half of FY2015 totalled \$2.1m, increasing basic Earnings per Share after special dividend income by 5.8% to 4.18cps.

The BKI Board has declared a Fully Franked Interim Ordinary Dividend of 3.55cps, an increase of 2.9% on the FY2014 interim dividend.

During the period BKI conducted a successful Share Purchase Plan raising \$47.8m. BKI shareholders were given the opportunity to purchase shares up to a maximum value of \$15,000 at \$1.655 per share. New shares were entitled to receive the FY2014 Fully Franked Final Ordinary Dividend of 3.50 cents per share paid on 28 August 2014.

Commenting on the result, CEO Tom Millner said: "This result demonstrates the robustness of BKI's diversified investment portfolio. Despite the difficult period being faced by stocks within the Materials and Resource space, BKI has particularly benefited from increased dividends received from investments within the Financial, Healthcare, Energy and Telecommunication sectors."

The half year Net Operating Result was driven by higher dividend distributions from Suncorp, Macquarie Group, Transurban, Wesfarmers, Woodside, Santos, Telstra and the four major Banks, but lower ordinary dividend contributions from ALS Limited and New Hope Corporation.

It was a good period for special dividends, and also the growth stocks in the BKI portfolio that lifted their dividend distributions considerably. “Companies such as SEEK, Ramsay Healthcare, TPG Telecom, Caltex and QUBE Logistics were all able to lift their dividends by approximately 20% over the period”. Mr Millner said. “BKI received solid special dividend income from companies including New Hope, Wesfarmers, ARB Corporation, Milton and Suncorp which helped lift the Net Profit attributable to shareholders by 20.1% to \$22.9m.”

### Dividends

The interim ordinary dividend of 3.55 cps, which will be fully franked, will be paid to shareholders on 26 February 2015. Key dates for the Interim Dividend are as follows:

Event	Date
<b>Last trading date to be eligible for the Interim Dividend</b>	<b>11 February 2015</b>
<b>Ex-Dividend Date</b>	<b>12 February 2015</b>
<b>Record Date</b>	<b>16 February 2015</b>
<b>Last Day for DRP Participation</b>	<b>17 February 2015</b>
<b>Payment Date</b>	<b>26 February 2015</b>

### Dividend Reinvestment Plan (DRP)

BKI’s DRP will be maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount. The DRP price will be calculated using the average of the daily volume weighted average sale price of BKI’s shares sold in the ordinary course of trading on the ASX during the 5 trading days after, but not including, the Record Date (16 February 2015). The last day for shareholders to nominate their participation in the DRP is Tuesday 17 February 2015.

### Portfolio Movements

BKI deployed funds of approximately \$60m over the first half of FY2015. “Over the last 18 months we have focused on investing into segments of the market including Finance, Healthcare, Energy, and Infrastructure, and the first half of FY2015 was no different. We are excited about these sectors and are comfortable deploying funds here over the longer term.” Mr Millner said.

Within the Financial sector BKI invested in the major banks, Suncorp Group, IAG Limited, ASX Limited and Equity Trustees as we view these companies as standout investments within this segment. Dividend yields on offer were approximately 5% fully franked with reasonable growth rates expected over the medium to longer term.

Increasing life expectancy in Australia and most other developed countries has led us to constantly discuss the Healthcare sector and the aging population thematic. During the first half of FY2015, investment opportunities taken within this space included Primary Healthcare, Invocare Limited, Sonic Healthcare and Ramsay Healthcare, with Regis Healthcare and Medibank Private also being added to the portfolio following recent listings on the ASX.

Energy is a very interesting sector at present, with population growth and further urbanisation a real driver for consumption of energy requirements. The long term outlook for gas and coal in particular led to further investments in Wesfarmers (obviously not forgetting the thriving retail business) and Santos during the period.

We consider companies who have vast amounts of infrastructure to be attractive long term investment opportunities. Within the gas infrastructure space we invested further in DUET Group and APA Group, while in the local road infrastructure and freight distribution segments investments were made in Transurban Group and Toll Holdings.

Disposals during the half were \$2m including Seven West Media, UGL Limited and Arrium Limited. Realised gains from the Trading Portfolio included a small holding in Healthscope Limited post their IPO as well as the sale of rights associated with capital raisings from AGL Energy and APA Group.

## Top 25 Investments

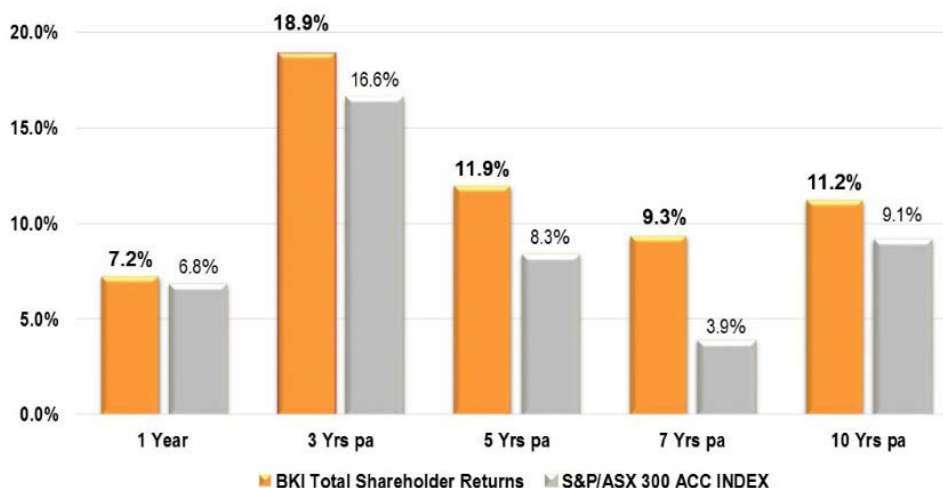
	Company Name	% of Total Portfolio
1	Commonwealth Bank	9.5%
2	National Australia Bank	8.7%
3	Westpac Banking Corporation	7.6%
4	Telstra Corporation	5.7%
5	BHP Billiton Limited	4.7%
6	ANZ Bank Limited	4.7%
7	Wesfarmers Limited	4.5%
8	New Hope Corporation	4.0%
9	TPG Telecom	3.3%
10	Woolworths Limited	3.0%
11	APA Group	2.3%
12	IAG Limited	2.2%
13	Transurban Group	2.0%
14	AGL Energy	1.8%
15	Invocare Limited	1.8%
16	Woodside Petroleum Limited	1.8%
17	Suncorp Group Limited	1.8%
18	Ramsay Health Care	1.4%
19	ASX Limited	1.3%
20	Primary Health Care Limited	1.3%
21	Toll Holdings Limited	1.2%
22	ARB Corporation	1.2%
23	Bendigo and Adelaide Bank	1.2%
24	ALS Limited	1.2%
25	Sonic Healthcare	1.2%
	Cash and cash equivalents	5.3%
<b>% of Total Portfolio Value</b>		<b>84.7%</b>

## Performance

BKI's Total Shareholder Returns (including the reinvestment of dividends) for the year to 31 December 2014 was 5.3%, in-line with the S&P/ASX 300 Accumulation Index over the same period.

BKI's Net Portfolio Return (after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 31 December 2014 was 4.2%, compared to the S&P/ASX 300 Accumulation Index which returned 5.3% over the same period.

BKI's long term Total Shareholder Returns including the value of franking credits are outlined below. Performance numbers are based on a tax rate of 30% and shareholders being able to utilise all franking credits. The S&P/ASX 300 Accumulation Index is franked at 80%.



## Outlook

We have seen many stocks in the market grow EPS above the market's expectations over the last year. However, revenue growth continues to be somewhat difficult to achieve, with company managers appearing to be focused on cutting expenses to ensure they deliver improved results. We believe that the low interest rate environment domestically will continue for quite some time, encouraging retail investors and SMSFs to search for income outside of term deposits and other cash products.

Many investors are calling our market overvalued and we agree that some companies appear stretched on their dividend payout ability. However, for the long term investor, opportunities to deploy funds into well managed, profitable, dividend-paying stocks always exist and BKI remains in a strong financial position and will be able to continue to invest for the longer term when opportunities arise. BKI has no debt with cash and cash equivalents representing 5.3% of the total portfolio.

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