

18 January 2017

ASX Announcement

ASX AND MEDIA RELEASE – HALF YEAR RESULT TO 31 DECEMBER 2016

BKI's Net Profit Up 13%, believes there is cause for optimism as long-term investors.

1H2017 Performance Highlights

	1H 2017	1H 2016	Growth
Ordinary Investment Income	\$21.4m	\$21.7m	-1%
Net Operating Result*	\$21.2m	\$21.4m	-1%
Net Profit Attributable to Shareholders	\$25.0m	\$22.1m	13%
Earnings Per Share*	3.52cps	3.78cps	-7%
Earnings Per Share including Specials	4.17cps	3.91cps	7%
Interim Ordinary Dividend Per Share	3.60cps	3.60cps	Flat
Management Expense Ratio (MER)	0.14%	Down from 0.16% at FY2016	

*Excludes Special Dividend Income

BKI Performance Overview

BKI Investment Company Limited ("BKI") today announced its Half Year Results to 31 December 2016.

BKI's Net Operating Result before special investment revenue decreased from \$21.4m to \$21.2m, while the Net Profit Attributable to Shareholders increased 13% to \$25.0m.

The BKI Board declared an Interim Dividend of 3.60cps, in line with the Interim Dividend paid last year. This dividend is fully franked, like all previous BKI dividends paid to shareholders. BKI's Retained Profits as at 30 December 2016 totalled \$48.5m, up from \$45.7m in the previous corresponding period.

The Net Operating Result of \$21.4m, was achieved by receiving increased dividends/distributions from Transurban Limited, APA Group, Sydney Airports, SEEK Limited, Brickworks Limited, Macquarie Group, TPG Telecom and Ramsay Healthcare. Lower dividends received from BHP Billiton, Woolworths Limited, Woodside Petroleum, ANZ Banking Group, Wesfarmers and Primary Healthcare impacted the result. Revenues from bank deposits and investments held for trading were again lower than the corresponding period.

BKI received \$3.9m in special dividend income for the half from participating in the Telstra Corporation off market buy back. This compares to \$766k of special dividends received last year.

BKI's Total Shareholder Return including franking credits for the year to 31 December 2016 was 2.9%, compared to the S&P/ASX 300 Accumulation Index which returned 13.4% over the same period. BKI's 13 year Total Shareholder Return including franking credits was 11.0% per annum as at 31 December 2016, compared to the S&P/ASX 300 Accumulation Index which returned 10.5 % 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 2016 was positive 5.0%.

In September 2016, BKI Investment Company announced that the management of its investment portfolio would be externalised from 1 November 2016. This was executed successfully with the portfolio management and advisory function now assumed by Contact Asset Management Pty Ltd ("Contact"). Contact is majority owned by Mr Tom Millner and Mr Will Culbert, the former CEO and Portfolio Manager respectively of BKI, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited. The BKI Board of Directors and Investment Committee have continued to perform their current functions, and in particular, continue to meet regularly to review the portfolio and set the investment strategy of BKI. Incorporating the investment management services of Contact, BKI will ensure it maintains the disciplined adherence to its long standing and successful investment philosophy.

Dividends

A fully franked Interim Ordinary Dividend of 3.60cps was declared. As at 31 December 2016, BKI's fully franked dividend yield was 4.5% (based on the immediate past 12 Month rolling dividend and share price of \$1.625), while the grossed up yield was 6.4% (assumes a tax rate of 30%).

The last trading date to be eligible for the Interim Dividend is **Thursday 9 February 2017**.

Key dates for the Fully Franked Interim Dividend are as follows:

Event	Date
Last trading date to be eligible for the Interim Dividend	Thursday 9 February 2017
Ex-Dividend Date	Friday 10 February 2017
Record Date	Monday 13 February 2017
DRP Nomination	Tuesday 14 February 2017
Payment Date	Monday 27 February 2017

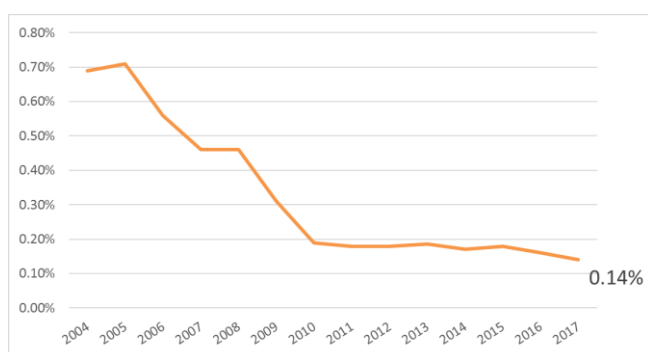
Dividend Reinvestment Plan (DRP)

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 (Monday 13 February 2017)**.

The last day for shareholders to nominate for their participation in the DRP is **Tuesday 14 February 2017**.

Management Expense Ratio (MER)

BKI's MER as at 31 December was 0.14%, down from 0.16% reported at 30 June 2016.



Portfolio Movements

BKI's total net investment over the first half of FY2017 was approximately \$56m, with major long term investments made in companies including; Sydney Airport, Telstra Corporation, Sonic Healthcare, Challenger Limited, Lend Lease, IOOF Holdings, Macquarie Group and Transurban Group. Flight Centre Limited was added to the portfolio and accounts for approximately 1% of the BKI portfolio.

The main disposal from BKI's investment portfolio included Crown Resorts, a partial disposal of BHP Billiton and participation in the off market buy back by Telstra Corporation.

During the half, BKI completed the acquisition of all the issued capital of another unlisted investment company with net assets of approximately \$4.2m. The private company acquired was a strong fit with BKI's existing portfolio. An investment in BKI will provide the vendors with administration simplicity as well as access to a low cost diversified equity portfolio, increasing fully franked dividend distributions and capital growth. This brings to five the number of transactions of this nature completed by BKI, which will benefit existing BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner. The BKI Board looks forward to engaging in similar transactions in the future.

Top 25 Investments

	Stock	% of Total Portfolio
1	Commonwealth Bank	9.5%
2	National Australia Bank	8.5%
3	Westpac Banking Corp	7.6%
4	ANZ Banking Group	4.9%
5	Telstra Corporation	4.8%
6	Wesfarmers Limited	4.5%
7	APA Group	3.2%
8	TPG Telecom	3.1%
9	AGL Energy Limited	2.8%
10	Transurban Group	2.7%
11	Woolworths Limited	2.6%
12	New Hope Corporation	2.5%
13	Sydney Airport	2.1%

	Stock	% of Total Portfolio
14	Macquarie Group	2.1%
15	IAG Limited	1.9%
16	Invocare Limited	1.9%
17	ASX Limited	1.9%
18	BHP Billiton	1.9%
19	Ramsay HealthCare	1.9%
20	Sonic Healthcare	1.8%
21	Challenger Limited	1.7%
22	ARB Corporation	1.7%
23	Woodside Petroleum	1.7%
24	Suncorp Group	1.7%
25	Brambles Limited	1.3%
Cash and cash equivalents		2.7%
Total of Top 25 including cash and cash equivalents		83.0%

Performance

BKI's Total Shareholder Return including franking credits for the year to 31 December 2016 was 2.9%, compared to the S&P/ASX 300 Accumulation Index which returned 13.4% over the same period. BKI's 13 year Total Shareholder Return including franking credits was 11.0% per annum as at 31 December 2016, compared to the S&P/ASX 300 Accumulation Index which returned 10.5% 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 2016 was positive 5.0%.

While a positive return, the short term underperformance of BKI's Portfolio compared to the S&P/ASX 300 Accumulation Index occurred mainly because of the increased risk appetite from local investors and the shift from yield to growth opportunities. This has seen three sectors in particular negatively impact BKI's relative performance:

- Resources - The strength of the Metals and Mining stocks has been significant during 2016, with the S&P/ASX Resources Index generating a return of 42.4% and detracting significantly from BKI's relative performance. 26% of these resource companies however do not pay dividends. We find it very difficult to invest in these companies given our investment criteria and focus on dividend growth. The total yield on the S&P/ASX Resources Index is currently only 1.7%.

- Telecommunications – This sector lagged the market over the past year with underperformance of approximately 19.0%. Telstra, down 3.7% and TPG, down 29.9% are large weightings within the BKI portfolio.
- Financials – Diversified Financials delivered a 9.9% underperformance for the last year, while the Banks sector delivered a 4.8% underperformance. BKI has a 45.0% weighting to the financial sector, with the yield offered by these companies continuing to be attractive and accounting for over half of our ordinary investment income. This income generated from the financial sector is used as the backbone to generate dividends to BKI shareholders.

BKI is an income focused, long term equity investor. In times where the market chases growth and ignores dividend yield, the BKI performance can be impacted. It's important to note that BKI offers a 6.4% grossed up dividend yield, has paid out approximately \$1.00 in dividends and franking credits from a \$1.00 invested at IPO and the capital growth from those shares has also increased to \$1.625 as at 31 December 2016.

BKI Performance as at 31 December 2016	1 Year	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	10 Yrs (pa)	13 Yrs (pa)
<i>S&P/ASX 300 ACC INDEX (XKOA1)</i>	11.8%	6.6%	11.6%	6.7%	4.4%	8.8%
<i>BKI Total Shareholder Returns (TSR)</i>	0.9%	5.6%	12.1%	8.5%	5.6%	8.9%
<i>BKI TSR Outperformance V's XKOA1</i>	-10.9%	-1.0%	0.5%	1.8%	1.2%	0.1%
<i>BKI Portfolio Performance</i>	5.0%	4.1%	8.9%	6.3%	5.3%	8.2%
<i>BKI Portfolio Outperformance V's XKOA1</i>	-6.8%	-2.5%	-2.7%	-0.4%	0.9%	-0.6%

BKI Performance Including Franking Credits	1 Year	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	10 Yrs (pa)	13 Yrs (pa)
<i>S&P/ASX 300 ACC INDEX (XKOA1) - 80% Franked</i>	13.4%	8.1%	13.4%	8.5%	6.1%	10.5%
<i>BKI Total Shareholder Returns - 100% Franked</i>	2.9%	7.6%	14.3%	10.7%	7.8%	11.0%

Outlook

The previous year has been an interesting time for equity investors. Australia's historically low interest rate environment has continued and there is still little incentive for investors to transition into cash. This has seen very positive headline market returns, a welcome relief from a year ago. We are, however, cautious on the level of risk appetite being demonstrated in the market and the distinct shift many investors are taking into companies with higher growth and lower yields, or in some cases no yield.

While investments into high yielding stocks should continue, and many Australian listed companies continue to focus on their cost out strategies, we are also now seeing some positive momentum from companies aiming to deliver growth initiatives. This will benefit shareholders for the longer term. A solid dividend yield as well as sustainable growth in the underlying business is what we target in our investments and we welcome these actions.

The BKI portfolio is well placed for the long-term. We continue to think there is cause for optimism as long-term investors, and we will continue to look for businesses to add to the BKI portfolio that are well managed, are appropriately geared, have a favourable earnings outlook and are attractively priced. BKI remains in a strong financial position with no debt, and cash and cash equivalents representing approximately 3% of the portfolio.

For further information:

Contact Asset Management

Tom Millner – Director/Portfolio Manager
02 9238 0522
0408 754 180

Will Culbert – Director/Portfolio Manager
02 9238 0522
0410 627 378