

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

BKI Investment Company Limited (BKI)



www.bkilimited.com.au

Company Overview

BKI came into existence as a result of the acquisition of the investment portfolio of Brickworks Limited in 2003. BKI invests in a portfolio of domestic equities and has long-term investment horizon. The portfolio is managed internally.

Investment Objective

The company aims to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends, to the extent imputation tax credits are available, through an investment in a portfolio of assets that are also able to deliver long-term capital growth.

Style and Process

BKI has a buy-and-hold, style neutral investment style. The company has no sector or stock investment limitations and the company focuses on the investment merits of individual stocks rather than market or economic trends. Stock selection is based on 5 basic fundamentals: (1) Income – BKI seeks to invest in securities that offer an attractive fully franked yield; (2) Principal activity – potential investments are required to have sustainable business models and a competitive advantage in their respective markets; (3) Debt levels – BKI focuses on companies with low debt levels and high interest coverage ratios; (4) Management and Board – a strong and experienced board and management team that has a proven history of creating shareholder wealth is required for a stock to be considered; (5) Earnings and valuation – potential investments must offer sufficient earnings growth and be valued attractively. If the potential investment passes the above filters, the security is taken to the Investment Committee (IC) for approval. The IC comprises the majority of the Board.

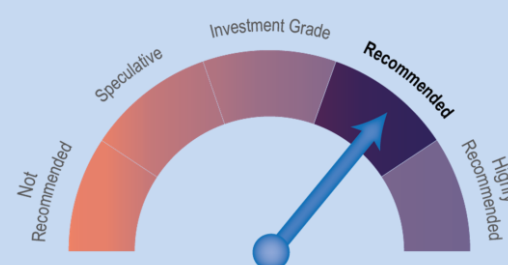
Portfolio Characteristics

BKI invests only in ASX-listed stocks and interest bearing securities. The portfolio has a focus on large cap stocks, with 55% of the portfolio invested in the top 50 stocks as at 30 September 2011. This is to be expected given the focus on companies offering an attractive yield. The company has a long term approach to investing and as such has low portfolio churn. The company has a benchmark unaware investment approach, with no restrictions regarding the minimum or maximum investment in any individual stock or sector. As such, the company has the ability to heavily weight the portfolio to a single stock or sector.

Independent Investment Research Comments

BKI offers investors cost-effective access to a portfolio of ASX-listed securities. The portfolio (pre-tax NTA plus dividends) declined 6.6% over the September quarter, outperforming the benchmark index (S&P/ASX 300 Acc. Index) by 5.1%. We note that BKI's largest investment (NHC) is an operating subsidiary of the company's largest shareholder, who is also the previous manager of the portfolio. The discount to pre-tax NTA expanded to 15.1% over the September quarter, to be trading above the average discount of 10.4%.

Rating



LMI TYPE

Listed investment company

INVESTMENT AREA

Australia

INVESTMENT ASSETS

Listed companies and other

INVESTMENT SECTORS

Diversified

Key Investment Information

Price as at 23 November 2011	\$1.16
Market cap (\$M)	491.5
Shares on issue (M)	425.5
Shares traded (\$M p.a)	49.1
12-month L/H (\$)	1.04/1.28
Listing date	December 2003
Fees	
Management Fee (%)	0.18
Performance incentives (%)	na

Pre-tax NTA Performance Analytics (including dividends)

	S&P/ASX 300 Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	6.00	3.10
TE (%)	4.69	5.10

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield	(%)
FY09	5.81ff
FY10	5.31ff
FY11	5.21ff

Substantial Shareholders	(%)
Washington H Soul Pattinson & Company Limited	13.6
As at 30 September 2011	

Board of Directors

Robert Millner	Chairman (Executive)
Tom Millner	CEO (Executive)
Alexander Payne	Director (Executive)
David Hall	Director (Non-Executive)
Ian Huntley	Director (Executive)
Jamie Pinto	Company Secretary

Other Data

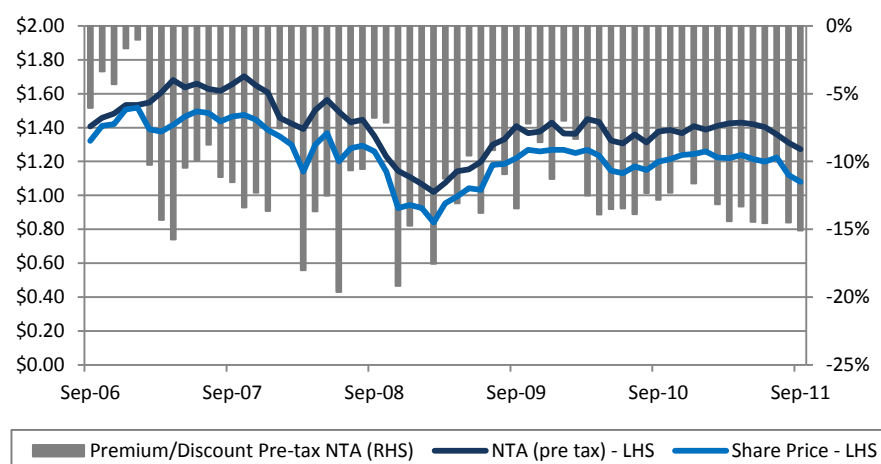
- ◆ **Options** – None on issue
- ◆ **Dividend policy** – To generate an increasing income stream for distribution to shareholders in the form of fully franked dividends. Target payout ratio of 90%-95% of operating profits.
- ◆ **Capital management policy** – BKI regularly reviews the capital structure. BKI has conducted SPP's and Renounceable Rights Issues in the past. No share buyback in place.
- ◆ **LIC tax concessions** – Yes
- ◆ **DRP available** – Yes

BKI's Portfolio (Top 10) Weighting

Code	Portfolio (%)	S&P/ASX 300 Index (%)
NHC	14.6	na
BHP	8.9	10.5
CBA	7.7	6.6
NAB	7.6	4.6
WBC	4.6	5.8
WES	4.3	3.0
TLS	4.2	3.6
WOW	3.3	2.8
AGK	3.0	0.6
CPB	3.0	0.3
	61.2	37.8

Source all figures: BKI/Independent Investment Research/IRESS.
All data as at 30 September 2011 unless otherwise specified

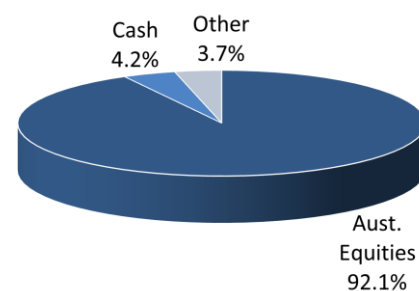
NAV & Share Price Performance



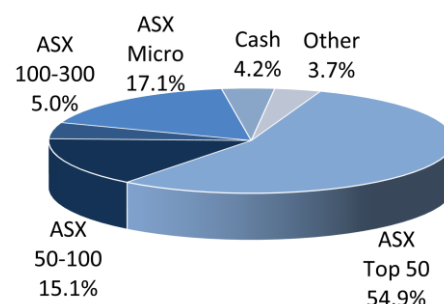
Sector Breakdown

Sector	(%)
Energy	19.7
Materials	11.2
Industrials	7.5
Consumer Discretionary	4.7
Consumer Staples	11.3
Healthcare	1.0
Financials (ex Property)	35.2
Property	0.3
Information Technology	0.0
Telecommunication Services	5.3
Utilities	3.9

Asset Weighting



Size Weighting



Key Positive Contributors

- ◆ Fleetwood Corporation
- ◆ Rio Tinto Limited
- ◆ ANZ Banking Corporation

Key Negative Contributors

- ◆ National Australia Bank
- ◆ Campbell Brothers Limited
- ◆ TPG Telecom Limited

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