

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

ASX Announcement

ASX AND MEDIA RELEASE – HALF YEAR RESULT TO 31 DECEMBER 2017



BKI's Net Operating Result Up 7% to \$22.7 million

1H 2018 Performance Highlights

	1H 2018	1H 2017	Growth
Ordinary Investment Income	\$24.6m	\$22.1m	11%
Net Operating Result*	\$22.7m	\$21.2m	7%
Special Dividend Income	\$0.4m	\$3.9m	-90%
Net Profit Attributable to Shareholders	\$23.1m	\$25.0m	-8%
Earnings Per Share*	3.66 cps	3.52 cps	4%
Earnings Per Share including Specials	3.73 cps	4.17 cps	-11%
Interim Ordinary Dividend Per Share	3.625 cps	3.60 cps	1%

*Excludes Special Dividend Income

BKI Performance Overview

BKI Investment Company Limited ("BKI") today announced an increased Interim Ordinary Dividend following a 7% increase in the Net Operating Result, excluding special income, to \$22.7m for the half year to 31 December 2017. Earnings per Share, excluding special dividends, increased 4% to 3.66cps on an increased number of BKI shares issued under the Share Purchase Plan in June 2017 and Dividend Reinvestment Plans.

Net Profit Attributable to Shareholders fell 8% from \$25.0m to \$23.1m for the half. BKI received \$0.4m in special dividend income as part consideration of Tabcorp's acquisition of Tatts Group. This was significantly lower than the \$3.9m of special dividend income received in the prior corresponding period from participating in the Telstra Corporation off market buy back. This translated to a 10% decrease in Earnings per Share including special dividend income from 4.17cps to 3.73cps.

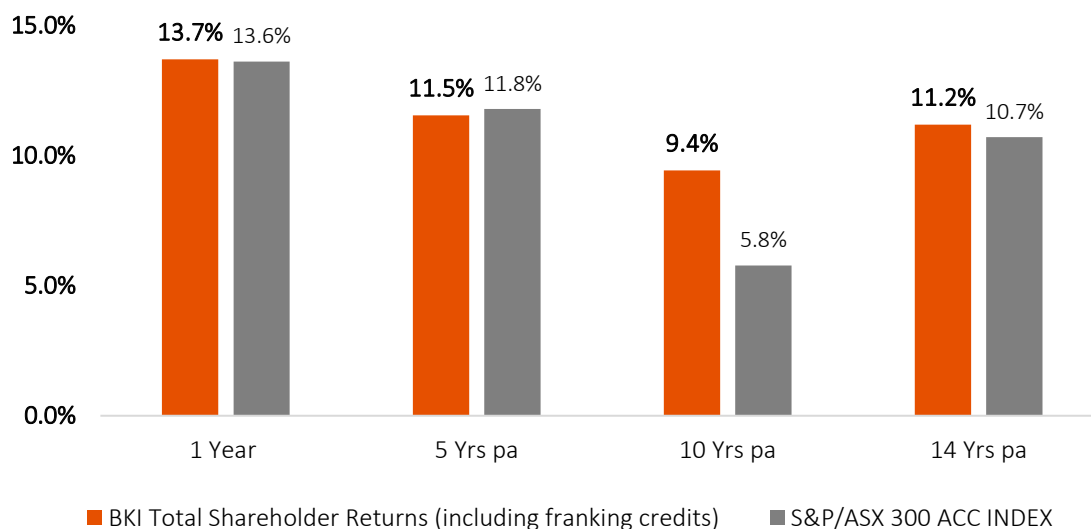
The BKI Board has declared an Interim Ordinary Dividend of 3.625cps, up from the 3.60cps dividend paid last year. This dividend will be fully franked, like all previous BKI dividends paid to shareholders. BKI's Retained Profits as at 31 December 2017 totalled \$47.6m prior to the declaration of this dividend.

The improved Net Operating Result of \$22.7m included increased dividends from New Hope Group, Wesfarmers, BHP Billiton and IAG Limited. Lower dividends received from TPG Telecom and Lindsay Australia negatively impacted the result. Revenues from bank deposits was marginally lower than the prior corresponding period.

BKI's Total Shareholder Return including franking credits for the year to 31 December 2017 was 13.7%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.6% over the same period. BKI's 14 year Total Shareholder Return including franking credits was 11.2% per annum as at 31 December 2017, compared to the S&P/ASX 300 Accumulation Index,

which returned 10.7% per annum over the same period (the calculation for Total Shareholder Return includes franking credits based on BKI's dividends being franked at 100% and the S&P/ASX300 Accumulation Index franked at 80%).

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 2017 was 8.0%.



Dividends

A fully franked Interim Ordinary Dividend of 3.625cps was declared, representing a 99% pay-out ratio on BKI's Net Operating Result before special dividend income. As at 31 December 2017, BKI's fully franked dividend yield was 4.2% (based on the immediate past 12 Month rolling dividend and share price of \$1.735), while the grossed up yield was 6.0% (assumes a tax rate of 30%).

The last trading date to be eligible for the Interim Ordinary Dividend is Friday 9th February 2018. Key dates for the Fully Franked Interim Ordinary Dividend are as follows:

Last trading date to be eligible for the Interim Ordinary Dividend	Friday 9 th February 2018
Ex-Dividend Date	Monday 12 th February 2018
Record Date	Tuesday 13 th February 2018
Dividend Reinvestment Plan (DRP) Nomination	Wednesday 14 th February 2018
Payment of Dividend	Wednesday 28 th February 2018

Dividend Reinvestment Plan (DRP)

BKI's DRP offers shareholders the opportunity to acquire further ordinary shares in BKI. 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 (Tuesday 13th February 2018).

The last day for shareholders to nominate for their participation in the DRP is Wednesday 14th February 2018. The DRP will not be offered at a discount.

Management Expense Ratio (MER)

BKI's MER as at 31 December 2017 was 0.17%, marginally higher than 0.15% reported at 30 June 2017.

Portfolio Movements

BKI invested approximately \$50 million over the first half of FY2018, with major long term investments made in companies including; Goodman Group, Ramsay Healthcare, Harvey Norman, Amcor Limited, Sydney Airport and Invocare Limited. BKI also received shares in Tabcorp Holdings Limited following its takeover of Tatts Group. BKI reduced its investment in Brambles and Commonwealth Bank of Australia and exited the positions in Primary Healthcare and Westfield Corporation.

Top 25 Investments

	Stock	% of Total Portfolio		Stock	% of Total Portfolio
1	National Australia Bank	7.9%	14	Macquarie Group	2.4%
2	Commonwealth Bank	7.2%	15	Invocare Limited	2.3%
3	Westpac Banking Corporation	7.0%	16	Ramsay Healthcare	2.3%
4	Wesfarmers Limited	4.5%	17	IAG Limited	2.2%
5	ANZ Banking Group	4.3%	18	BHP Billiton	2.1%
6	New Hope Corporation	3.6%	19	Challenger Limited	2.0%
7	Telstra Corporation	3.2%	20	Sonic Healthcare	2.0%
8	Transurban Group	3.1%	21	ASX Limited	2.0%
9	TPG Telecom	3.1%	22	Woodside Petroleum	1.9%
10	APA Group	2.9%	23	ARB Corporation	1.7%
11	AGL Energy Limited	2.9%	24	Suncorp Group	1.6%
12	Woolworths Limited	2.9%	25	IOOF Holdings	1.4%
13	Sydney Airport	2.5%		Cash and cash equivalents	4.9%
				Total of Top 25 including cash and cash equivalents	83.9%

Outlook

Widespread value is hard to find in the current market and we don't blindly chase high growth stocks that are trading on excessive earnings multiples. However, there are opportunities and Australia has many attractive tailwinds. Earnings growth has been strong in recent years and there are certainly reasons for optimism.

Many parts of the economy are performing well. We are happy to continue to focus on the long-term and be patient for opportunities. The construction industry in particular continues to provide support to overall growth buoyed by a significant pipeline of infrastructure projects. Non-residential building approvals also remain robust and we expect to see a continued improvement in business investment.

A focus in the coming year will be the Royal Commission into the Banking sector. We believe that while the Royal Commission will be a significant distraction for the companies involved, the scope of the Commission is not as bad as many feared. It seems likely that business models of the banks will need to change slightly, with wealth management likely to be a focus. We remain optimistic that BKI's banking stocks will provide an attractive dividend yield for the portfolio for some time yet.

We believe that the BKI Portfolio is well diversified going into 2018. BKI holds approximately fifty companies within the portfolio with a range of sector exposures. Your Board and Portfolio Managers will continue to seek high quality businesses to buy and hold. Our aim is to maintain a portfolio that is durable enough to withstand most market risks so we can continue to increase dividends paid to our shareholders.

BKI continues to have no debt and remains in a strong financial position. As at 31 December 2017, BKI has cash and cash equivalents representing approximately 5% of the portfolio.

For further information:

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