

# BKI INVESTMENT COMPANY LIMITED

RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018



*BKI is managed by Contact Asset Management  
AFSL 494045*



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# RESULT HIGHLIGHTS

Result Excluding Special Dividends	1H 2019	1H 2018	Growth
Income from Operating Activities	\$28.0m	\$24.6m	14%
Net Operating Result	\$25.5m	\$22.7m	12%
Earnings Per Share	3.510cps	3.660cps	-4%
Interim Dividend Per Share	3.625cps	3.625cps	In Line

Result Including Special Dividends	1H 2019	1H 2018	Growth
Net Operating Profit	\$47.1m	\$23.1m	104%
Earnings Per Share	6.48cps	3.73cps	74%
Special Dividend Per Share	1.50cps	nil	100%

Total Dividends Per Share	5.125cps	3.625cps	41%
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# RESULT HIGHLIGHTS



Income from  
Operating Activities

\$28.0m

**14%**

from 1H2018



Net Operating Profit

\$47.1m

**104%**

from 1H2018



Earnings Per Share

6.48 cents

**74%**

from 1H2018

Fully Franked  
Interim Dividend

**3.625cps**

In line with 1H2018

Fully Franked  
Special Dividend

**1.50cps**

Current Grossed Up  
Dividend Yield<sup>#</sup>

**8.2%**

# BKI 15 YEAR REVIEW



## Liquidity

BKI's shareholder base has grown from 7,832 in 2003 to 17,540 at 31 December 2018.



## Size & Scale

BKI's Total Assets have increased from \$171m upon listing to \$1,117m in December 2018.



## Dividend History\*

BKI has paid out approx. \$600m or 97.55cps in Dividends & Franking Credits to Shareholders since listing.



## Dividend Yield#

BKI trading on a 8.2% Grossed-Up dividend yield.



## Capital Management

Since listing, BKI has distributed 6 Fully Franked Special Dividends to Shareholders.



## Low Fee Structure

MER has reduced from 0.69% in 2003 to 0.18% in 2018, including Management Fee of 0.10%.



## Research & Ratings

Lonsec, IIR, Morningstar, ThreeSixty



## Attractive Returns

10 year TSR of 12.2%pa\*  
15 year TSR of 9.9%pa\*



## High Conviction Portfolio

48 positions, offering diversified sector exposure.



# NET OPERATING PROFITS

Net Operating Result before special dividend revenue increased from \$22.7m to \$25.5m.

Net Profit Attributable to Shareholders increased 104% to \$47.1m.

Results were mainly driven by higher dividends received from:

- New Hope Corporation
- AGL Energy
- Woodside Petroleum
- BHP Billiton
- Sydney Airport
- Macquarie Group
- Transurban Group
- APA Group

BKI received \$24m in special dividend income from:

- BHP Billiton – Off Market Buy Back
- Wesfarmers – Coles Demerger Dividend
- Telstra Corporation
- QUBE Logistics
- IAG Insurance
- Suncorp Group
- Woolworths

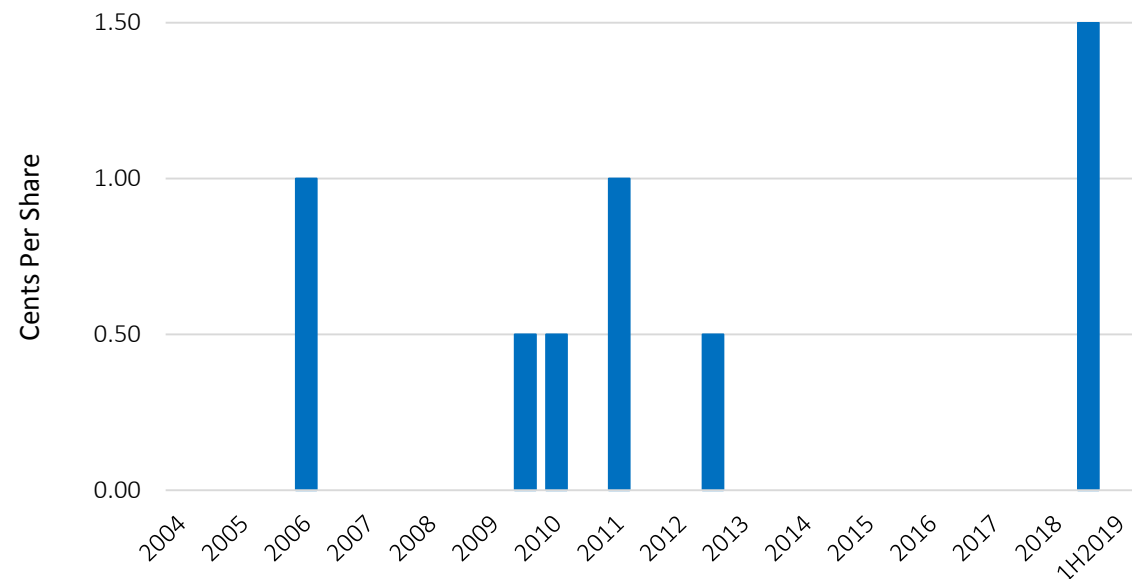
# A POSSIBLE CHANGE IN FRANKING CREDIT POLICY

In recent months we have been overwhelmed by the level of angst in the investment community regarding Labor's proposal to eliminate cash refunds of excess franking credits. In response to a possible change in franking credit policy, the Directors of BKI have declared a **Fully Franked Special Dividend of 1.50cps**.

Following payment of the 1H2019 dividends, BKI will have approximately \$16.75m of imputation credits available for future dividends.

It is therefore the intention of the BKI Directors to distribute to shareholders another **Fully Franked Special Dividend of at least 1.00cps**. This dividend would be declared on or before the release of BKI's FY2019 Results, expected on Wednesday 17 July 2019.

*BKI Special Dividends Paid to Shareholders*



# DIVIDEND HISTORY OF BKI

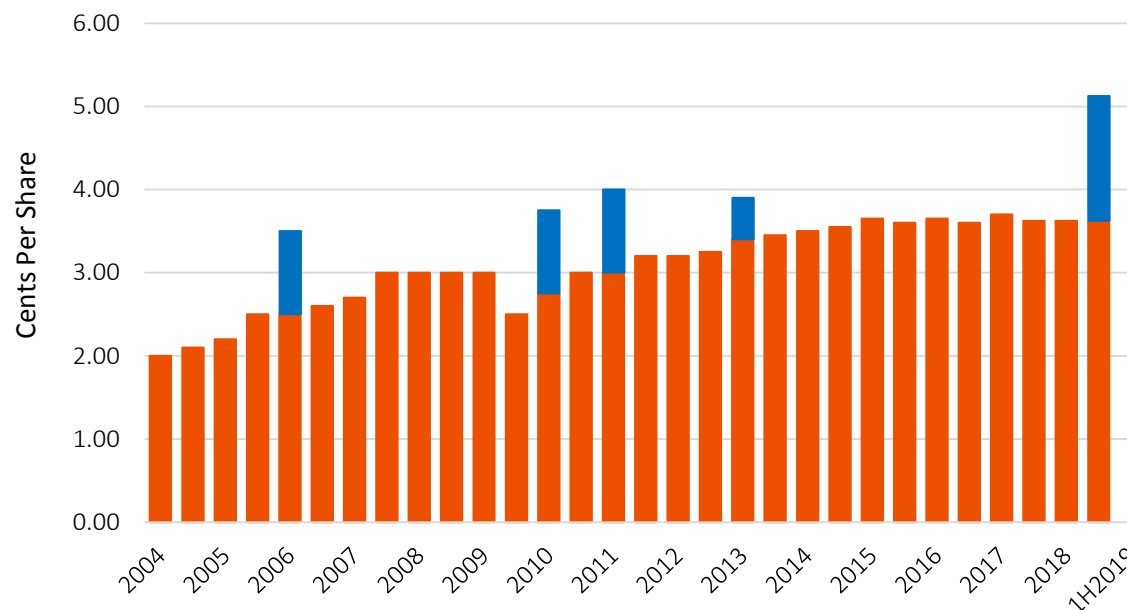
A fully franked **Interim Dividend** of **3.625cps** has been declared.

A fully franked **Special Dividend** of **1.50cps** has also been declared.

BKI's fully franked dividend yield is currently 5.7%\*, while the grossed up yield is 8.2%\*

The last trading date to be eligible for the Interim and Special Dividend is Thursday 7th February 2019.

*BKI Dividends Paid to Shareholders*



*BKI has paid out 97.55cps and approximately \$600m in Dividends and Franking Credits to Shareholders since listing in 2003.*





# INTERIM DIVIDEND KEY DATES

The last trading day to be eligible for BKI's Interim and Special Dividend is Thursday 7th February 2019.

The last day to nominate for participation in the Dividend Reinvestment Plan (DRP) is Tuesday 12th February 2019.

Key dates for the Dividends are as follows:

Ex-Dividend Date	Friday 8 <sup>th</sup> February 2019
Record Date	Monday 11 <sup>th</sup> February 2019
DRP Nomination	Tuesday 12 <sup>th</sup> February 2019
Payment Date	Thursday 28 <sup>th</sup> February 2019

*BKI's DRP offers shareholders the opportunity to acquire further ordinary shares in BKI.  
The DRP will not be offered at a discount.*

*To obtain access to a DRP form please use the link below:*  
[www.bkilimited.com.au/dividend-reinvestment-plan/](http://www.bkilimited.com.au/dividend-reinvestment-plan/)

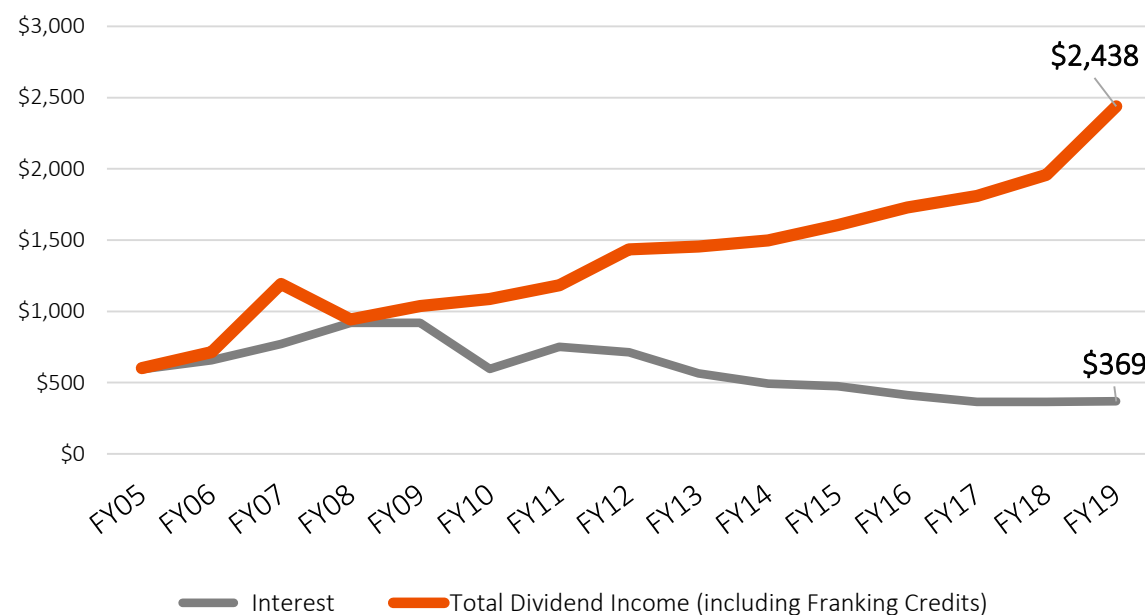


# INCOME GENERATION

Dividends + Franking Credits received from a \$10,000 investment in BKI at IPO versus Bank Quarterly Interest.

An investor who spent the equivalent of \$10,000 to purchase BKI shares upon listing in December 2003 would now be receiving fully franked dividends of \$1,707pa. The franking credits enhance the income by a further \$731, assuming a tax rate of 30% (total income of \$2,438). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$369pa with no franking credits.

## Long Term Dividend Income



*Highlights the opportunity of receiving a fully franked dividend in a falling interest rate environment.*



# BKI PERFORMANCE SINCE LISTING

Since listing in 2003 BKI's investment strategy has been, and will continue to be, focused on research driven, active equities management, investing for the long term, in profitable companies, with a history of paying attractive dividend yields.

We do this while maintaining a low management fee of 0.10%, with no performance fees, to generate higher returns for our shareholders.

*Cumulative Value (Total Shareholder Returns)*

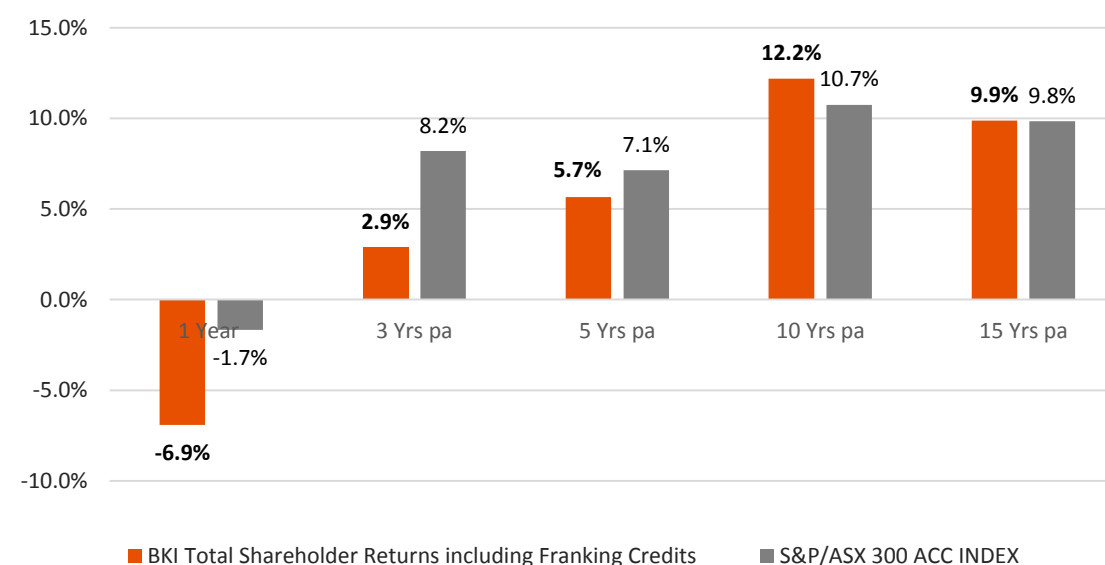


# TOTAL SHAREHOLDER RETURNS

BKI's Total Shareholder Return, including franking credits, for the year ended 31 December 2018 was negative 6.9%.

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 2018 was negative 4.5%.

## Total Shareholder Returns



# POSITIONING BKI FOR THE FUTURE

ACTIVELY MANAGED PORTFOLIO FOR AN ATTRACTIVE FEE

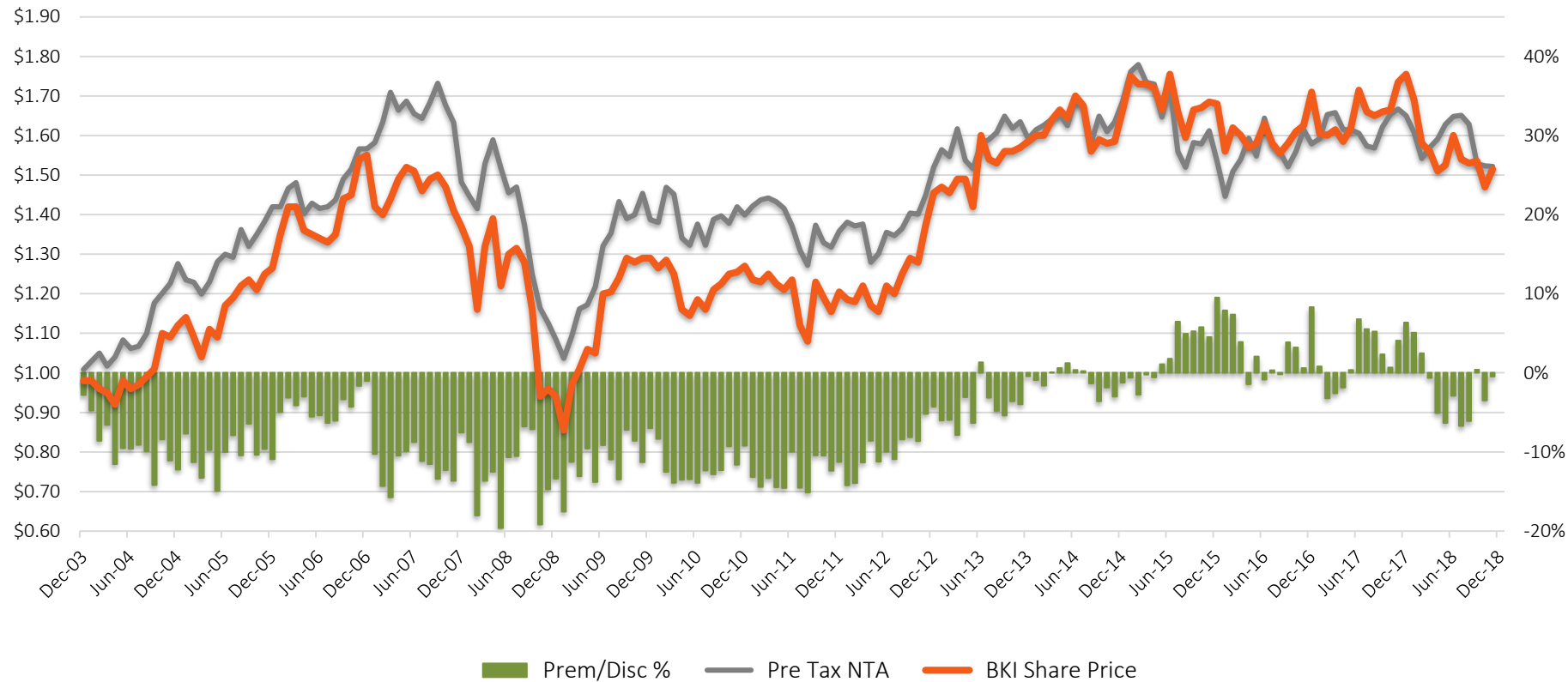


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# BKI PREMIUM/DISCOUNT

*Discount to NTA represents a good investment opportunity*



# DEALING WITH THE NOISE

There are a number of interesting dynamics dominating our conversations. Headwinds are emerging and the global economy has enjoyed a sustained period of above average growth. The issues front of mind for most investors are:

1. Direction of interest rates
2. A possible change in Federal Government
3. Declines in Australian house prices
4. Tighter credit conditions
5. High levels of personal debt
6. Brexit
7. Commodity prices
8. US-China trade war
9. Royal Commission into the Banks and Financial Services Industry
10. Possible Royal Commission into the Aged Care Industry

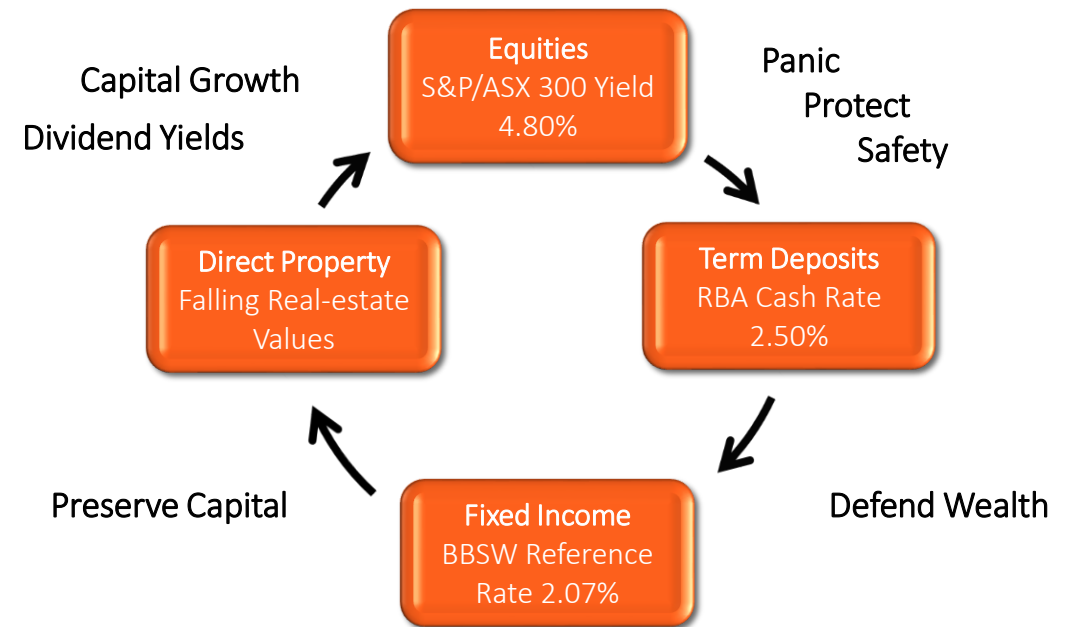
# INVESTMENT CYCLE

We appear to have rolled off the top of the cycle:

- Falling share prices – especially high growth stocks
- Falling Commodity prices – especially oil
- Tighter Credit conditions – especially residential loans
- Falling Real-estate values – especially residential
- Domestic Interest Rates – expected to remain flat or even fall

However, are we far away from seeing another lift in equities?

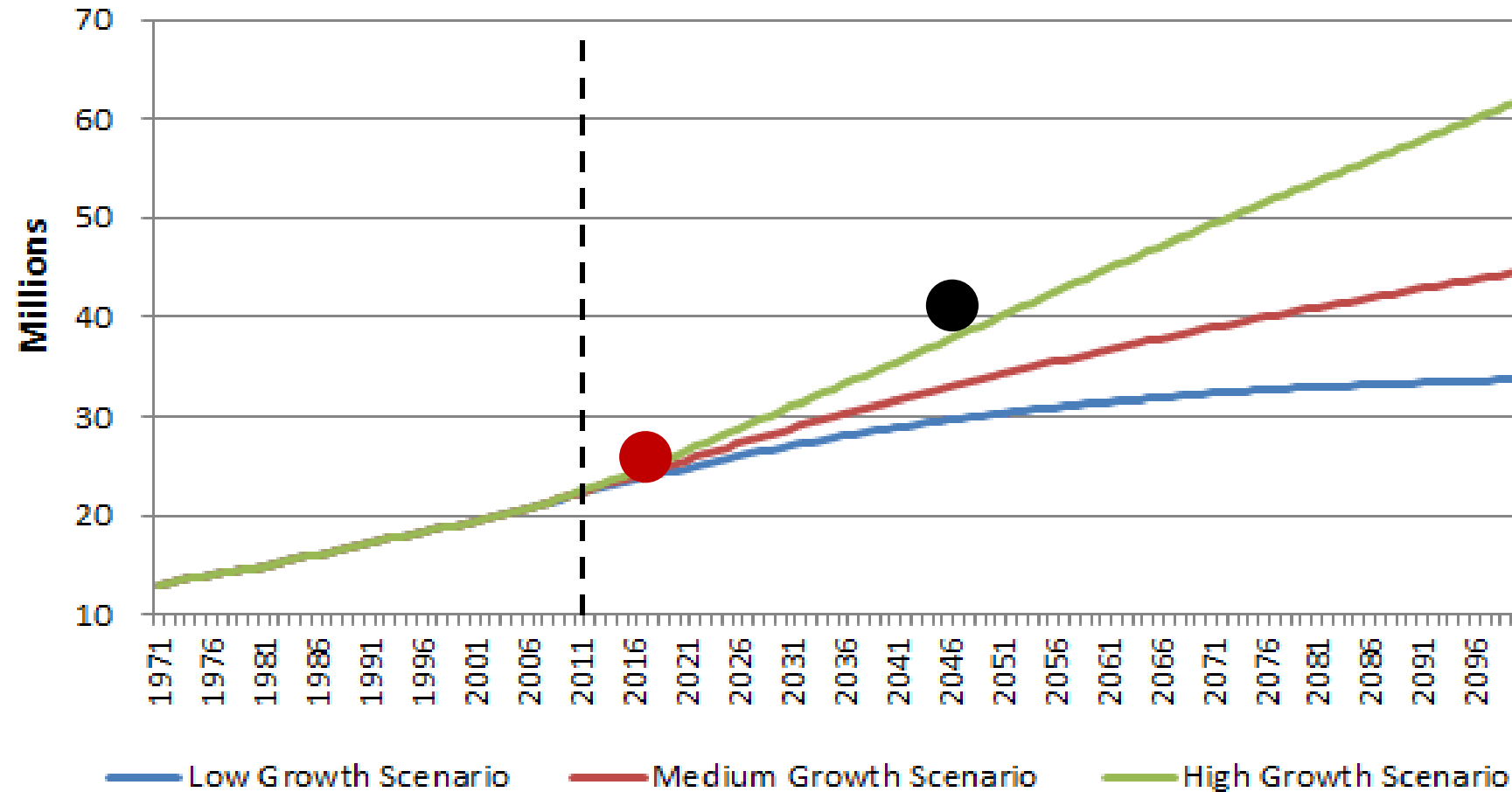
- Strong global demand for commodities
- Population growth
- Significant infrastructure spending
- Competitive banking industry focusing on lending and deposits
- Significant Superannuation fund flows
- Large levels of cash held by investors





# POPULATION GROWTH

Australia's population is now expected to grow to **40 million** people as early as 2048

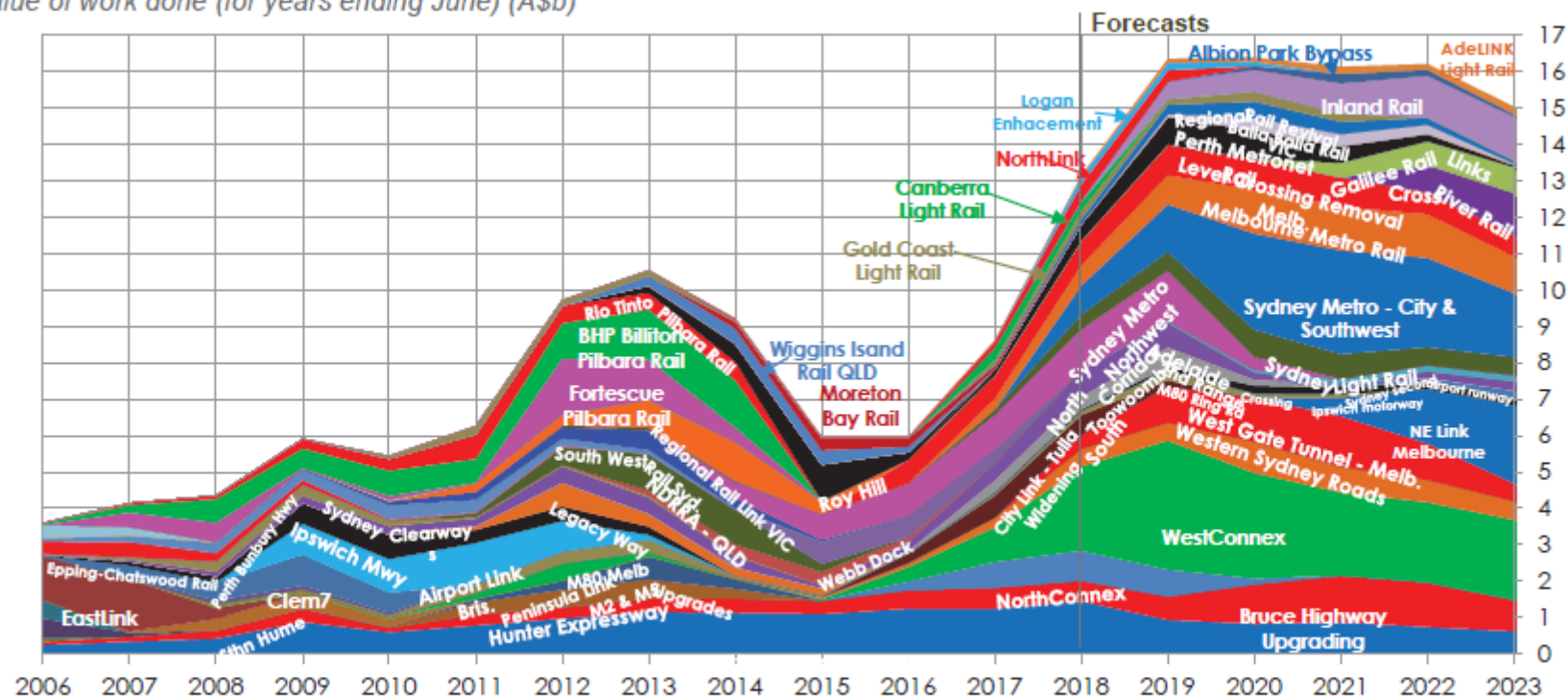


# INFRASTRUCTURE GROWTH

Infrastructure spend is currently at levels never seen before and will continue for many years.

Australian major transport infrastructure construction projects<sup>1,2</sup>

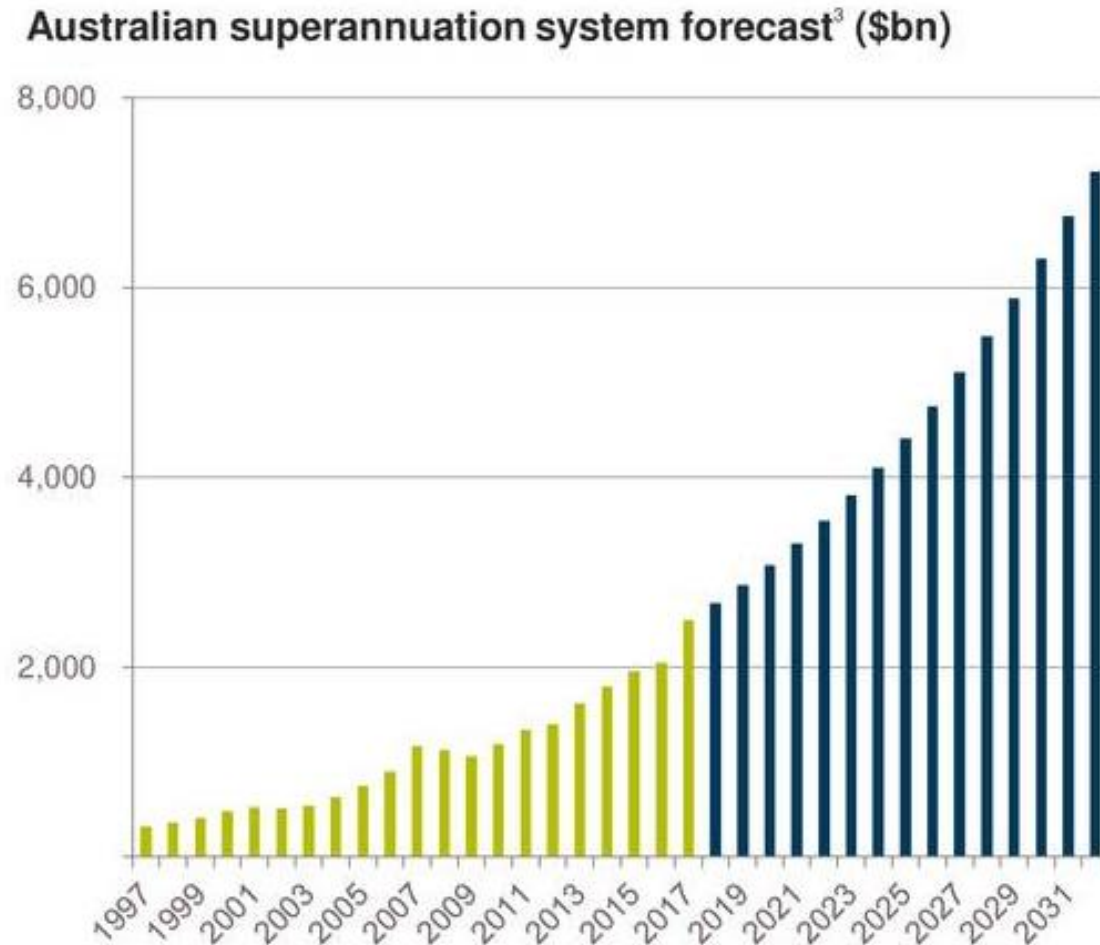
Value of work done (for years ending June) (A\$b)



1. Chart prepared exclusively by Macromonitor based on publicly available data. Boral has not independently verified either the historical data or forecasts. Chart shows financial years and projects with total value >A\$500m only
2. Forecast spending represents Macromonitor's indicative estimation of likely spending based on currently available information. There can be no assurance that actual results will be as forecasted and such differences can be material. There can be no assurance regarding the proportion of forecast project spending that represents requirements for which Boral is a potential supplier, or that Boral will be successful in generating revenue from any of these projects

# FUNDS GROWTH

The growth in superannuation assets in Australia is going to be substantial.



# BKI INVESTMENT PROCESS

BKI is focused on investing in stocks using the 5 fundamentals below as part of the stock selection process:

1

## Income

Dividend Yields, Franking Credits, Pay Out Ratios

2

## Principal Activity

Sustainable Business Model, Competitive Advantage, Barriers to Entry

3

## Financial Strength

Strong Balance Sheet, Gearing Ratios, Net Interest Coverage

4

## Management and Board

Alignment, Board Meeting Attendance, Creating Shareholder Wealth

5

## Earnings and Valuations

Earnings Profiles, PE Multiples, EV/EBITDA Multiples

**Investment Committee** – Final investment decisions are approved through the Investment Committee

# PORTFOLIO POSITIONING

## Investment Portfolio increases in holdings

1. BHP Limited
2. Woodside Petroleum
3. Transurban Group
4. Commonwealth Bank
5. Ramsay Healthcare
6. Woolworths Limited
7. AGL Energy Limited
8. APA Group
9. Regis Healthcare
10. Macquarie Group
11. IAG Limited
12. Boral Limited
13. Amcor Limited
14. Sydney Airport
15. InvoCare Limited



# PORTFOLIO POSITIONING

## New Portfolio Positions

1. Coles Group
2. Platinum Asset Management
3. Magellan Financial Group
4. Stockland Group
5. Pact Group



## Investment Portfolio Sales

1. Flight Centre
2. IOOF Holdings
3. Perpetual Limited



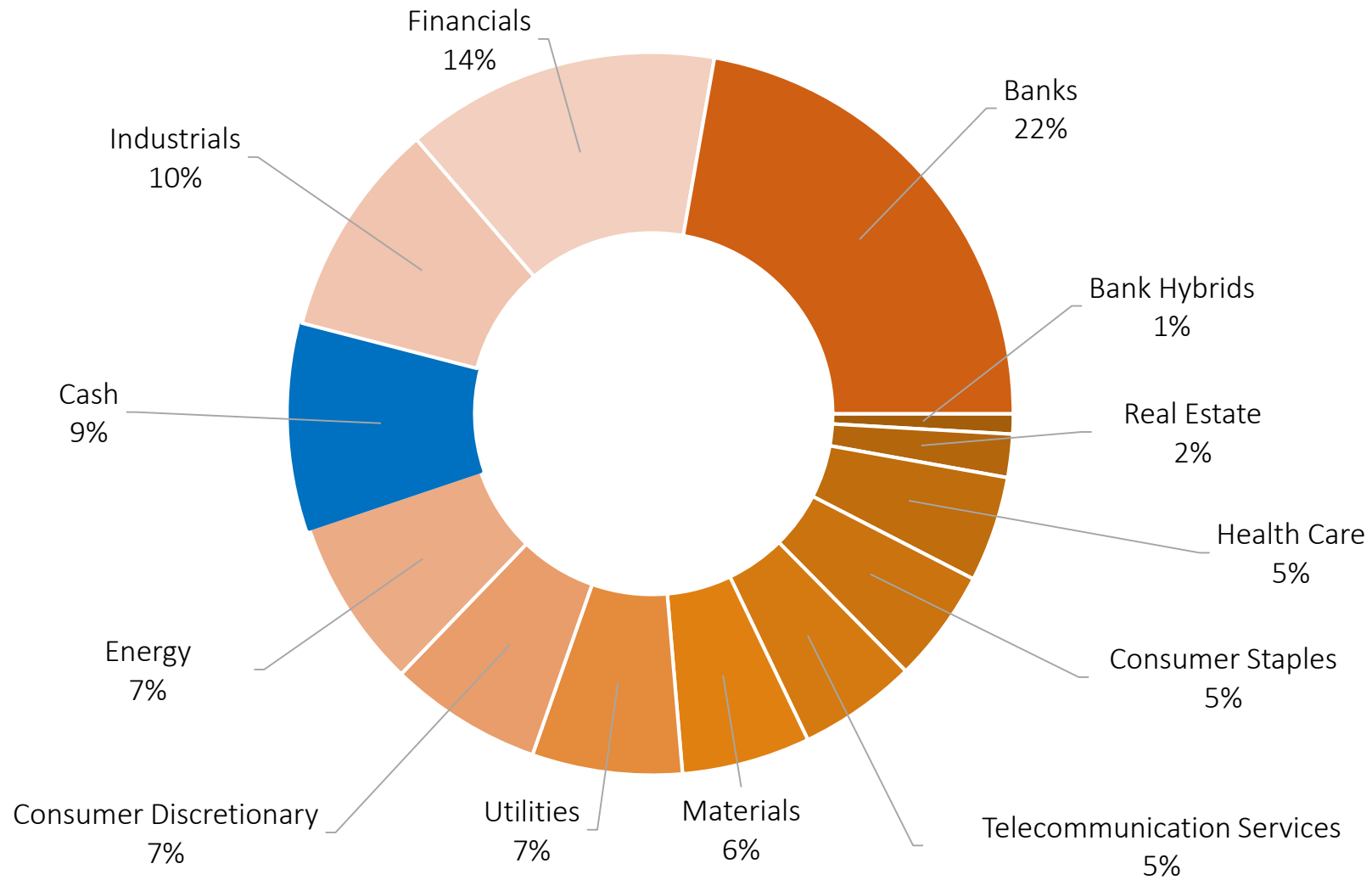
# TOP 25 INVESTMENTS

As at 31 December 2018

<i>Stock</i>	<i>% of Total Portfolio</i>	<i>Stock</i>	<i>% of Total Portfolio</i>
1 Commonwealth Bank	6.6%	14 AGL Energy Limited	2.8%
2 National Australia Bank	6.1%	15 Woodside Petroleum	2.5%
3 Westpac Banking Group	5.3%	16 Telstra Corporation	2.4%
4 New Hope Corporation	4.6%	17 Ramsay Healthcare	2.3%
5 BHP Billiton	4.2%	18 IAG Limited	2.2%
6 Transurban Group	3.9%	19 ASX Limited	2.2%
7 APA Group	3.8%	20 Sonic Healthcare	1.9%
8 ANZ Banking Group	3.5%	21 Invocare Limited	1.5%
9 Woolworths Limited	3.4%	22 Suncorp Group	1.4%
10 Wesfarmers Limited	3.3%	23 ARB Corporation	1.3%
11 Macquarie Group	3.3%	24 Challenger Group	1.3%
12 TPG Telecom	2.8%	25 Coles Group	1.2%
13 Sydney Airport	2.8%	Cash & Cash Equivalents	9.2%
		<b>Total</b>	<b>85.8%</b>

# PORTFOLIO POSITIONING

As at 31 December 2018





# UPCOMING REPORTING SEASON

## Main topics of interest:

- Dividend Yield      A company's ability to deliver a sustainable and growing dividend stream.
- Franking Credits      Current balance and Capital Management.
- Reduced Costs      Management's ongoing ability to control costs.
- Balance Sheet      Financial strength, capacity to re-invest and grow the business.
- Australian Dollar      Impact on earnings and dividends from falling AUD/USD.
- Business Model      Competitive Advantage, ability to disrupt.
- Valuation/Growth      Earnings outlook for the rest of FY19 and into FY20.

# BKI Fact Sheet

ASX Code	BKI.ASX
Listing Date	December 2003
Mandate	Australian Listed Equities
Investment Sectors	Diversified
Benchmark	S&P/ASX 300 Accumulation Index
Market Cap	\$1,102m
Debt	\$0
Management Expense Ratio*	0.18%
Performance Fee	N/A
Rolling 12 Month Dividend**	8.325cps
Historical Dividend Yield	5.7%
Percentage Franked	100%
Grossed Up Yield***	8.2%
Dividend Distribution Frequency	Half Yearly
Dividend Payout Policy	90%-95%
Dividend Reinvestment Plan	Active

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