

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

ASX Announcement

ASX AND MEDIA RELEASE – BKI 1H2019 RESULTS

18 July 2019



BKI Announces payment of another Special Dividend

FY2019 Results Highlights

Result Excluding Special Investment Income	2019	2018	Growth
Income from Operating Activities	\$54.25m	\$48.13m	12.7%
Net Operating Result	\$49.15m	\$44.24m	11.1%
Earnings Per Share	6.75 cps	7.10 cps	(4.9%)
Dividends Per Share	7.325 cps	7.325 cps	0%

Result Including Special Investment Income	2019	2018	Growth
Net Operating Profit	\$74.70m	\$45.01m	66.0%
Earnings Per Share	10.26 cps	7.23 cps	41.9%
Special Dividends Per Share	2.50 cps	nil	
Total Dividends Per Share	9.825cps	7.325cps	34.1%

BKI Performance Overview

BKI Investment Company Limited (“BKI”) announced FY2019 Full Year results today, delivering another solid result for shareholders in a market dominated by volatility and uncertainty. The Net Operating Result for the year, excluding special investment income net of applicable tax, was \$49.15 million, an increase of 11% over the previous corresponding period. This result was driven by higher dividends received from Woodside Petroleum, New Hope Corporation, BHP Limited, Macquarie Group, Transurban Group, Sydney Airport and Lindsay Australia.

Net Operating Profit, including special investment income net of applicable tax, grew 66% to \$74.70 million. The main contributor to the growth in Net Operating Profit was the significant special investment income, including a non-cash Coles demerger dividend and off-market buybacks, in total contributing \$25.55 million after tax.

Earnings per Share increased 41.9% to 10.26 cents per share, driven by the significant increase in special investment income received over the year. BKI received \$4.35 million in special dividend income over the year from Telstra Corporation, QUBE Logistics, IAG Insurance, Suncorp Group, Woolworths Group, BHP Limited, Wesfarmers Limited and Milton Corporation, compared to \$0.79 million of special dividends received in 2018. BKI also received special investment income totalling \$15.54 million from off market buy-backs conducted by BHP Limited and Caltex Limited, and a further \$8.09 million from a non-cash demerger dividend from Wesfarmers. This demerger dividend wasn't paid in cash, but instead BKI was issued new shares in the newly listed Coles Group Limited.

Earnings per Share before special investment revenue decreased slightly to 6.75 cents per share from 7.10 cents per share, driven mainly by a material increase in BKI issued shares following the entitlement offer completed in June 2018.

Dividends

The BKI Board has declared a fully franked 2019 Final Dividend of 3.70cps, in line with last year. The Board has also declared another fully franked Special Dividend of 1.00cps. This is in addition to the first half fully franked Special Dividend declared of 1.50cps.

BKI's Co-Portfolio Manager, Mr Tom Millner, said it was another example how BKI continues to increase returns to shareholders. "These Special Dividends declared by the BKI Board distribute to shareholders a portion of the company's accumulated franking credits which, with the issues surrounding franking credits earlier in the year and more recently with a reduced Term Deposit rate, will be of significant value and benefit to many BKI shareholders".

"The Special Dividend announced today is the Company's seventh paid to shareholders since the company listed fifteen years ago. Including dividends declared today, we have now paid out \$1.02 per share in dividends and approximately \$640 million in dividends and franking credits to BKI shareholders." Mr Millner said.

As at 18th July 2019, using the 3.625cps interim dividend and 3.70cps final dividend, the BKI current dividend yield is 4.6%, grossed up to 6.5%, based on a tax rate of 30% and a share price of \$1.60. Including the 1.00cps special dividend declared today, the BKI dividend yield increases to 5.2%, grossed up to 7.4%, assumes a tax rate of 30% and a share price of \$1.60.

As at 30 June 2019 BKI had a franking account balance of \$26,228,049, sufficient to pay 8.40cps fully franked dividend.

The BKI Board has confirmed that BKI's Dividend Reinvestment Plan (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 last day to nominate for participation in the DRP is Tuesday 13th August 2019. To complete a DRP form please follow the following link: www.bkilimited.com.au/dividend-reinvestment-plan/

The last trading day to be eligible for BKI's Final and Special Dividend is Thursday 8th August 2019.

Key dates for the Dividends are as follows:

Event	Date
Last trading date to be eligible for the Dividends	Thursday 8 August 2019
Ex-Dividend Date	Friday 9 August 2019
Record Date	Monday 12 August 2019
DRP Nomination	Tuesday 13 August 2019
Payment Date	Thursday 29 August 2019

Management Expense Ratio (MER)

BKI's MER as at 30 June 2019 was 0.17%. The Board & Portfolio Managers are shareholders in BKI. We invest for the long term and do not charge excessive external portfolio management fees or any performance fees. We focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth over the long term.

BKI's MER continues to compare very favourably to other externally-managed LICs, ETFs and managed funds in the domestic market that provide a similar broad-based exposure to Australian equities.

BKI 15 Year Review

BKI reached the milestone of 15 years as a publically listed company during the year. Over this period BKI's has:

- Grown its shareholder base from 7,832 in 2003 to almost 18,000;
- Increased Total Assets from \$171 million to \$1.3 billion;
- Paid out over \$640 million to shareholders in Dividends and Franking Credits;

- Distributed 7 Fully Franked Special Dividends; and
- Reduced the MER from 0.69% in 2003 to 0.17% in 2019.

Performance

Total Shareholder Returns including franking credits for the year to 30 June 2019 was 11.6%.

BKI's Net Portfolio Return (after all operating expenses, provisions and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2019 was 9.4%.

Portfolio Movements

The decline in domestic markets during the second quarter of the year provided BKI with some good investment opportunities. BKI's total investments for the year was approximately \$190.0m, with disposals of approximately \$76.6m.

BKI's Co-Portfolio Manager, Mr Will Culbert said "Major long term investments for the financial year included BHP Limited, Macquarie Group, Woodside Petroleum, Ramsay Healthcare, Woolworths Group, Transurban Group, AGL Energy and APA Group. We also added new portfolio positions including Coles Group, Platinum Asset Management, Magellan Financial Group, Stockland Group, Treasury Wine Estates and Reece Group."

"The main disposals from BKI's investment portfolio included Flight Centre, IOOF Holdings, Perpetual Limited, Pact Group, QUBE Holdings, NABPA Preference Shares, NABPC Preference Shares, Ansell Limited, WBCPF Preference Shares and CBAPG Preference Shares." Mr Culbert said.

Top 25 Investments

	Stock	% of Total Portfolio
1	Commonwealth Bank	6.7%
2	National Australia Bank	5.4%
3	Macquarie Group	5.0%
4	Westpac Banking Corp	4.8%
5	BHP Limited	4.5%
6	Transurban Group	4.4%
7	APA Group	4.3%
8	Woolworths Group	3.8%
9	ANZ Banking Group	3.6%
10	Wesfarmers Limited	3.3%
11	New Hope Corporation	3.3%
12	Ramsay Healthcare	3.0%
13	Woodside Petroleum	3.0%

	Stock	% of Total Portfolio
14	Sydney Airport	3.0%
15	Telstra Corporation	2.9%
16	ASX Limited	2.7%
17	TPG Telecom	2.5%
18	AGL Energy Limited	2.4%
19	IAG Limited	2.3%
20	Invocare Limited	2.1%
21	Sonic Healthcare	2.1%
22	Magellan Financial Group	1.6%
23	ARB Corporation	1.4%
24	Suncorp Group	1.3%
25	Coles Group	1.2%
Cash and cash equivalents		7.9%
Total of Top 25 including cash and cash equivalents		88.5%

Outlook

Over the last year, we have seen the conclusion of the Royal Commission into the Australian banking system, a devaluation of Australian house prices and worries over a global trade war escalation. We have also experienced important and meaningful outcomes in both State and Federal elections.

In the last quarter of the financial year, concerns of a domestic and global growth slowdown have resulted in interest rate cuts. The Reserve Bank of Australia has now lowered the official cash rate to a new record low of 1.00%. It is the first back-to-back cut since 2012, aimed at underpinning employment growth and provide greater confidence to the consumer and the homeowner.

Mr Culbert said, “We believe the momentum in our equity market could continue to be driven by these macro factors rather than company fundamentals. Yet these macro conditions are out of our control, and it is easy to get caught up in the negative.”

“We expect there will be several periods of opportunity for long-term investors in the year ahead and that patience will pay off. We see areas of concern that may influence the market direction during the August reporting season, particularly ongoing concern around a global growth slowdown. Many stocks in our market are trading on very high multiples, and may not be supported by earnings growth when they provide the market with full year results”, he said.

Mr Millner added, “The recent chase for growth that we have seen is just one segment of the market. With continued pressure on the official cash rate, we believe that many investors who rely on income will now become reluctant to invest further into cash products. This situation will continue to encourage investors into equity markets and in particular into stocks that are offering attractive and sustainable dividend yields. BKI as an investment opportunity is well placed in this situation, offering shareholders and potential future investors an attractive fully franked dividend yield and a diversified portfolio of assets.”

“BKI is also well positioned with a portfolio of high quality dividend paying stocks. BKI’s cash represents approximately 8% and we have no debt. The Directors and Portfolio Managers of BKI will continue to ensure the company achieves its goals of investing for the long term in profitable, high yielding and well managed companies,” Mr Millner said.

For further information:

Contact Asset Management

Tom Millner – Portfolio Manager
02 9238 0522
0408 754 180

Will Culbert – Portfolio Manager
02 9238 0522
0410 627 378