

# BKI INVESTMENT COMPANY LIMITED

*Results for the half year ended 31 December 2019*



*BKI is managed by Contact Asset Management  
AFSL 494045*



# Disclaimer

This material has been prepared by Contact Asset Management on behalf of BKI Investment Company Limited.

The information within this document is not intended to provide advice to investors or take into account an individual's financial circumstances or investment objectives. This is general investment advice only and does not constitute advice to any person. The opinions within this document are not intended to represent recommendations to investors, they are the view of Contact Asset Management and BKI Investment Company Limited as of this date and are accordingly subject to change.

Information related to any company or security is for information purposes only and should not be interpreted as a solicitation or offer to buy or sell any security. The information on which this presentation is based has been obtained from sources we believe to be reliable, but we do not guarantee its accuracy or completeness.

Investors should consult their financial adviser in relation to any material within this document.

# Highlights

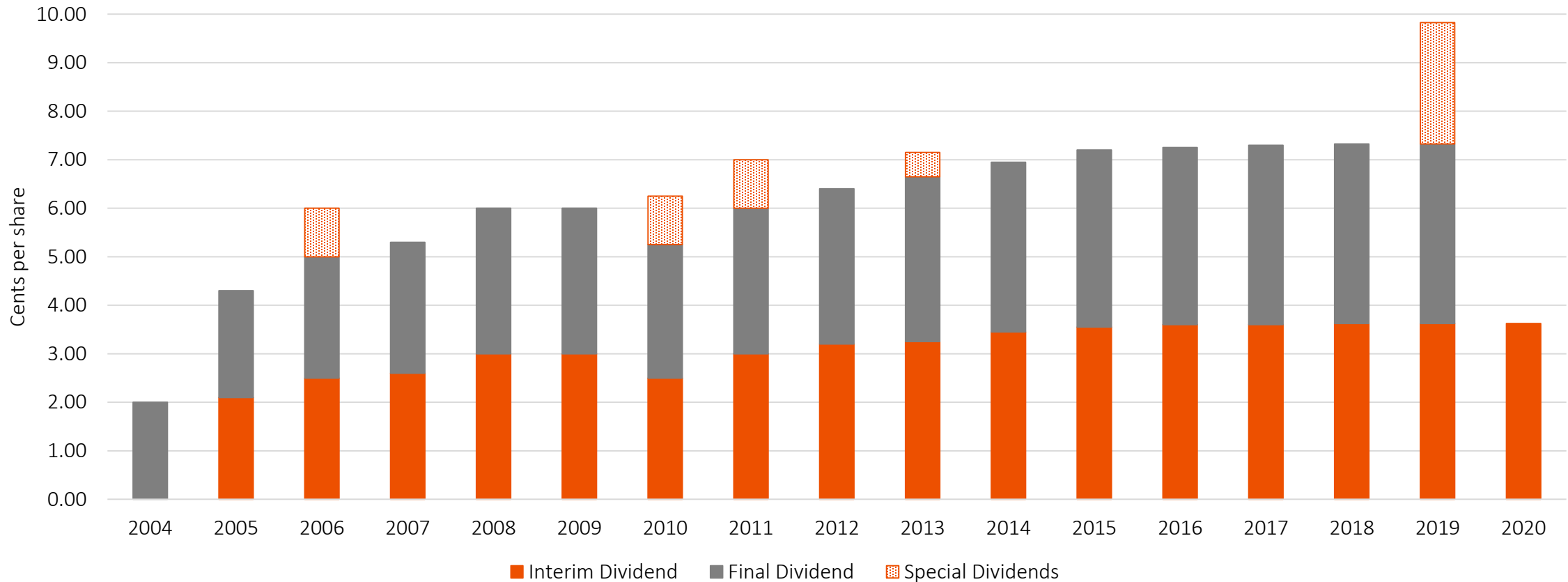
For the half year ended 31 December 2019

Result excluding special investment revenue	1H 2020	1H 2019	Growth
Investment revenue – ordinary	\$27.0m	\$26.8m	0.8%
Income from operating activities	\$27.4m	\$28.0m	(2.1%)
Net operating profit after tax	\$24.5m	\$25.5m	(3.8%)
Earnings per share	3.35c	3.51c	(4.6%)
Dividends per share	3.625c	3.625c	0%
Result including special investment revenue	1H 2020	1H 2019	Growth
Net operating profit after tax	\$25.5m	\$47.1m	(45.9%)
Earnings per share	3.48c	6.48c	(46.3%)
Special dividends per share	nil	1.50c	(100.0%)

The operating profit after tax, including special investment revenue, was significantly lower than last year due to the large amount of special dividends received during the previous half year, accelerated by many companies within the BKI portfolio reacting to the possible threat of legislation to remove the benefit of franking credits. These special dividends also included; the fully franked special dividend component of the BHP off-market buy-back, and a non-cash unfranked dividend recognised from the Coles-Wesfarmers demerger. During the first half of FY2020, BKI received a far lesser amount of special investment revenue, \$1.0 million, from companies including ASX Limited, Brambles Industries, Coles Limited and Telstra Corporation.

# Dividend History

*BKI's fully franked dividend yield is currently 4.3%\*, while the grossed up yield is 6.2%\**



*BKI has paid out \$1.06 per share, or over \$700m in dividends and franking credits to shareholders since listing in 2003<sup>#</sup>*

Note: \*Includes FY2019 Final Dividend of 3.70cps and FY2020 Interim Dividend of 3.625cps. Based on share price of \$1.70. Grossed up yield includes franking credits and is based on a tax rate of 30%.

# Includes FY2020 Interim Dividend of 3.625cps.

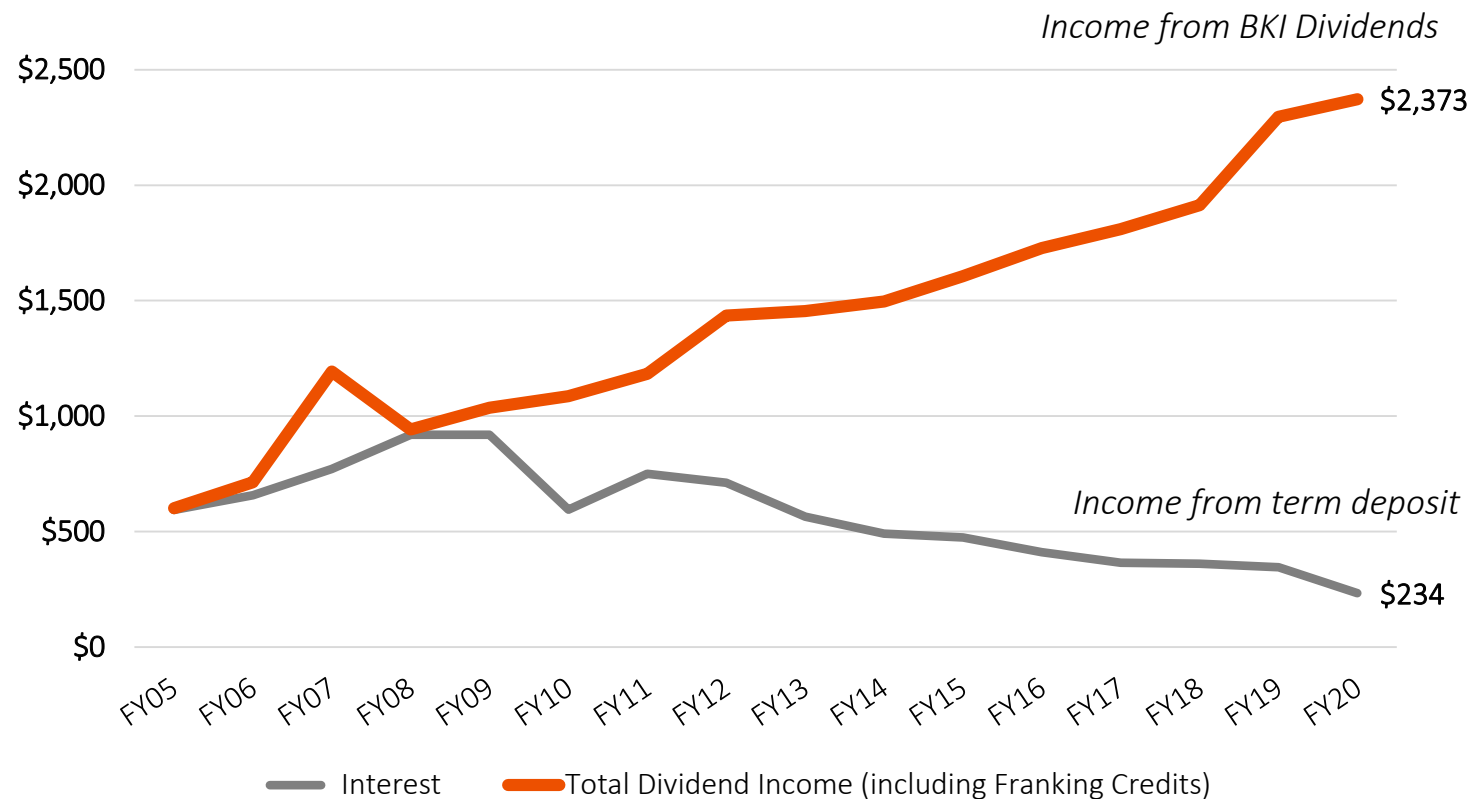
# Income Generation

Long term dividend income

An investment of \$10,000 to purchase BKI shares upon listing in December 2003 would now be receiving fully franked dividends of \$1,661pa.

The franking credits enhance the income by a further \$712pa, assuming a tax rate of 30% (total income of \$2,373).

The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$234pa, pre tax and with no franking credits attached.



Source: BKI, Contact Asset Management, Bloomberg.

# Interim Dividend Dates

Last trading date to be eligible for the BKI FY2020 interim dividend is Thursday 6 February 2020

Key Dates	
Last trading date to be eligible for the dividend	Thursday 6 February 2020
Ex-dividend date	Friday 7 February 2020
Record date	Monday 10 February 2020
DRP nomination	Tuesday 11 February 2020
Payment date	Thursday 27 February 2020

*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/)

# Performance

*For the half year ended 31 December 2019*



*BKI is managed by Contact Asset Management  
AFSL 494045*

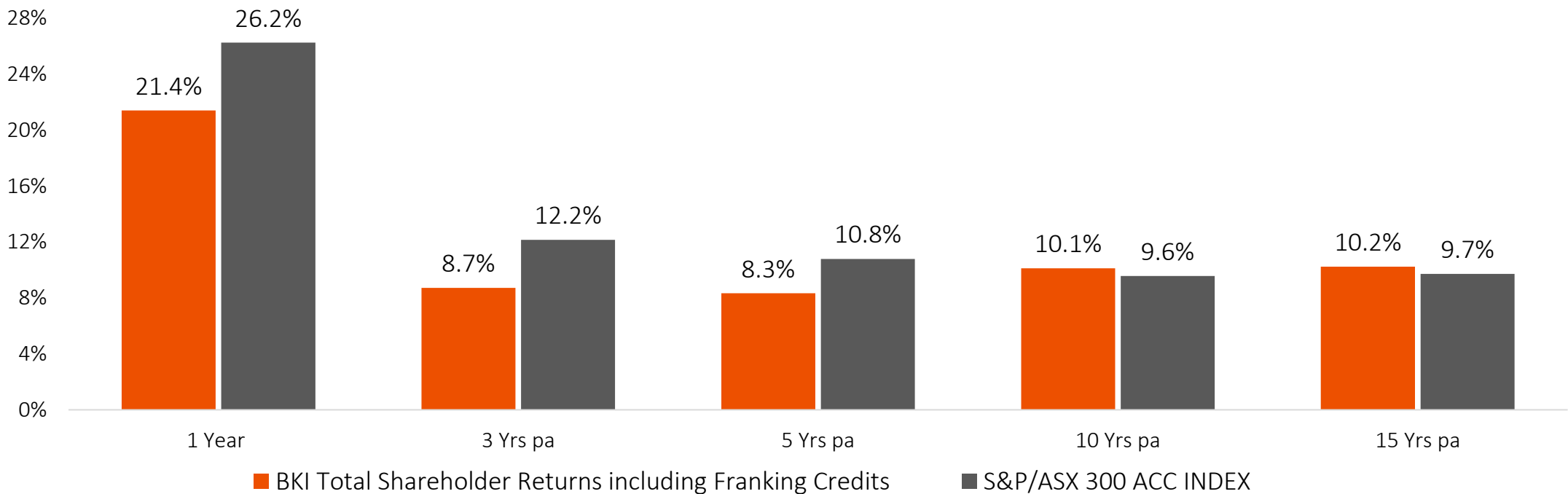


# Total Shareholder Returns

As at 31 December 2019

BKI's One Year Total Shareholder Return, including franking credits was 21.4%.

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 2019 was 17.3%.



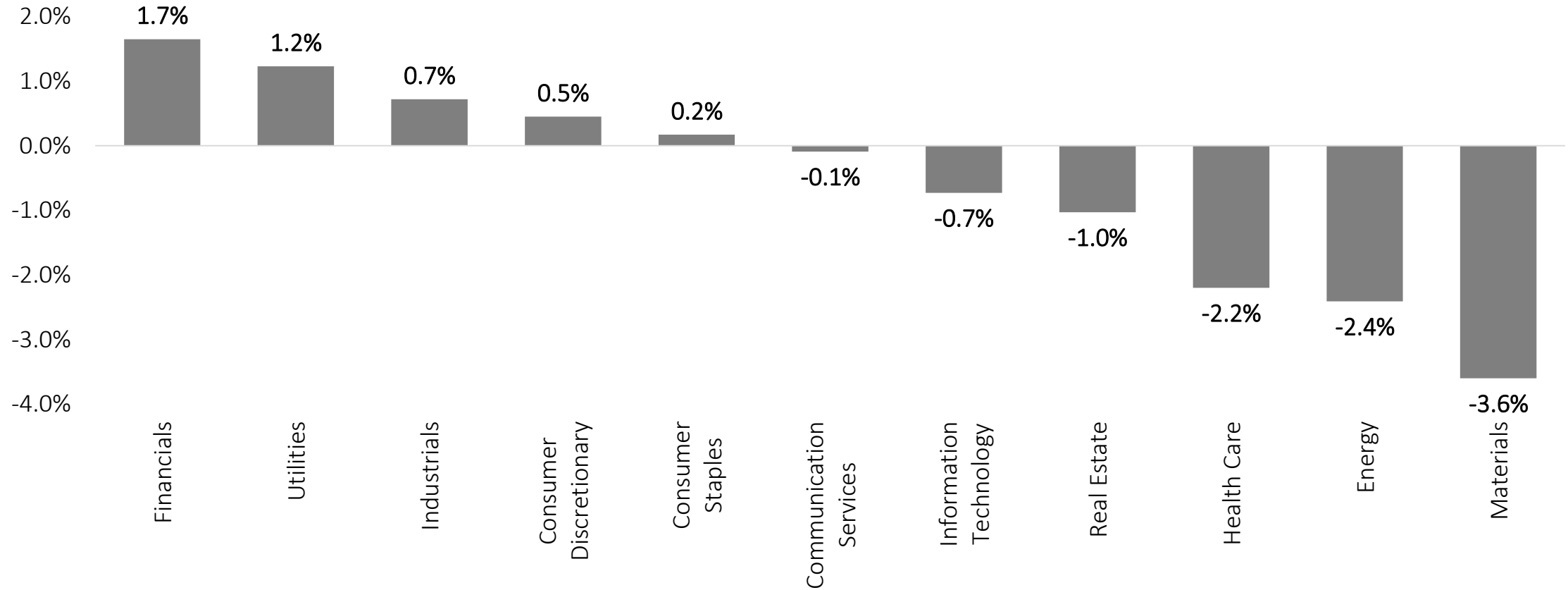
Source: BKI, Contact Asset Management, Bloomberg. Total Shareholder Returns as at 31 December 2019. Including Franking Credits. The S&P/ASX300 Accumulation Index has been franked at 80%.



# Contributors to Performance - Sectors

As at 31 December 2019

Attribution Analysis at a Sector Level  
(2019 Calendar Year)



Source: BKI, Contact Asset Management, Bloomberg.

# Contributors to Performance - Stocks

As at 31 December 2019

## Top 10 Positive Contributors to Portfolio Performance



## Top 10 Detractors from Relative Portfolio Performance

*Not held in BKI portfolio*



*BKI holdings*



Source: BKI, Contact Asset Management, Bloomberg.

For personal use only

# Positioning BKI for the Future

*Actively managed portfolio for an attractive fee*



*BKI is managed by Contact Asset Management  
AFSL 494045*



# Investment Process

*Research driven, active management*

Through a research driven, active management approach BKI invests for the long term in profitable, well managed companies that offer a compelling yield and growth opportunities.

We invest using the five fundamentals below as part of the stock selection process:

## Principal Activity

Sustainable business model, competitive advantage, barriers to entry and industry structure.

## Income

Dividend yields, franking credits, dividend sustainability and pay out ratios.

## Balance Sheet

Debt levels, gearing ratios, coverage ratios.

## Management and Board

Alignment, experience, skill set, creating shareholder wealth.

## Earnings and Valuations

Earnings profiles, PE multiples, EV/EBITDA multiples and DCF valuations.



# Reducing Exposure to Banks

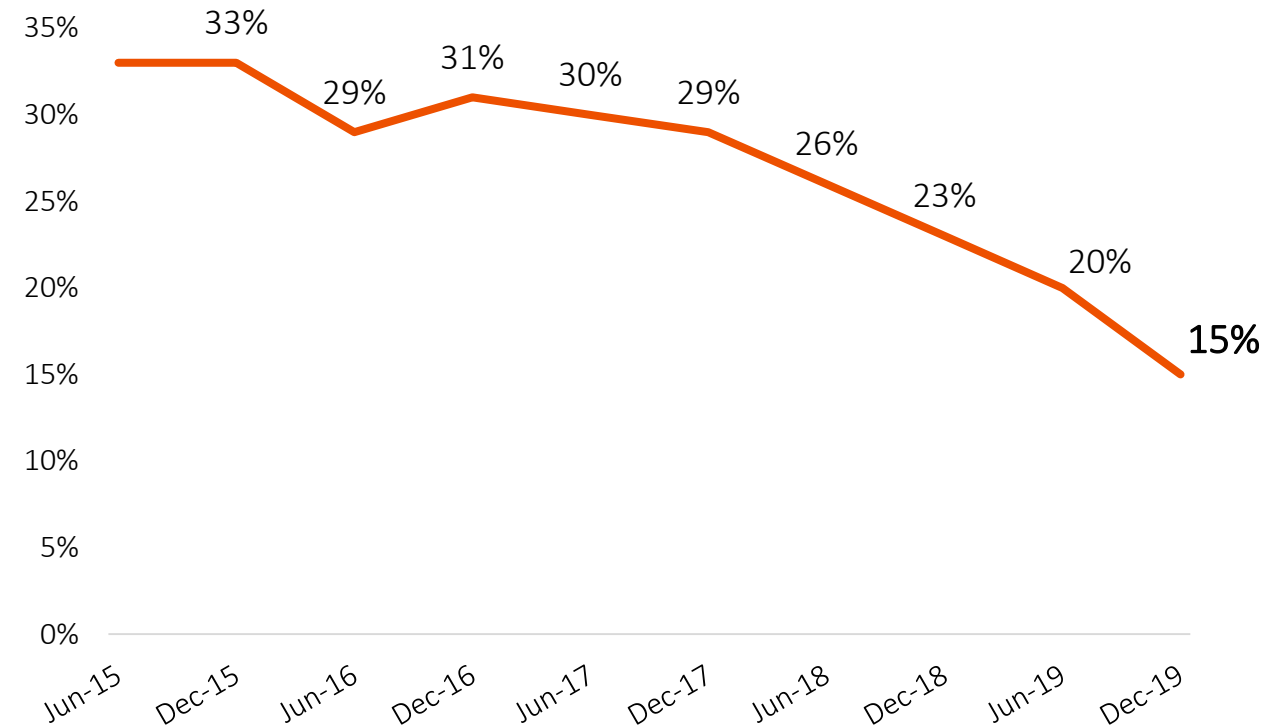
*Shifting into quality companies with earnings and dividend growth*

BKI's exposure to the banking sector has been reducing over the last few years and is currently 15% of the total BKI Portfolio.

Over the last decade the Banking sector underperformed modestly with a TSR of 7.4% pa. Dividends were 84% of the TSR for banks over this period.

As we reduced our exposure to the banking sector over the half we reinvested this capital into investments that are expected to generate a growing income stream over the long term.

**Banks as a % of the BKI Portfolio\***



Source: BKI, Contact Asset Management, Bloomberg. \*Banking sector includes CBA, WBC, NAB, ANZ, BEN and BOQ.

# Portfolio Positioning

For the half year ended 31 December 2019

## Investment Increases



## Investments Sold



## Investments Reduced



# Major Overweight/Underweight by Stock

*As at 31 December 2019*

## Overweight Positions

Company	Active Weight
APA Group	4.2%
Macquarie Group	4.0%
Transurban Group	2.9%
Sydney Airport	2.6%
New Hope Corporation	2.4%
TPG Telecom	2.3%
Ramsay Health Care	2.3%
AGL Energy	1.9%
Woolworths Limited	1.8%
ASX Limited	1.8%

## Underweight Positions

Company	Active Weight
CSL Limited	(6.2%)
ANZ Banking Group	(1.9%)
Rio Tinto	(1.7%)
Westpac Banking Group	(1.7%)
Fortescue Metals	(1.5%)
Newcrest Mining	(1.2%)
Aristocrat Leisure	(1.1%)
Scentre Group	(1.0%)
Santos Limited	(0.8%)
QBE Insurance	(0.8%)

Source: Contact Asset Management, Bloomberg.

# Top 25 Investments

As at 31 December 2019

Stock	% of Total Portfolio	Stock	% of Total Portfolio
1 Commonwealth Bank	6.7%	14 Westpac Bank	2.6%
2 Macquarie Group	6.4%	15 ASX Limited	2.6%
3 Transurban Group	4.9%	16 New Hope Corporation	2.5%
4 APA Group	4.8%	17 AGL Energy Limited	2.5%
5 BHP Limited	4.7%	18 Sonic Healthcare	2.3%
6 National Australia Bank	4.3%	19 IAG Limited	2.2%
7 Woolworths Limited	4.2%	20 Magellan Financial Group	1.8%
8 Wesfarmers Limited	3.8%	21 Invocare Limited	1.8%
9 Sydney Airport	3.6%	22 ANZ Banking Group	1.6%
10 Woodside Petroleum	3.1%	23 ARB Corporation	1.5%
11 Ramsay HealthCare	3.1%	24 Coles Group	1.4%
12 Telstra Corporation	2.7%	25 Harvey Norman Holdings	1.3%
13 TPG Telecom	2.6%	Cash & Cash Equivalents	7.0%
		<b>Total</b>	<b>86.0%</b>

Source: BKI, Contact Asset Management.



# Insights from the Investment Manager

*Markets, themes and looking ahead*



*BKI is managed by Contact Asset Management  
AFSL 494045*



# Valuations Have Changed

Lower rates driving P/E expansion

Falling rates gave +1.4 points to the Australian Equity P/E multiple in FY2019

We believe that lower rates have given another +1.2 points to the Australian Equity P/E multiple in FY2020

	ROIC – Cost of Capital				
Earnings Growth		4% FY2017	Falling Rates → 6% FY2018	Falling Rates → 8% FY2019	Falling Rates → 10% FY2020
	8%	27.2	32.3	36.2	40.0
	6%	15.9	17.5	18.9	20.1
	4%	12.8	13.5	14.0	15.5
	2%	11.4	11.6	11.8	12.0

Source: Contact Asset Management, Factset.

# Australian Historical Market Valuations

10 year average price to earnings multiple is 15.3x

The forecast S&P/ASX300 PE multiple has increased to 18.9x in FY2020.

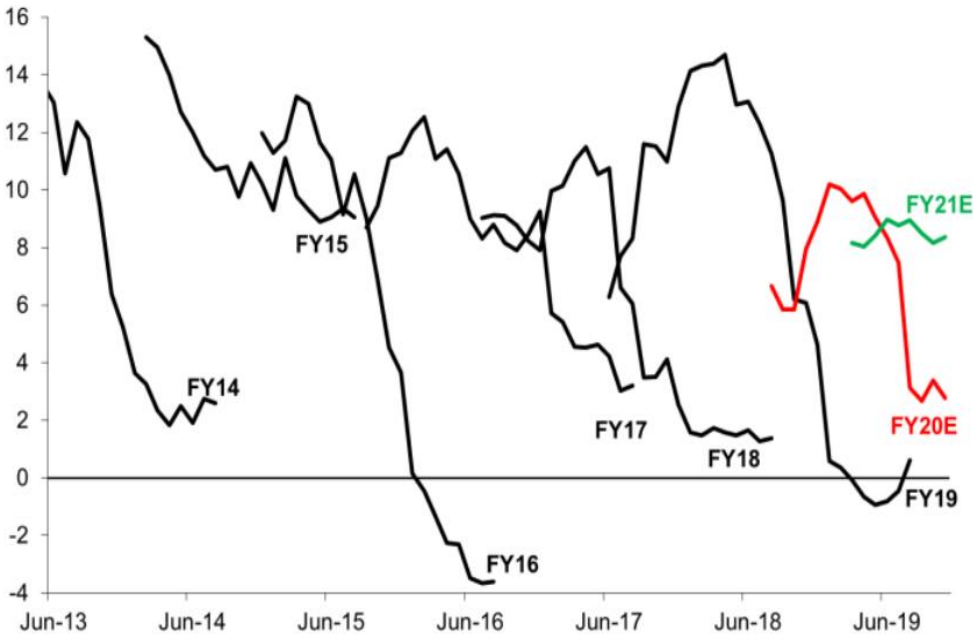


Source: Contact Asset Management, Factset.

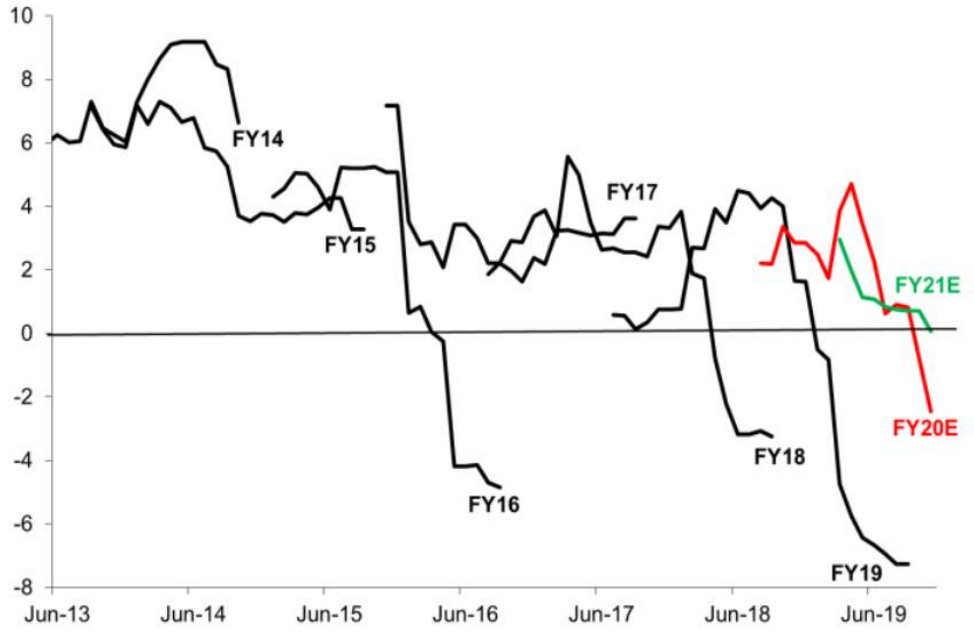
# Cautious of Forward EPS Forecasts

*Very rarely does the market get it right!*

Declining EPS Forecasts – Industrials



Declining EPS Forecasts – Banks



Source: Contact Asset Management, Macquarie Research, Bloomberg, Factset

# Global Exposure

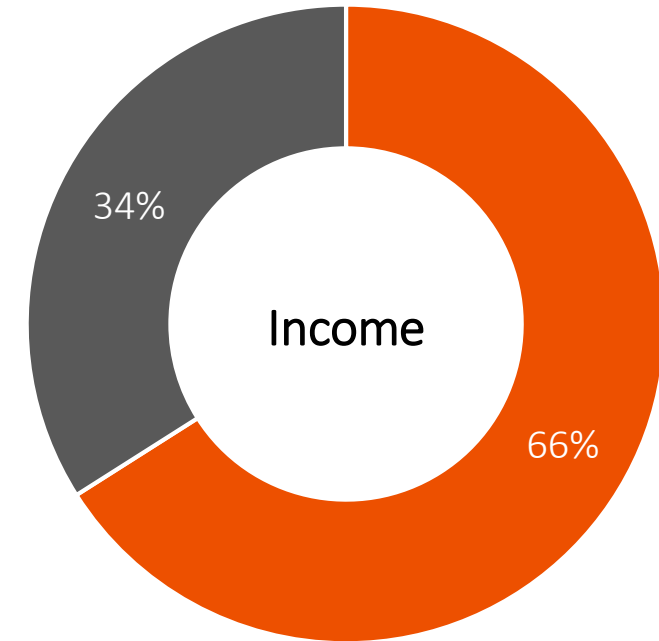
*Providing shareholders with global exposure without the large management fees*



## Diversification across geography and activity

Over the last decade Macquarie has undergone the largest and most successful international expansion by any Australian-domiciled bank significantly transforming the business.

As the world's largest infrastructure asset manager Macquarie provides exposure to the increasing demand for infrastructure investment with US\$45 trillion required globally by 2030.



■ International ■ Domestic

# Global Exposure

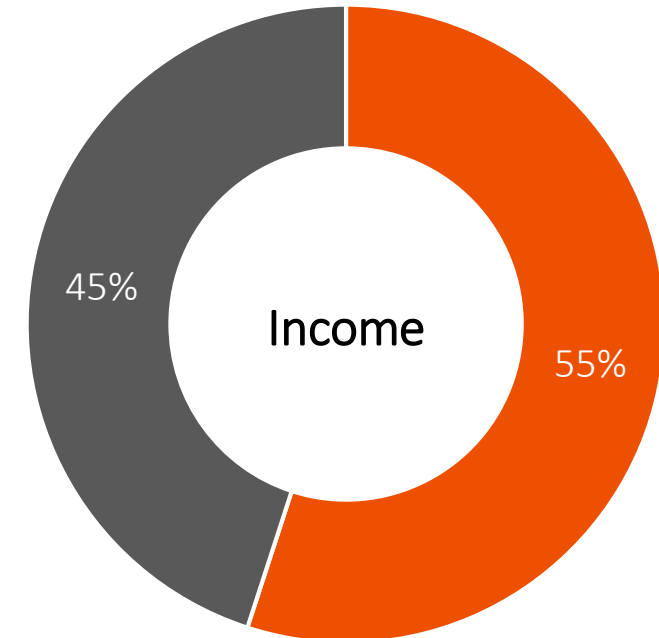
*Providing shareholders with global exposure without the large management fees*



**Major global private hospital operator across 11 countries**

Ramsay Healthcare operates in regions expected to see a strong increase in health care spending as a percentage of GDP and high growth in the 65+ population.

These tailwinds combined with a management team with a proven track record of investing for future growth will allow the Company to continue to grow earnings and dividends.



■ International ■ Domestic

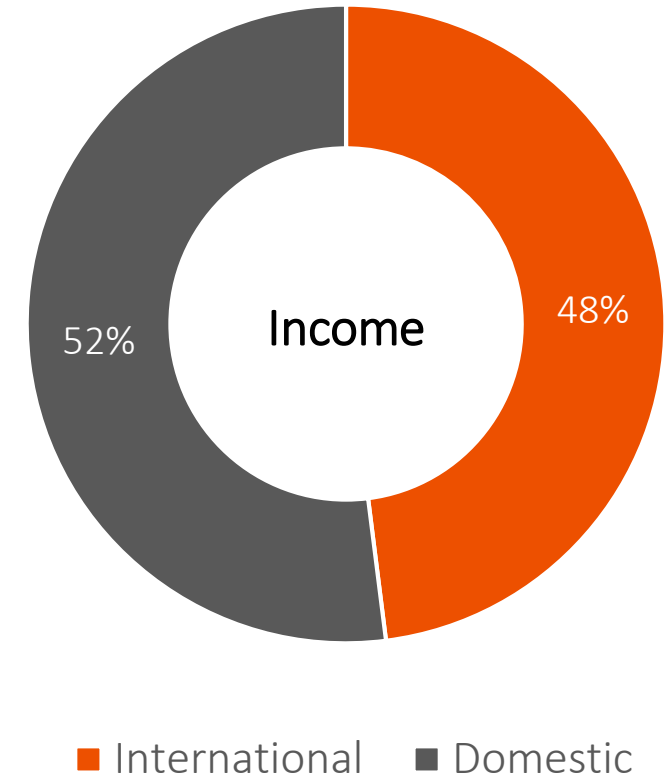
# US Growth Opportunities



## US market fundamentals to drive future growth

The acquisition of Morsco has provided Reece entry into the fragmented US\$32 billion plumbing market with solid consolidation opportunities. Ageing residential stock and population growth in the Sunbelt region above the national average will drive demand growth.

These tailwinds combined with a management team that is customer focused, experienced and aligned provide us with the confidence that they can continue to deliver solid returns for shareholders over the medium to long term.



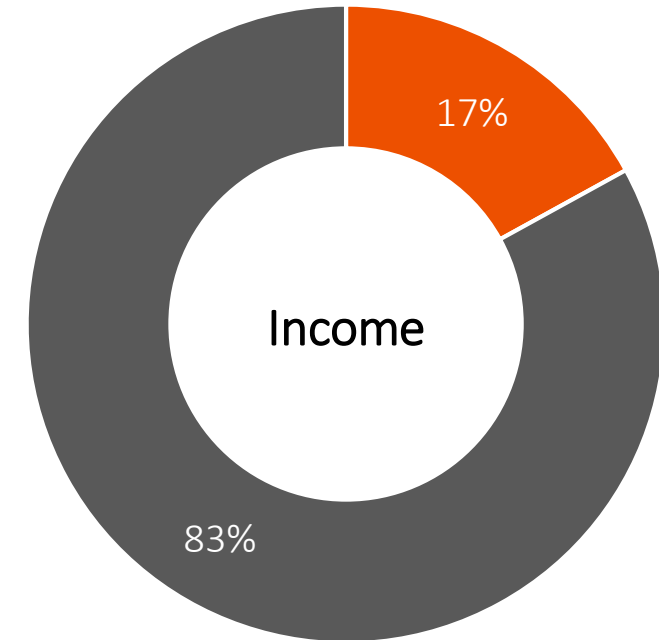
# US Growth Opportunities



## Attractive market with consolidation opportunities

Since entering the US market in November 2018 through the acquisition of Glen-Gery, Brickworks' have acquired Sioux City Bricks and Redland Brick establishing a business of significant scale in North America. While the US brick industry is consolidating it remains over 20 years behind Australia with 37 manufacturers compared to five in Australia.

Favourable market conditions including tax cuts, housing recovery, low interest rates and low labour and energy costs will drive future growth.



■ International ■ Domestic



# US Growth Opportunities

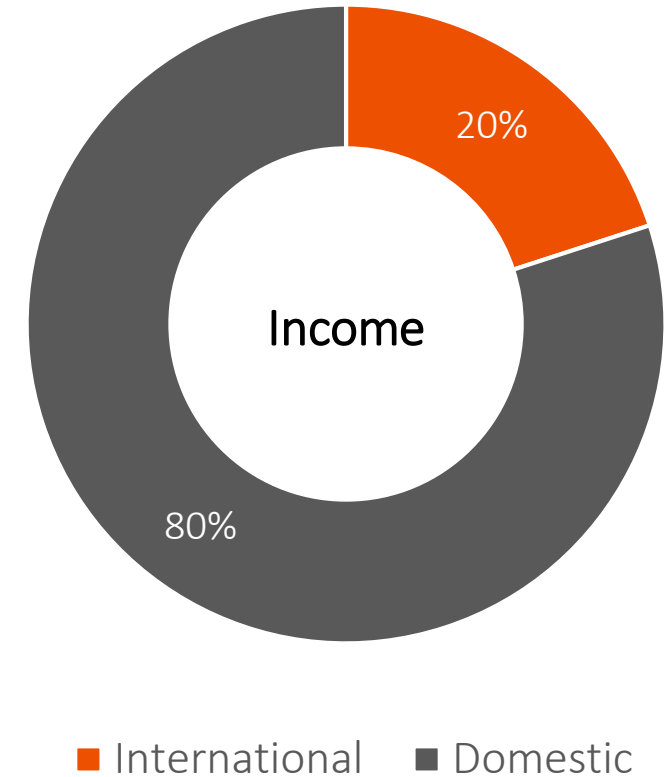


## Teaming up with Ford

ARB's export segment is a key growth area. In FY2019 the US was ARB's second highest growth region benefiting from a shift in consumer preference to SUVs and 4x4. SUVs as a percentage of vehicle sales in the US are expected to grow from 15% in 2013 to 50% in 2020.

ARB recently announced a partnership with Ford to co-develop off-road parts. This highlights the benefits of a culture focused on continuous product development which has been and will continue to be crucial for maintaining the Company's long term competitive advantage.

Source: ARB Corporation. By 2020, SUVs could make up 50% of US car sales, Quartz.



# The Chinese Consumer

*Rising middle class driving growth opportunities*



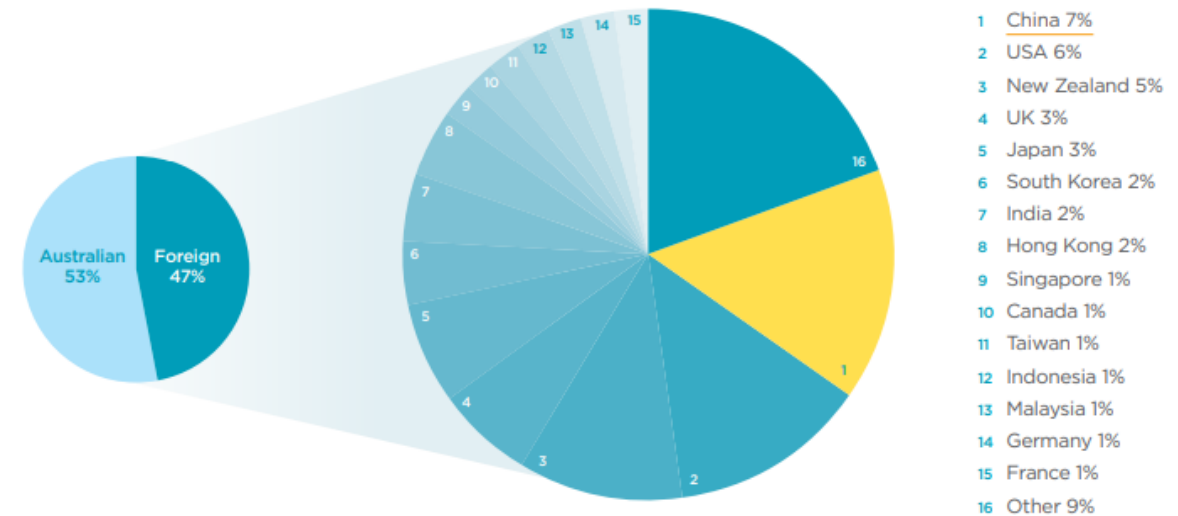
## Investing for future passenger growth

In 2018 Chinese residents made 149.7m foreign trips, up from 10.5m in 2001 1,326%. Over the next 10 years this number is expected to double as passport ownership increases from 10% of the population to 20%.

Over the next 20 years SYD forecast total passenger numbers increasing by 21m to 66m. International passengers are expected to account for the majority of this growth.

Source: The World in 2020, The Economist. Sydney Airport.

## Sydney Airport Inbound Markets



# The Chinese Consumer

*Rising middle class driving growth opportunities*



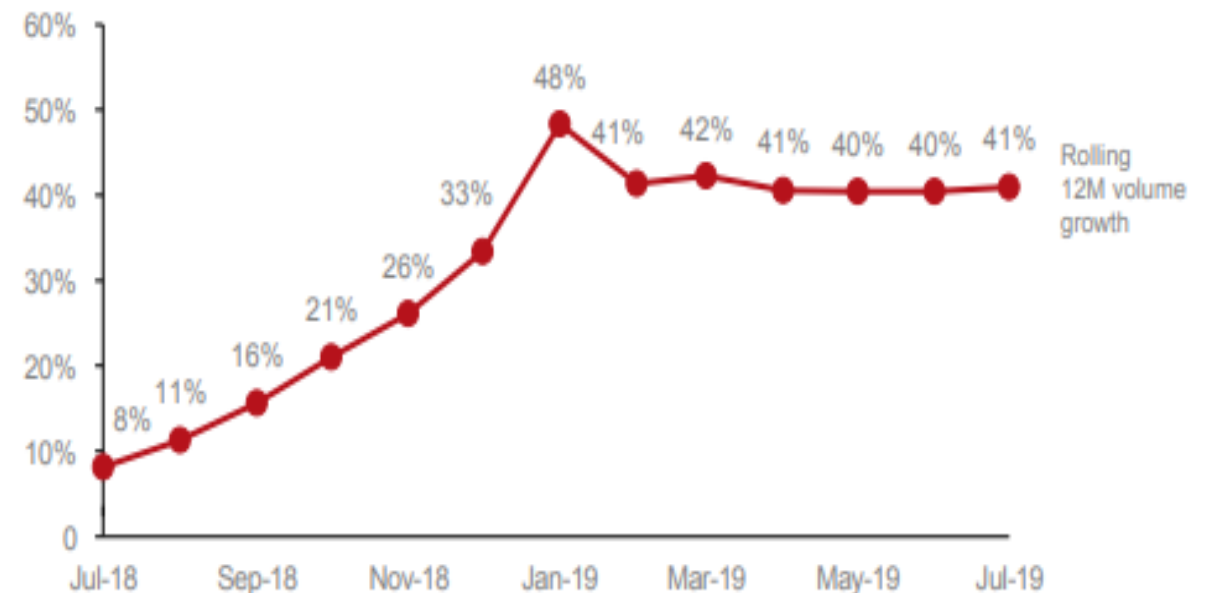
TREASURY  
WINE ESTATES

## Attractive market for TWE's strategy and brands

China is experiencing growth in wine consumption and premiumisation as consumers shift towards perceiving grape wine as a symbol of social status.

With only 3.4% market share of China's imported wine these trends provide an opportunity for TWE's premiumisation strategy to benefit and gain market share.

## China e-commerce Wine Sales Growth



# BKI Overview

*Benefits of investing in BKI*



*BKI is managed by Contact Asset Management  
AFSL 494045*



# Benefits of Investing in BKI



## ***Income Focused***

Predictable, fully franked income stream. 10 years of stable or growing dividends.



## ***Low Fee Structure***

Managed for 0.10%, no performance fee.



## ***Alignment***

BKI Directors and Portfolio Managers are shareholders creating strong alignment of interests.



## ***Long Term Performance***

History of delivering attractive returns over the long term.  
15 year TSR of 10.2% p.a.



## ***Actively Managed, Research Driven***

BKI benefits from an experienced Board and Investment Manager.



## ***Attractive Dividend Yield***

6.2% Grossed up dividend yield compared to a cash rate of 0.75%.

## Notes

## Notes