

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

ASX Announcement

ASX AND MEDIA RELEASE – BKI FY2018 RESULTS



18 July 2018

BKI Grows Net Operating Result by 6%

FY2018 Performance Highlights

	FY 2018	FY 2017	Growth
Income from Operating Activities*	\$48.1m	\$44.5m	8%
Net Operating Result*	\$44.2m	\$41.8m	6%
Earnings Per Share*	7.10cps	6.93cps	3%
Total Ordinary Dividend Per Share	7.325cps	7.30cps	1%
Management Expense Ratio (MER)	0.16%		

* Excluding special investment revenue

BKI Performance Overview

BKI Investment Company Limited (“BKI”) today announced its Full Year Results to 30 June 2018. It was another successful year for BKI Investment Company with the Net Operating Result before special investment revenue increasing from \$41.8m to \$44.2m, an increase of 5.8%. Basic Earnings per Share before special dividend income was up 2.5% to 7.1cps.

The result was driven by higher dividends received from New Hope Corporation, AGL Energy, BHP Billiton, Woolworths Limited, Sydney Airport, Flight Centre and Macquarie Group. Lower dividends received from TPG Telecom, Telstra Corporation and Tabcorp Holdings had a negative impact on the result, while revenues from bank deposits continue to be low.

BKI’s total portfolio value grew over the year from \$999m to \$1,182m. BKI’s Pre Tax NTA per share as at 30 June 2018 was \$1.63, up from \$1.61 a year ago.

Total Shareholder Return including franking credits for the year to 30 June 2018 was 0.1%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.2% over the same period. 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 30 June 2018 was positive 5.6%.

BKI’s Total Shareholder Returns including Franking Credits for 5 years, 10 years and 14 years has delivered 7.9% per annum, 9.6% per annum and 10.3% per annum respectively.

Dividends

The BKI Board has declared a FY2018 Final Dividend of 3.700cps, increasing total Dividends to 7.325cps in respect of FY2018, up from the 7.300cps in Dividends paid last year. New shares that were issued under the recent BKI capital raising are entitled to the FY2018 Final Dividend. Like all previous dividends paid to shareholders, FY2018 Final Dividend is fully franked.

BKI had Retained Profits as at 30 June 2018 of \$47.03m prior to declaration of the FY2018 Final Dividend. BKI will have an estimated \$16.7m net imputation credits available for future dividends following payment of the FY2018 Final Dividend.

BKI has been listed since December 2003, and during this time, the Company has paid out over \$500m or 90.2cps in dividends to BKI shareholders.

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 trading date to be eligible for the FY2018 Final Dividend is Thursday 9 August 2018.

Key dates for the fully franked Final Dividend are as follows:

Event	Date
Last trading date to be eligible for the Final Dividend	Thursday 9 August 2018
Ex-Dividend Date	Friday 10 August 2018
Record Date	Monday 13 August 2018
DRP Nomination	Tuesday 14 August 2018
Payment Date	Wednesday 29 August 2018

Management Expense Ratio (MER)

BKI's MER as at 30 June 2018 was 0.16%. 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.

Entitlement Offer

In May and June this year, BKI conducted a 1:15 non-renounceable pro-rata Entitlement Offer to eligible shareholders at an offer price of \$1.50 per share. There was also a Shortfall Offer to shareholders who wished to apply for additional new shares in excess of their pro-rata entitlement as well as a General Offer to new investors. There was strong support from both existing shareholders and new investors for the BKI capital raise, with the offers raising a total of \$154.5 million.

Portfolio Movements

BKI's total investments over FY2018 was approximately \$93.8m, with major long term investments including; Pandal Group (formally BT Investments), Tabcorp Holdings (after the merger between Tabcorp Holdings and Tatts Group), Macquarie Group, BHP Billiton, Ramsay Healthcare, Amcor Limited, APA Group and Transurban Group.

We also added new positions in Goodman Group, Harvey Norman, Evans Dixon and Inghams Group to the BKI Portfolio during the year.

Disposals totalled approximately \$79.5m, with the main disposals including AMP Limited, Coca-Cola Amatil, GrainCorp Limited, Primary Healthcare, Santos Limited, Scentre Group and Westfield Corporation. Tatts Group Limited merged with Tabcorp Holdings during the year; following a disappointing first result by the combined group, which included a cut in the dividend, BKI sold the entire Tabcorp Holding position.

We also sold down positions in Commonwealth Bank, IOOF Holdings and Brambles Limited.

Transurban Group and Woodside Petroleum raised capital during the year through renounceable entitlement offers. BKI's entitlements in both these companies were traded on market for a small profit.

Top 25 Investments

	Stock	% of Total Portfolio
1	National Australia Bank	6.4%
2	Westpac Banking Corporation	5.8%
3	Commonwealth Bank	5.7%
4	Wesfarmers Limited	4.3%
5	New Hope Corporation	3.7%
6	ANZ Banking Group	3.7%
7	APA Group	3.7%
8	Macquarie Group	3.1%
9	Transurban Group	3.0%
10	Woolworths Limited	2.8%
11	BHP Billiton	2.7%
12	Sydney Airport	2.6%
13	AGL Energy Limited	2.4%

	Stock	% of Total Portfolio
14	IAG Limited	2.3%
15	TPG Telecom	2.1%
16	Telstra Corporation	2.0%
17	ASX Limited	2.0%
18	Sonic Healthcare	1.9%
19	ARB Corporation	1.8%
20	Woodside Petroleum	1.8%
21	Invocare Limited	1.7%
22	Ramsay Healthcare	1.5%
23	Challenger Limited	1.5%
24	Suncorp Group	1.5%
25	Flight Centre	1.5%
Cash and cash equivalents		15.9%
Total of Top 25 including cash and cash equivalents		87.4%

Outlook

It has been an exciting 12 months with the S&P/ASX 300 Index again generating very strong returns. While many Australian investors continue to search for yield and income, the focus from investors during FY2018 was skewed towards companies who provided growth. However, when investors chase growth, increase risk and begin to pay high multiples for companies, markets can become volatile.

Traditionally we are happy with stable markets; however, when you get moments of large volatility it can prove to be a great opportunity for long-term investors. This volatility could remain into the FY2019 year with the Royal Commission into the Australian banking system shaking up the financial services industry, while the debate surrounding imputation credits sends shivers down the spine of any Australian who invests in dividend paying companies.

Despite the chase for growth seen in this past year, we are confident that continuing low interest rates will discourage investors from investing in 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.

The half-yearly reporting season ended with the good quality companies delivering stronger than expected results and company guidance that reflected more buoyant market conditions. Capital management initiatives were also front of mind, with many management teams having the confidence to focus on investing for the future. Announcements of share buybacks, acquisitions and general business investment have been driven by stronger balance sheets, strong cash flows and improved operational certainty. For long-term investors this is certainly a welcome change from achieving earnings growth simply through cost out programs.

The recent entitlement offer has placed the BKI portfolio in a very strong position. Cash represents approximately 16% of the portfolio and BKI has no debt, meaning our shareholders are not asked to fund financing costs. We will continue deploying further funds into the market to ensure BKI achieves its goals of investing for the long term in profitable, high yielding, well managed companies that ultimately deliver wealth for BKI shareholders, through an increasing fully franked dividend and capital growth.

For further information:

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