

# BKI INVESTMENT COMPANY LIMITED

FY2018 RESULTS PRESENTATION



*BKI is managed by Contact Asset Management  
AFSL 494045*



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# FY2018 RESULT HIGHLIGHTS

	2018	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%

# FY2018 RESULT HIGHLIGHTS

Income from Operating Activities

\$48.1m



8%

from FY2017

Net Operating Result

\$44.2m



6%

from FY2017

Earnings Per Share\*

7.10 cents



3%

from FY2017

Management Expense Ratio

0.16%



65%

from FY2008

Total Ordinary Dividend

7.325cps



1%

from FY2017

Total Assets

\$1.2b



11%

from FY2017

Dividend Yield#

6.9%

14Yr Total  
Shareholder Returns#

10.3%<sub>pa</sub>

Management Fee

0.10%

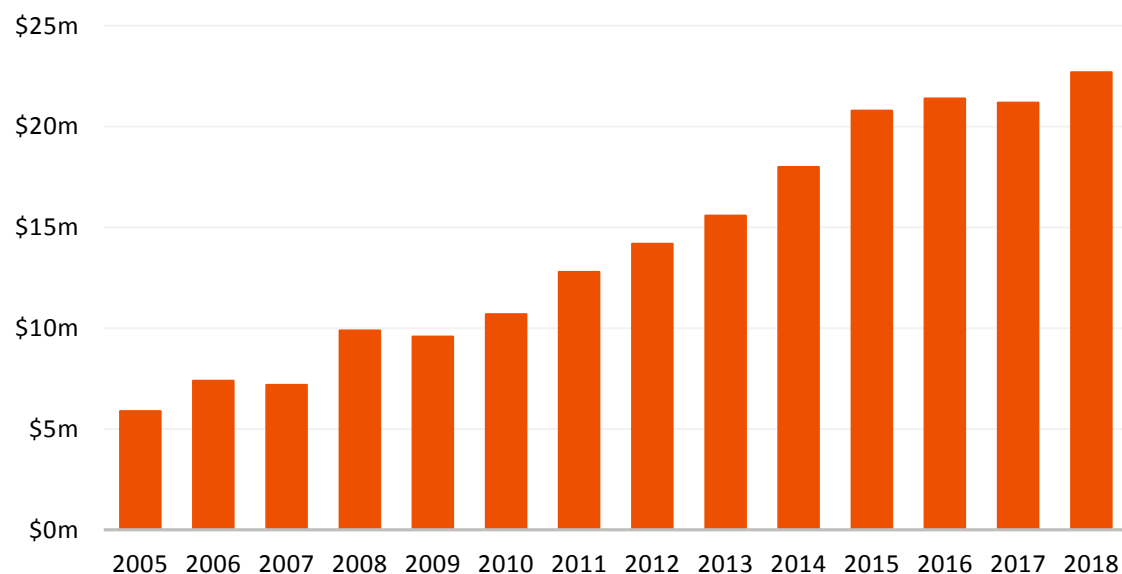
# NET OPERATING PROFITS

Net Operating Result before special investment revenue increased from \$41.8m to \$44.2m, while the Net Profit Attributable to Shareholders decreased 1% to \$45.0m.

Full Year results were mainly driven by higher dividends received from New Hope Corporation, AGL Energy, BHP Billiton, Woolworths Limited, Sydney Airport, Flight Centre and Macquarie Group.

BKI received \$0.8m in special dividend income from Telstra Corporation as well as part consideration of Tabcorp's acquisition of Tatts Group.

## *Net Operating Results*



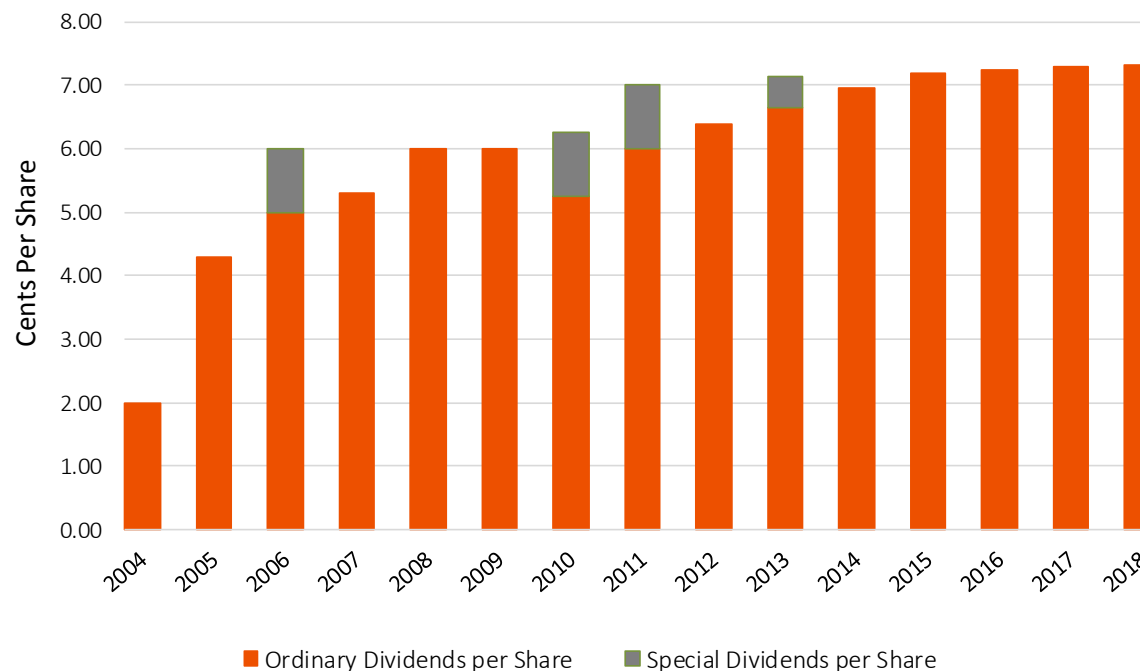
# DIVIDEND HISTORY OF BKI

A fully franked final Ordinary Dividend of **3.700cps** has been declared, including new shares issued under the recent capital raising.

FY2018 total Ordinary Dividends paid was **7.325cps**, up 1% on FY2017.

As at 30 June 2018, BKI's fully franked dividend yield was 4.8% (based on the immediate past 12 Month rolling dividend and share price of \$1.525), while the grossed up yield was 6.9% (assumes a tax rate of 30%).

*BKI Dividends Paid to Shareholders*



*BKI has paid out over \$500m in Dividends and Franking Credits to Shareholders since listing in 2003.*

# FINAL DIVIDEND KEY DATES

The last trading date to be eligible for the Final Ordinary Dividend is Thursday 9th August 2018.

Key dates for the Dividend are as follows:

Ex-Dividend Date	Friday 10 <sup>th</sup> August 2018
Record Date	Monday 13 <sup>th</sup> August 2018
DRP Nomination*	Tuesday 14 <sup>th</sup> August 2018
Dividend Payment Date	Wednesday 29 <sup>th</sup> August 2018

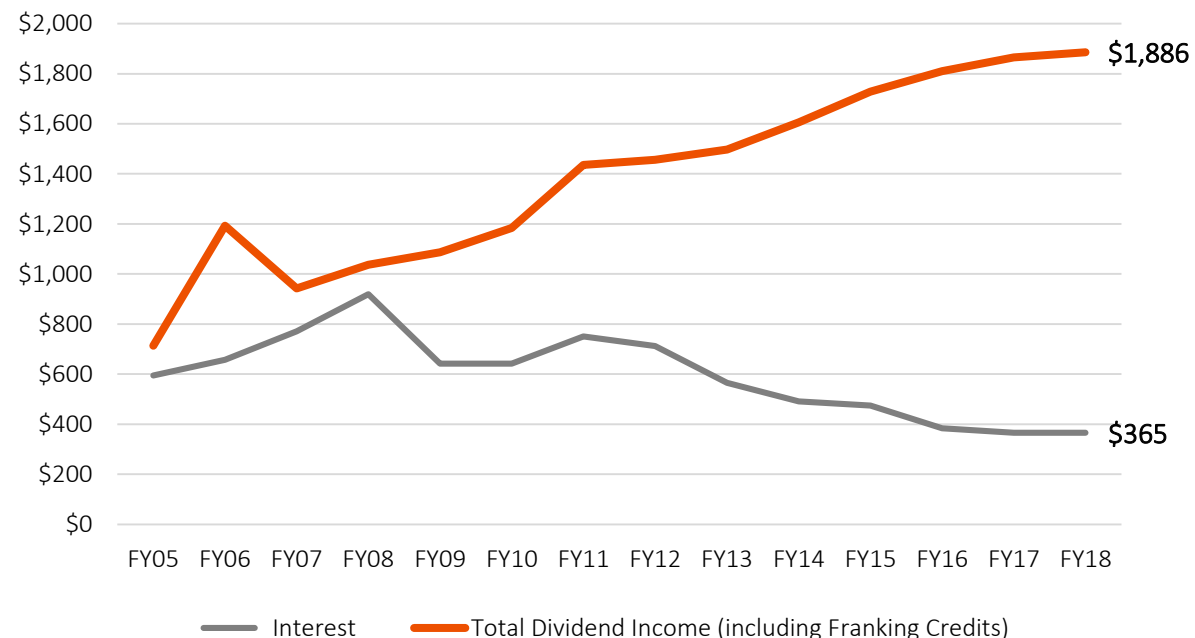
\*BKI's Dividend Reinvestment Plan (DRP) offers shareholders the opportunity to acquire further ordinary shares in BKI. The last day for shareholders to nominate for their participation in the DRP is Wednesday 14th August 2018. The DRP will not be offered at a discount.

# 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 \$1,320pa. The franking credits enhance the income by a further \$566, assuming a tax rate of 30% (total income of \$1,886). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$365pa with no franking credits.

## Long Term Dividend Income



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



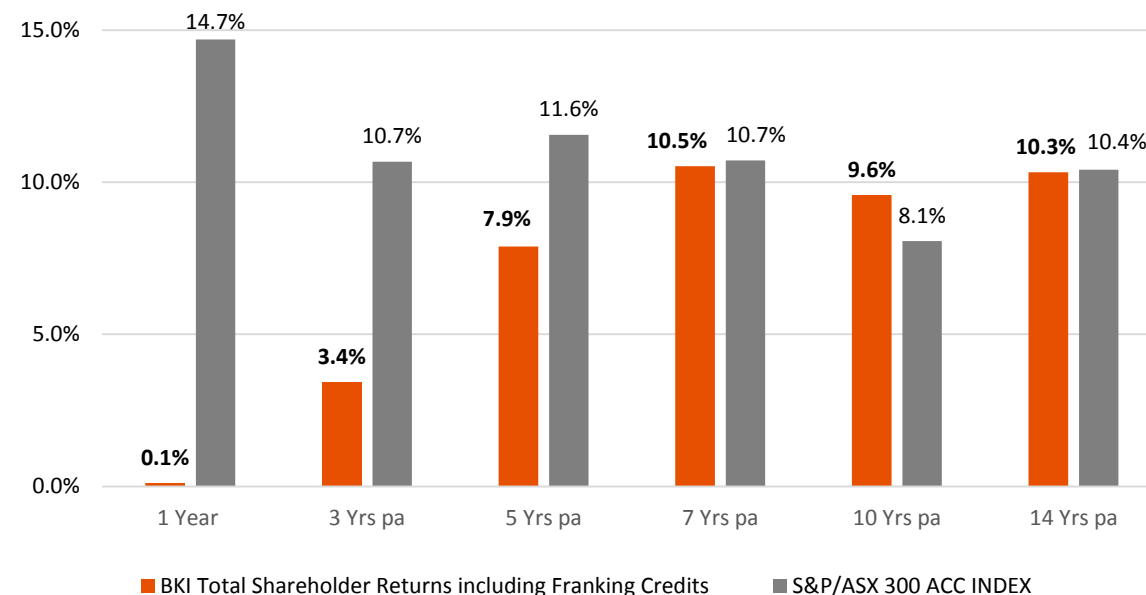


# TOTAL SHAREHOLDER RETURNS

BKI's Total Shareholder Return including franking credits for the year ended 30 June 2018 was 0.1%.

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 5.6%.

## Total Shareholder Returns



# 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% to generate higher returns for our shareholders.

*Cumulative Value (Total Shareholder Returns)*



# POSITIONING BKI FOR THE FUTURE

INCREASING THE PROFILE & BEING RELEVANT  
ACTIVELY MANAGED PORTFOLIO FOR A LOW FEE



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# BENEFITS OF INVESTING WITH BKI



- ✓ **Fully Franked Dividends**  
New shares entitled to July 2018 Final Dividend 6.9% Grossed up dividend yield.
- ✓ **ASX Listed Investment Company**  
A simple and transparent investment vehicle, 14 year track record.
- ✓ **Low Fee Structure**  
Managed for 0.10%, no performance fee.
- ✓ **Attractive Returns**  
14 year Total Shareholder Return of 10.3%pa.
- ✓ **High Conviction Portfolio**  
46 positions, offering diversified sector exposure.
- ✓ **Size and Scale**  
Approx. 17,000 shareholders, Total Assets of \$1.2b.
- ✓ **Research and Ratings**  
Lonsec, IIR, Morningstar, ThreeSixty.

Dividend Yield# <b>6.9%</b>	Management Fee <b>0.10%</b>
14Yr Total Shareholder Returns <b>10.3% pa</b>	Total Assets <b>\$1.2b</b>
<b>Lonsec</b> Recommended	 Recommended Plus

# OUT OF ACTIVE & INTO PASSIVE

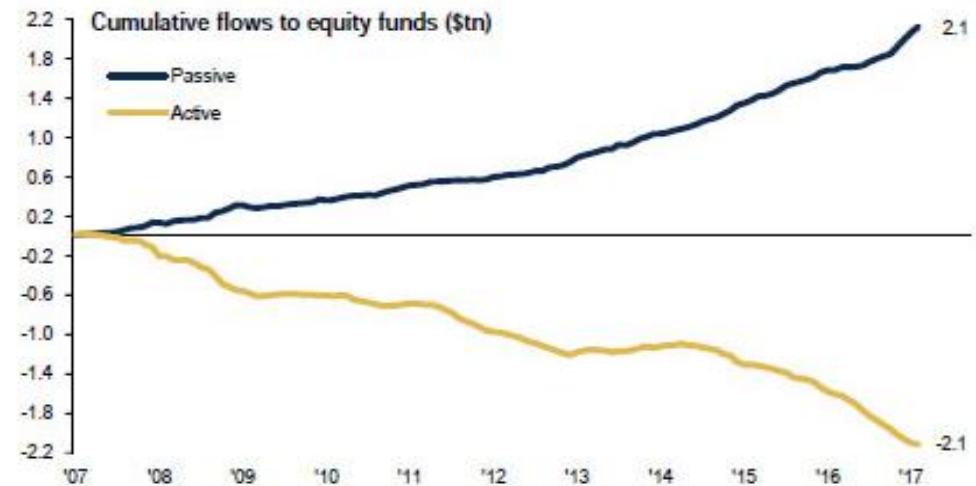
The global flight from investors into passive equity funds and out of actively managed funds has continued.

The flows out of active funds and into passive funds have been significant (the numbers are trillions) and the trend has been accelerating.

The biggest driver of the trend . . . Fees

The focus on low fees for investors is comparable to the BKI experience.

## *Flight to passive funds driven by fees*



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

# THE BIGGEST DRIVER OF THE TREND . . . FEES

Contact’s management fee to BKI is only 0.10%.

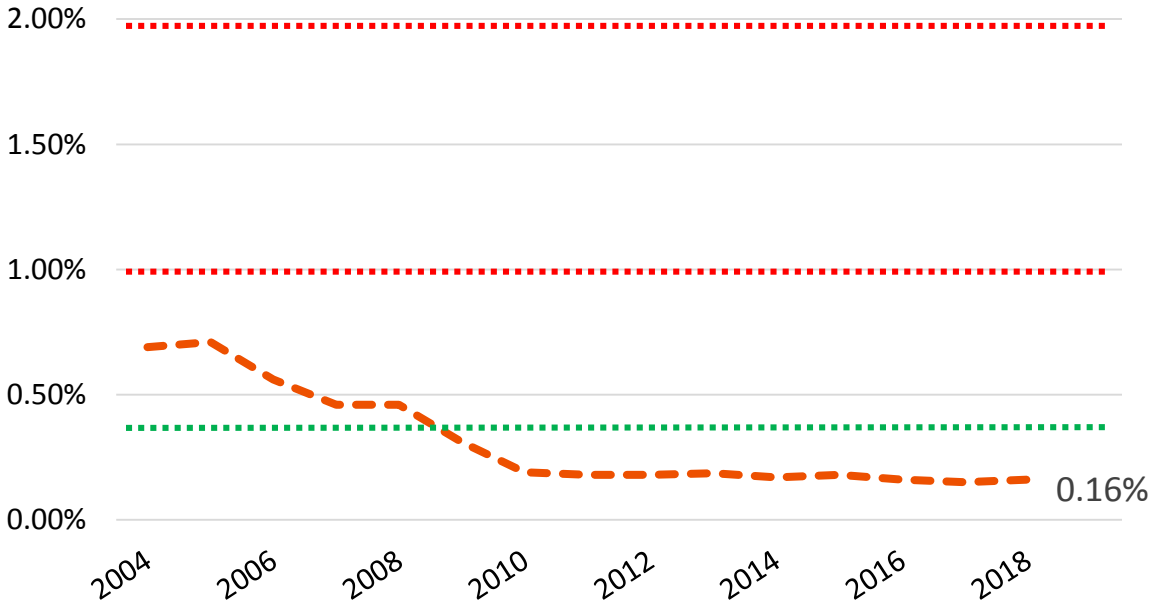
Management Expense Ratio (MER) of 0.16%.

Directors and Portfolio Managers are shareholders in BKI. We focus on dividend payments – not generating excessive fees.

BKI doesn’t have any debt and as such Shareholders aren’t hit with significant finance costs in servicing debt.

*There is no Performance Fee charged to BKI shareholders.*

*Focused on keeping costs low*



- Typical Investment Industry Products
  - Actively Managed Fund @ 1.00% to 2.00%
  - Passive ETF @ 0.30%
- Actively Managed, Low Cost Investment Product
  - BKI Investment Company



# POSITIONING THE PORTFOLIO

ALWAYS LOOKING FOR OPPORTUNITIES



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# 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

Investing for the long term in dividend yield, dividend growth and earnings growth.

## Investment Portfolio Purchases

1. Pental Group
2. Tabcorp Holdings
3. Macquarie Group
4. BHP Billiton
5. Ramsay HealthCare
6. Amcor Limited
7. APA Group
8. Transurban



## New Portfolio Positions

1. Goodman Group
2. Harvey Norman Holdings
3. Inghams Group
4. Evans Dixon



# PORTFOLIO POSITIONING – INVESTMENT EXAMPLES



Global developer and manager of industrial assets.

### What we like:

- Seven years of dividend growth.
- Over the last 10 years focused on repositioning their portfolio to include well located, high quality assets.
- Strong balance sheet with debt to equity around 8%.
- Run by Co-founder Greg Goodman since 1998.

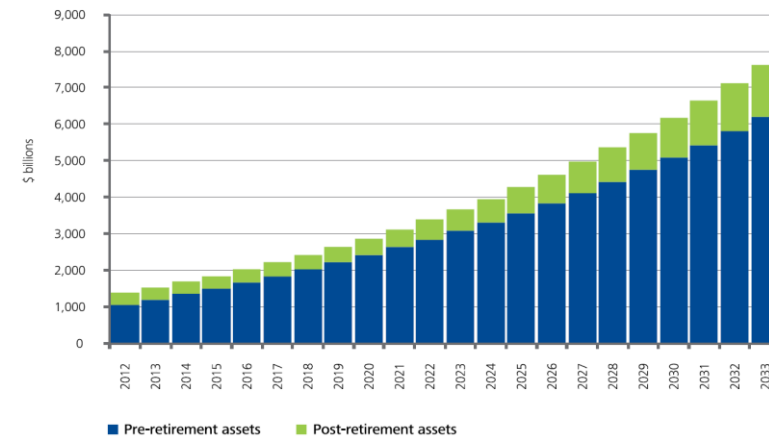
### South Sydney inventory converted to mixed use from 2008 to 2018



Financial services business focused on wealth advice, capitals markets and funds management.

### What we like:

- Industry growth driven by growing number of affluent and high net worth individuals, Australia's compulsory superannuation increasing from 9.5% to 12% and Australia's growing population.
- Attractive future dividend growth.
- Strong alignment: Chairman David Evans and Managing Director Alan Dixon are substantial shareholders in the Company.



Source: APRA and Deloitte Actuaries & Consultants 2015

# PORTFOLIO POSITIONING – INVESTMENT EXAMPLES

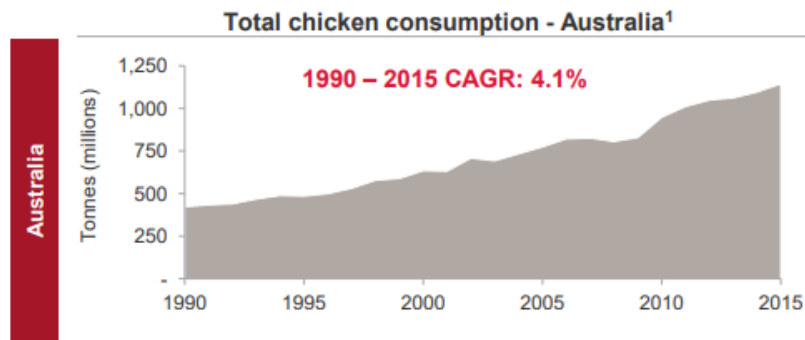


## Inghams

Vertically integrated poultry producer across Australia and New Zealand.

### What we like:

- Strong operating history going back to 1918.
- One of the two largest players who together hold between 75-80% of the market.
- Grossed up Fully franked Dividend Yield of 7.5% and stable growth.
- Strong returns: 20% Return on Equity and 26% Return on Invested Capital.
- Future growth driven by consumer trends and affordability of chicken relative to other animal proteins.

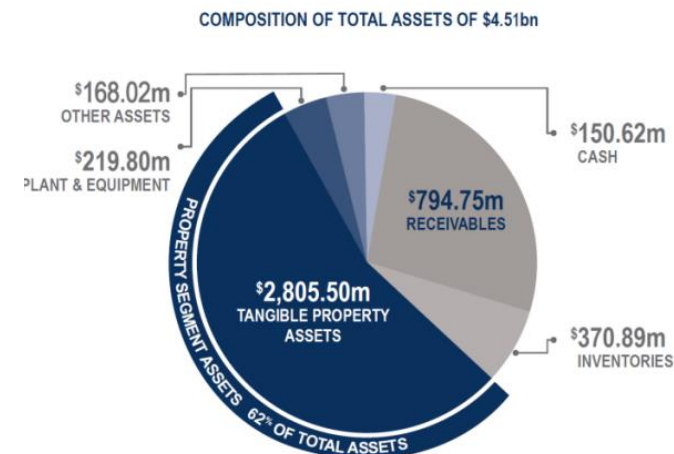


## Harvey Norman

Multi-national retailer of furniture, bedding, computers, communications and consumer electrical products.

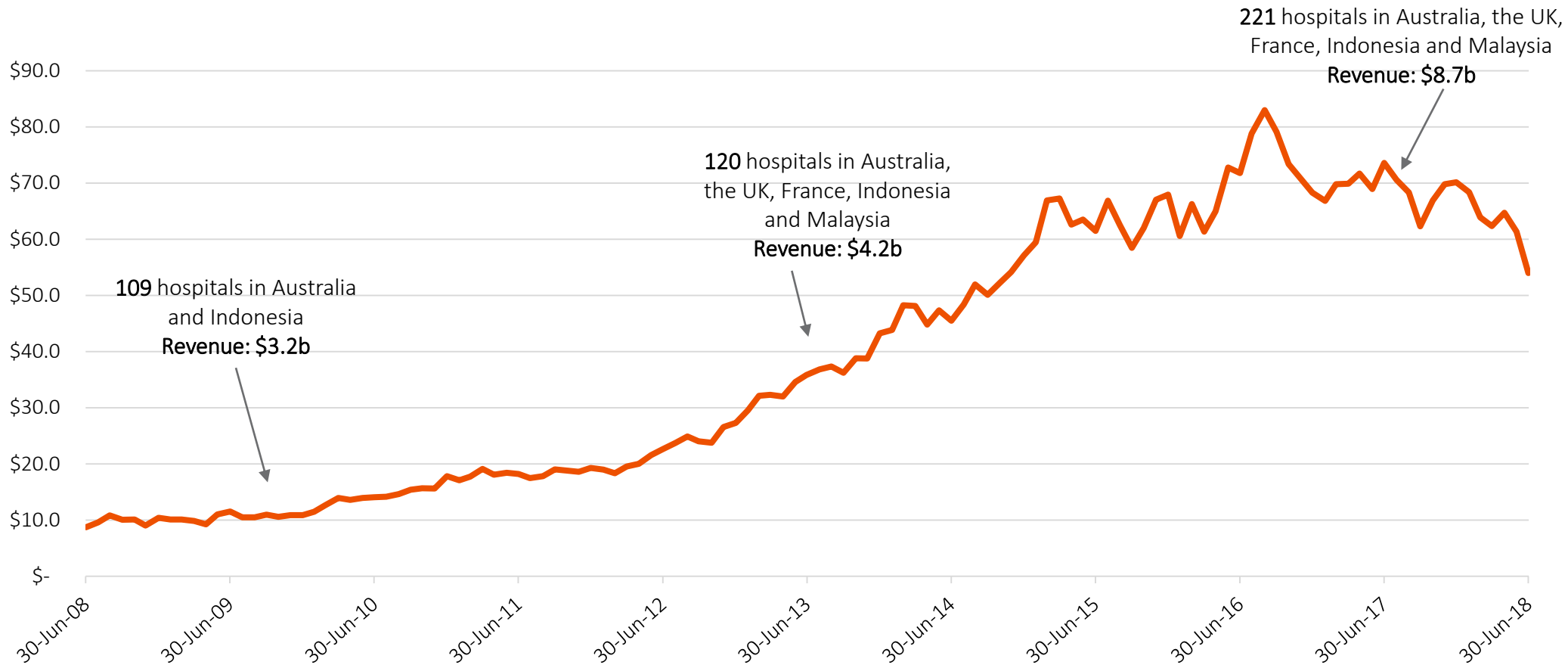
### What we like:

- Property portfolio valued at \$2.81b (December 2017).
- Price to book value at 1.3x.
- Grossed up Fully Franked, Dividend Yield of 9.9%.
- Strong alignment exists between the Company and Chairman/Co-founder, Gerry Harvey, who owns circa 30% of the Company.
- Stable retail sales supported by population growth and demand for residential housing to continue.



# LONG TERM INVESTING – RAMSAY HEALTHCARE

Fundamentals have not changed: Strong management team, increasing dividends and industry growth driven by a growing and ageing population.



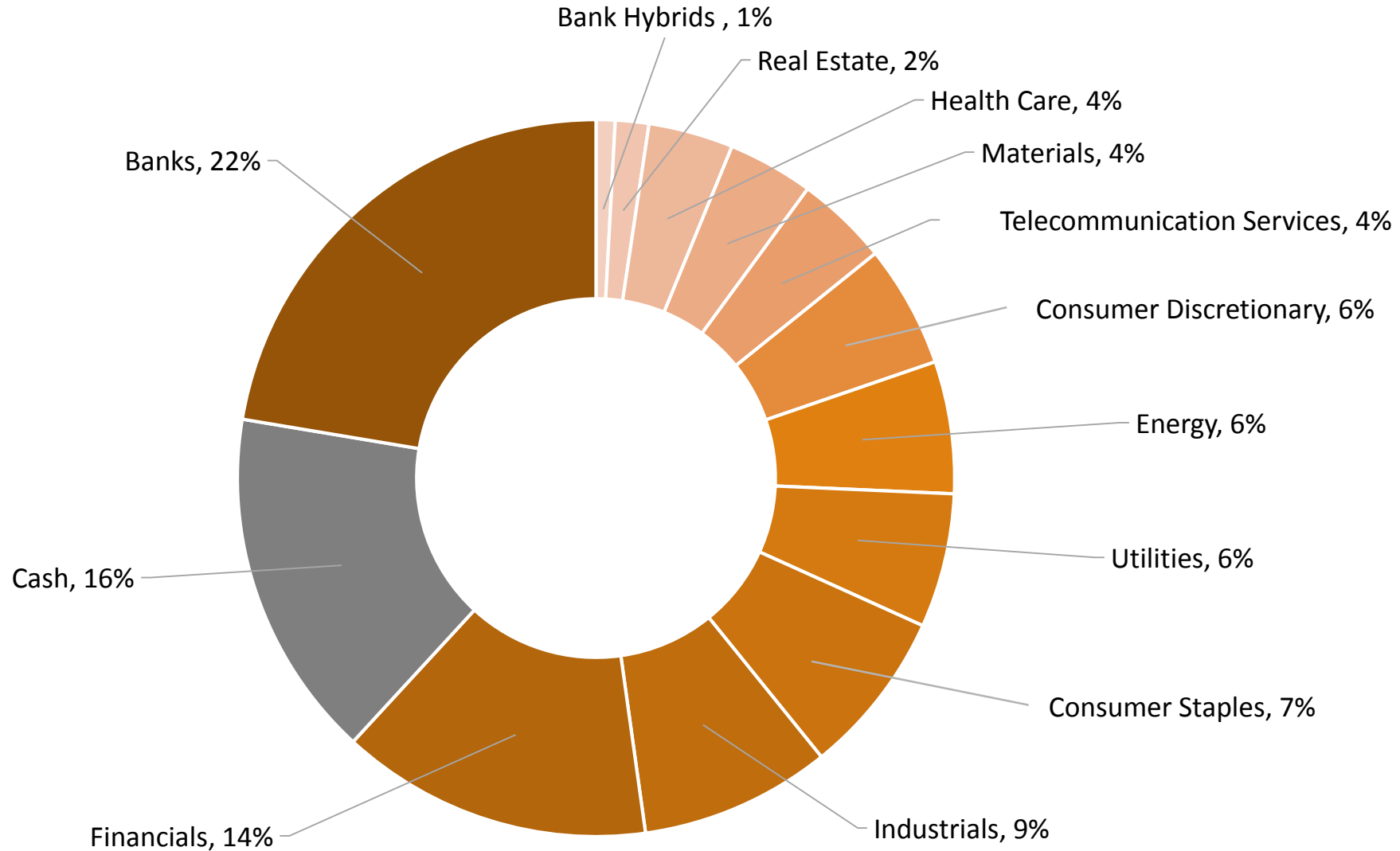
# TOP 25 INVESTMENTS

AS AT 30 JUNE 2018

<i>Stock</i>	<i>% of Total Portfolio</i>	<i>Stock</i>	<i>% of Total Portfolio</i>
1 National Australia Bank	6.4%	14 IAG Limited	2.3%
2 Westpac Banking Corp	5.8%	15 TPG Telecom	2.1%
3 Commonwealth Bank	5.7%	16 Telstra Corporation	2.0%
4 Wesfarmers Limited	4.3%	17 ASX Limited	2.0%
5 New Hope Corporation	3.7%	18 Sonic Healthcare	1.9%
6 ANZ Banking Group	3.7%	19 ARB Corporation	1.8%
7 APA Group	3.7%	20 Woodside Petroleum	1.8%
8 Macquarie Group	3.1%	21 Invocare Limited	1.7%
9 Transurban Group	3.0%	22 Ramsay Healthcare	1.5%
10 Woolworths Limited	2.8%	23 Challenger Limited	1.5%
11 BHP Billiton	2.7%	24 Suncorp Group	1.5%
12 Sydney Airport	2.6%	25 Flight Centre	1.5%
13 AGL Energy Limited	2.4%	Cash & Cash Equivalents	15.9%
		<b>Total</b>	<b>87.4%</b>

# PORTFOLIO POSITIONING

As at 30 June 2018



# MAIN SHAREHOLDER PRESENTATIONS

## Sydney

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11.00am

Wednesday 18<sup>th</sup> July 2018

Brickworks Design Studio  
2 Barrack Street, Sydney

## Melbourne

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11.00am

Thursday 19<sup>th</sup> July 2018

Brickworks Design Studio  
490 Swan Street, Richmond, Melbourne

## Brisbane

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11.00am

Monday 23<sup>rd</sup> July 2018

Brickworks Design Studio  
27 James Street, Fortitude Valley, Brisbane

## Adelaide

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11.00am

Tuesday 24<sup>th</sup> July 2018

Brickworks Design Studio  
70 Hindmarsh Square, Adelaide

One-on-One Meetings may be available upon request  
Please call Contact Asset Management; +61 2 9238 0522

# 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	\$1,106m
Debt	\$0
Management Expense Ratio*	0.16%
Performance Fee	N/A
Rolling 12 Month Dividend**	7.325cps
Historical Dividend Yield	4.8%
Percentage Franked	100%
Grossed Up Yield***	6.9%
Dividend Distribution Frequency	Half Yearly
Dividend Payout Policy	90%-95%
Dividend Reinvestment Plan	Active

<b>Investment Manager</b>	
	Contact Asset Management
	Level 1
	160 Pitt Street Mall
	Sydney NSW 2000

<b>Research and Ratings</b>	
Lonsec	Recommended
IRR	Recommended Plus
Morningstar	Neutral
ThreeSixty	Approved

<b>Contact Us</b>	
Website	www.bkilimited.com.au
E-Mail	info@bkilimited.com.au
Tom Millner	0408 754 180
Will Culbert	0410 627 378
Jaime Pinto	02 9210 7000