

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868



ASX and Media Release

17 July 2020

Despite a Difficult Year, BKI to Pay Another Special Dividend

Result excluding special investment revenue	2020	2019	Movement
Investment revenue – ordinary	\$45.4m	\$52.3m	-13%
Revenue from operating activities	\$46.7m	\$54.3m	-14%
Net operating profit after tax	\$41.6m	\$49.2m	-15%
Earnings per share	5.67c	6.75c	-16%
Dividends per share	5.945c	7.325c	-19%
Result including special investment revenue	2020	2019	Movement
Net operating profit after tax	\$48.6m	\$74.7m	-35%
Earnings per share	6.63c	10.26c	-35%
Special dividends per share	1.00c	2.50c	
Total dividends per share	6.945c	9.825c	-29%

BKI Performance Overview

BKI Investment Company Limited (“BKI”) announced its 2020 Full Year results today. Due to the COVID-19 economic crisis, Australian equity investors have recently experienced a significant cut to dividends, with many companies deferring or even cancelling dividend payments altogether.

BKI’s income and profits were not immune. In an extremely difficult year, BKI’s Ordinary Investment Revenue was down 13% to \$45.4 million. This result was negatively impacted by lower ordinary dividends received from Woodside Petroleum, AGL Energy, SEEK, Regis Healthcare, Transurban Group, New Hope Corporation, National Australia Bank and Macquarie Group. This was exacerbated in the second half of the year when Harvey Norman, Sydney Airport, ANZ Bank and Westpac Banking Corporation did not pay an ordinary dividend at all.

BKI realised \$0.7 million from the trading portfolio, after participating in the National Australia Bank and LendLease Limited capital raisings. BKI’s interest received was \$0.6 million, down 68% on FY2019.

The fallout from the COVID-19 economic crisis has been significant. BKI’s Net Operating Profit After Tax, before special investment revenue, was \$41.6 million, a decrease of 15% over the previous corresponding period. BKI’s basic earnings per share before special investment revenue decreased 16% to 5.67 cents per share.

Special Dividend Revenue was again a feature with BKI receiving \$7.2 million in Special Dividend Revenue over the year. Special Dividends were received from Telstra Corporation, Harvey Norman and Orora Limited. Also, during the period, TPG Australia received the final court approval which will now see TPG Australia merge with VHA (Vodafone Hutchinson Australia). As part of the merger, TPG Australia spun-off Tuas Limited (TUA), who will now be the owner of the TPG

Singapore business. As an existing shareholder of TPG Australia, BKI received one share in Tuas Limited via an In-Specie Dividend of Tuas shares for every two TPG Australia shares. This has been recognised in FY2020 by BKI as a \$1.9 million fully franked special dividend. Shareholders in TPG Australia were also rewarded with a \$0.516 fully franked special dividend following approval of the Scheme. BKI has therefore been able to recognise a further \$3.0 million in special dividend income in FY2020.

BKI's Net Operating Profit After Tax, including special investment revenue for FY2020 was \$48.6 million, down 35% on the previous corresponding period. The main contributing factor for BKI's significant decrease in Net Operating Profits from the previous year was due to the large number of special dividends received in FY2019 after the acceleration of payments by many companies reacting to the possible threat of legislation to remove the benefit of franking credits. The special dividends received in FY2019 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.

BKI's basic earnings per share, including special investment revenue, decreased 35% to 6.63 cents per share.

Dividend Information

Given the current economic situation, and the pressure placed on the significant cuts to dividends received, the BKI Board has declared today a final ordinary dividend of 2.32cps, as well as a 1.00cps special dividend, both fully franked at a tax rate of 30%. This takes total dividends paid for the FY2020 year to 6.945cps. This is BKI's eighth special dividend paid to shareholders since listing in 2003.

Based on the 3.625cps FY2020 interim dividend and 2.32cps FY2020 final dividend, the current BKI dividend yield is 4.3%, grossed up to 6.3%, based on a tax rate of 30% and a share price of \$1.385, as at 30 June 2020.

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 11 August 2020. To complete a DRP form please follow the following link: <https://bkilimited.com.au/dividend-information/>

The last trading day to be eligible for BKI's fully franked dividends is Thursday 6 August 2020.

Key dates for the dividends are as follows:

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

Management Expense Ratio (MER)

BKI's MER as at 30 June 2020 was 0.17%. The Board and 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. Our focus is on creating wealth for all shareholders by keeping costs low, increasing fully franked dividends and generating capital growth over the long-term. BKI has no debt and thus shareholder returns are not diluted by the interest payable on such a facility.

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.

Performance

For the year to 30 June 2020, the S&P/ASX 300 Accumulation Index return was negative 7.6%. BKI's Total Shareholder Return was negative 7.1%, an outperformance of 0.5%. BKI's Total Shareholder Returns including franking credits for the year to 30 June 2020 was negative 5.0%.

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 2020 was negative 8.2%.

Portfolio Movements

In the first half of this financial year, we made changes to the portfolio through \$55 million of sales, including exiting positions in Boral and Ampol (formally Caltex). We also reduced our overall exposure to the banking sector through sell downs of National Australia Bank, Westpac Banking Corporation and ANZ Banking Group. Over the last three years we have reduced our overall portfolio weighting in the banks from 33% to 15%.

In the second half of the year BKI's sales included the complete divestment of ANZ Banking Group following its failure to pay an interim 2020 dividend, as well as Challenger Limited and CIMIC Group. BKI also sold down partial positions in IAG Limited, Suncorp Group, AGL Energy and Telstra Corporation. Total divestments for the year were \$91 million.

These further divestments in the second half of the year has allowed BKI to reinvest capital into other positions within the portfolio. BKI invested \$128 million during FY2020 with the largest investments being BHP Limited, Macquarie Group, Amcor, Treasury Wine Estates, Harvey Norman Holdings, Transurban Group, New Hope Corporation, TPG Telecom, Sydney Airport and Woodside Petroleum.

Top 25 Investments

	Stock	% of Total Portfolio
1	Macquarie Group	7.2%
2	Commonwealth Bank	6.6%
3	BHP Limited	6.4%
4	APA Group	5.9%
5	Transurban Group	5.3%
6	Woolworths Limited	4.9%
7	Wesfarmers Limited	4.7%
8	TPG Telecom	4.6%
9	National Australia Bank	3.6%
10	Ramsay Healthcare	3.2%
11	ASX Limited	3.1%
12	Sonic Healthcare	2.7%
13	Sydney Airport	2.7%

	Stock	% of Total Portfolio
14	Telstra Corporation	2.5%
15	Woodside Petroleum	2.3%
16	New Hope Corporation	2.3%
17	Westpac Banking Corporation	2.2%
18	Magellan Financial Group	2.1%
19	AGL Energy	1.9%
20	Coles Group	1.8%
21	IAG Limited	1.6%
22	Amcor Corporation	1.6%
23	Invocare Limited	1.6%
24	ARB Corporation	1.6%
25	Goodman Group	1.3%
Cash and cash equivalents		5.5%
Total of Top 25 including cash and cash equivalents		89.2%

Outlook

Australia's economic stimulus packages currently in place have been a significant benefit to the Australian household and consumer during the COVID-19 crisis. The Government's economic support package of almost \$260 billion and the banks 779,458 loan deferrals have been very well received. However, longer-term, we are concerned with forecast unemployment numbers as well as the upcoming completion of deferral payment programs focused on small/medium businesses and individual mortgages will have on the economy.

BKI's Co-Portfolio Manager, Mr Tom Millner, said "We believe that every Australian company has been impacted by the COVID-19 economic crisis, and as we've already seen, it has had a direct negative impact on earnings, balance sheet strength and dividend distributions on many companies within our market. Unfortunately, the way we are viewing the broader economy suggests that the current situation may deteriorate over the next 6-12 months."

This upcoming reporting season is going to be of particular interest to investors. It will be the first time since March 2020 that companies will be able to talk to investors about their business, how they are seeing the current environment and the longer term impacts that COVID-19 will have on their future financial capacity and earnings.

We believe the global economic and social shutdown will cause some long-lasting negative impacts on businesses across our market. There may actually only be a small number of companies that could escape with earnings unharmed, benefiting over the short-term from a change in consumer behaviour or through significant government stimulus packages. These companies could come out of this situation quicker and better than others, however, for the most part we believe that it will be a long and slow road ahead.

"BKI expects that many companies will have difficulty maintaining their dividends in line with last year during the August reporting season. We are also expecting the announcement of many organisation restructures, cost out programs and the possibility of further capital raisings to strengthen balance sheets". Mr Millner said.

"Whilst we are in for an interesting period ahead, which could last for longer than expected, BKI continues to be well positioned with a portfolio of high-quality dividend paying stocks. BKI has available cash and no debt. Even during these difficult times ahead, we will continue to ensure BKI achieves its objective of investing for the long term in profitable, high yielding and well managed companies." he added.

This announcement has been authorised by the Board of BKI Investment Company Limited.

Results Livestream Briefing
Friday 17 July 2020
11:00am AEST

Due to the COVID-19 limitations and travel restrictions, BKI's Portfolio Managers Tom Millner and Will Culbert of Contact Asset Management will host a livestream briefing to discuss the FY2020 results. The livestream will allow live Q&A for our online audience, and we also welcome shareholders to submit questions online either before or during the briefing.

BKI Livestream Briefing Link

<https://www.streamgate.co/bki-financial-year-2020-results>

For further information:

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