ASX / Media Release
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Argo reports profit of $199.5 million and a fully franked final dividend of 14.0 cents per share

Argo Investments Limited (ASX code: ARG), one of Australia's oldest and largest listed investment companies with assets of $5.3 billion and no debt, announces a full year profit of $199.5 million and a fully franked final dividend of 14.0 cents per share.

SUMMARY OF FINANCIAL RESULTS

	2020	2019	*Change*
Profit	**$199.5 million**	$256.6 million*	-22.2%
Earnings per share	**27.8 cents**	36.0 cents*	-22.8%
Final dividend per share (fully franked)	**14.0 cents**	17.0 cents	-17.6%
Full year dividends per share (fully franked)	**30.0 cents**	33.0 cents	-9.1%
Shareholders	**92,342**	86,740	+6.5%
Management Expense Ratio	**0.16%**	0.15%	

*Prior year figures exclude the $36.1 million demerger dividend due to Wesfarmers divesting Coles Group. Including this one-off, non-cash income item, which boosted profit in the previous year, the decrease in profit was -31.9%.

Profit was significantly impacted by COVID-19 effects, with dividends being deferred, cancelled or cut (often substantially) by numerous companies in the investment portfolio, with NAB, ANZ and Westpac having the largest negative impacts on Argo's dividend income.

The full year dividends of 30.0 cents per share fully franked are down -9.1% on the previous year. In light of the uncertain economic outlook, Argo's Board considered it prudent to lower the final dividend to ensure Argo is positioned to weather a potentially protracted downturn with minimal volatility of dividends paid over time.

The full year dividends represent a fully franked dividend yield of 4.1% based on Argo's closing share price on 31 July 2020 of $7.39 per share.

INVESTMENT PORTFOLIO

In an extraordinary year for the share market, a majority of sectors posted negative returns, with bank stocks among the worst performers. Ongoing industry-specific headwinds and broad exposure to Australia's rapidly weakening economy weighed on the banking sector. As a result, Argo's portfolio exposure to the banks has fallen from 17.4% to 13.8% and remains underweight relative to the broader Australian share market.

During the financial year, Argo purchased $243 million of long-term investments which included adding to new positions. Over the same period, Argo received $127 million from sales and takeovers of long-term investments. The larger movements in the portfolio were:

Purchases	Sales
AP Eagers (Automotive Holdings takeover)	AMP
Downer EDI	Ansell
Freedom Foods Group	Automotive Holdings Group (AP Eagers takeover) **
Oil Search	Corporate Travel Management **
Ramsay Health Care	Dulux Group (Nippon Paint takeover) **
Suncorp Group	Milton Corporation
Treasury Wines *	Nufarm **

** New portfolio position*
*** Fully exited position and removed from portfolio*

Together with other stocks exited, the total number of stocks in Argo's investment portfolio decreased from 95 to 89.

INVESTMENT PERFORMANCE

At the conclusion of a highly volatile and unprecedented year for shares, Argo's investment (NTA) performance returned -10.1% after all costs and tax. This compares with the benchmark S&P/ASX 200 Accumulation Index which returned -7.7%, without making allowance for costs or tax.

Argo's underperformance relative to the broader Australian share market was due to a combination of factors, including having no portfolio exposure to Fortescue Metals Group (up +71% for the year) and being underweight CSL, as well as technology and gold stocks. However, Argo's underweight position in retail banks benefited relative performance.

OUTLOOK

With the economic recovery very dependent on the trajectory of the global coronavirus pandemic, the outlook is largely obscured. In our view, there is the potential for further rapid and unexpected changes to trading conditions which could impact the profitability of Australian companies. Against this uncertain backdrop, we anticipate company boards will continue to take a very cautious approach to capital management, resulting in considerable downward pressure on dividends.

Given APRA's guidance that banks should cap dividend payouts at 50% of earnings, we expect income from this sector will be particularly challenged. This was evidenced in Commonwealth Bank's recent result, when their final dividend was cut by 58% to $0.98.

We continue to take a consistent and conservative approach to managing Argo's portfolio, remaining faithful to our long-term investment philosophy which has proven resilient through difficult economic cycles and disruptive events over many decades. With a well-diversified portfolio, no debt and cash available, Argo is well-positioned to capitalise on market volatility in the current environment.

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