

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

ASX Announcement

ASX AND MEDIA RELEASE – BKI 1H2019 RESULTS

23 January 2019



BKI Announces a Strong Increase in Operating Profit and payment of a Special Dividend

1H2019 Results Highlights

Result Excluding Special Dividend Revenue	1H 2019	1H 2018	Growth
Income from Operating Activities	\$28.0m	\$24.6m	14%
Net Operating Result	\$25.5m	\$22.7m	12%
Earnings Per Share	3.510cps	3.660cps	-4%
Interim Dividend Per Share	3.625cps	3.625cps	In Line

Result Including Special Dividend Revenue	1H 2019	1H 2018	Growth
Net Operating Profit	\$47.1m	\$23.1m	104%
Earnings Per Share	6.48cps	3.73cps	74%
Special Dividend Per Share	1.50cps	nil	
Total Dividends Per Share	5.125cps	3.625 cps	41%

BKI Performance Overview

BKI Investment Company Limited (“BKI”) announced today that Net Operating Result for the half, excluding special investment revenue, was \$25.5 million, an increase of 12% over the previous corresponding period. First half 2019 Net Operating Profit, including special investment revenue, grew 104% to \$47.1 million.

Earnings per Share increased 74% to 6.48 cents per share, driven by the significant increase in special dividend income received in the first half. Earnings per Share before special investment revenue decreased 4% to 3.51 cents per share, driven by a material increase in BKI issued shares following the entitlement offer completed in June 2018.

The BKI Board has declared a fully franked 1H2019 Interim Dividend of 3.625cps, in line with last year. In recent months we have been overwhelmed by the level of angst in the investment community regarding Labor’s proposal to eliminate cash refunds of excess franking credits. In response to a possible change in franking credit policy, the Directors of BKI have declared a fully franked Special Dividend of 1.50cps payable on Thursday 28 February 2019. This Special Dividend will distribute to shareholders a portion of BKI’s accumulated franking credits, which will be of significant value to many BKI shareholders.

Following payment of these dividends, BKI will have approximately \$16.75 million of imputation credits available for future dividends. It is therefore the intention of the BKI Directors to distribute to shareholders another Fully Franked

Special Dividend of at least 1.00cps. This dividend would be declared on or before the release of BKI's FY2019 Results, expected on Wednesday 17 July 2019.

BKI's Co-Portfolio Manager, Mr Tom Millner, said it was another successful period for BKI with the Net Operating Result increasing and the Directors declaring a 3.625cps Interim Dividend and a 1.50cps Special Dividend. "The Special Dividend announced today is the Company's sixth paid to shareholders. Including dividends declared today, we have now paid out 97.55 cents per share in dividends and approximately \$600m in dividends and franking credits to BKI shareholders. The Directors intention to pay out at least another 1.00cps Special Dividend in the near future is further proof that we always have our shareholders best interests in mind when it comes to dividend payments."

"This result was driven by higher dividends received from New Hope Corporation, AGL Energy, Woodside Petroleum BHP Billiton, Sydney Airport, Macquarie Group, Transurban Group and APA Group. Lower dividends received from Telstra Corporation, Regis Healthcare and Caltex had a negative impact on the result. BKI received a significant amount of special dividends during the half from Telstra Corporation, QUBE Logistics, IAG Insurance, Suncorp Group and Woolworths. We also received special dividend income from the BHP Off Market Buy-Back and a non-cash Wesfarmers Demerger Dividend" Mr Millner said.

At the end of FY2018, BKI successfully completed an Entitlement Offer, raising \$154.5 million. Approximately 103 million new shares were issued in the Offer, an increase of 16.5%. BKI has invested over \$100 million of these proceeds, however, we have not yet fully invested the amount raised as we are waiting for further investment opportunities given the current economic environment. While the additional shares on issue have been the primary contributor to the 4% decrease in Earnings per Share (before Special Investment Revenue) in 1H2019, BKI is confident that the funds raised in the entitlement offer will help generate increased Earnings per Share in the medium term.

Dividends

The BKI Board has declared a 1H2019 Interim Dividend of 3.625cps, in line with last year. The Directors of BKI have also declared a Special Dividend of 1.00cps. Like all previous dividends paid to shareholders, both of these dividends are fully franked.

Combining the Interim and Special Dividends, as well as the Final FY2018 Dividend, BKI's fully franked dividend yield is currently 5.7%, while the grossed up yield is 8.2%, based on a share price of \$1.54.

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 12th February 2019. To complete a DRP form please follow the following link: www.bkilimited.com.au/dividend-reinvestment-plan/

The last trading day to be eligible for BKI's Interim and Special Dividend is Thursday 7th February 2019.

Key dates for the Dividends are as follows:

Event	Date
Last trading date to be eligible for the Dividends	Thursday 7 February 2019
Ex-Dividend Date	Friday 8 February 2019
Record Date	Monday 11 February 2019
DRP Nomination	Tuesday 12 February 2019
Payment Date	Thursday 28 February 2019

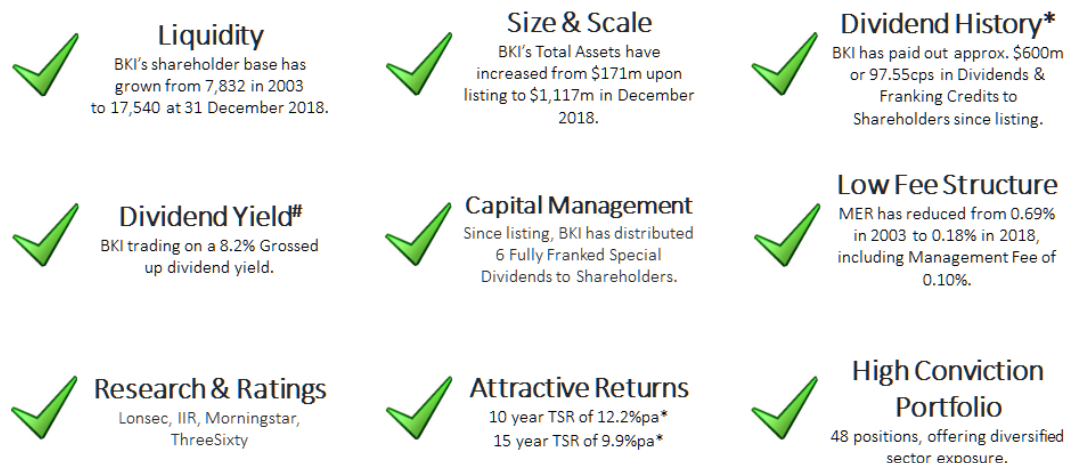
Management Expense Ratio (MER)

BKI's MER as at 31 December 2018 was 0.18%. 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.

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.

BKI 15 Year Review

BKI reached the milestone of 15 years as a publically listed company during December.



Includes FY2018 Final Dividend of 3.70cps, FY2019 Interim Dividend of 3.625cps, and Special Dividend of 1.50cps. Based on share price of \$1.54. Grossed up yield includes franking credits and is based on a tax rate of 30%. *Includes FY2019 Interim Dividend of 3.625cps, and Special Dividend of 1.50cps

Returns

Total Shareholder Returns including franking credits for the year to 31 December 2018 was negative 6.9%, compared to the S&P/ASX 300 Accumulation Index, which returned negative 1.7% over the same period.

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 31 December 2018 was negative 4.5%.

Portfolio Movements

BKI's Co-Portfolio manager Mr Will Culbert said the decline in domestic markets over the last six months provided BKI with some good investment opportunities. "BKI's total net investment over the half was approximately \$107 million, with major long term investments including BHP Limited, Woodside Petroleum, Transurban Group, Commonwealth Bank, Ramsay Healthcare, Woolworths Limited, AGL Energy Limited, APA Group, Regis Healthcare and Macquarie Group.

"We also added new positions to the portfolio including Coles Group, Platinum Asset Management, Magellan Financial Group, Stockland Group and Pact Group", Mr Culbert said. Sales totalled approximately \$21 million, including Flight Centre, IOOF Holdings and Perpetual Limited.

Top 25 Investments

	Stock	% of Total Portfolio
1	Commonwealth Bank	6.6%
2	National Australia Bank	6.1%
3	Westpac Banking Group	5.3%
4	New Hope Corporation	4.6%
5	BHP Billiton	4.2%
6	Transurban Group	3.9%
7	APA Group	3.8%
8	ANZ Banking Group	3.5%
9	Woolworths Limited	3.4%
10	Wesfarmers Limited	3.3%
11	Macquarie Group	3.3%
12	TPG Telecom	2.8%
13	Sydney Airport	2.8%

	Stock	% of Total Portfolio
14	AGL Energy Limited	2.8%
15	Woodside Petroleum	2.5%
16	Telstra Corporation	2.4%
17	Ramsay Healthcare	2.3%
18	IAG Limited	2.2%
19	ASX Limited	2.2%
20	Sonic Healthcare	1.9%
21	Invocare Limited	1.5%
22	Suncorp Group	1.4%
23	ARB Corporation	1.3%
24	Challenger Group	1.3%
25	Coles Group	1.2%
Cash and cash equivalents		9.2%
Total of Top 25 including cash and cash equivalents		85.8%

Outlook

There are a number of interesting dynamics dominating our conversations. Some macroeconomic concerns have been front of mind for many months now – the potential US/China trade war, Brexit, unrest in France, G4 central bank asset purchases and the outlook for US interest rates. Any headwinds should not be unexpected, as the global economy has enjoyed a sustained period of above average growth.

Domestically, the focus is on the highly likely prospect of a new Federal Government, tighter credit conditions and the impact of further house price declines.

Yet these macro conditions are out of our control, and it is easy to get caught up in the negative. We expect there will be several periods of opportunity for long-term investors in the year ahead and that patience will pay off. We have a healthy level of cash, which is now close to 10% of the portfolio. The recent de-rating of the market has created more opportunities for BKI.

We believe that the BKI portfolio is well placed as we head into 2019. We own forty-eight companies in the portfolio with a range of sector exposures. We will continue our objective to buy high quality businesses. Our aim is to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends, through long-term investment in a portfolio of assets that are also able to deliver long term capital growth to shareholders.

For further information:

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