

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868



ASX and Media Release

21 January 2021

First Half FY2021 Result

Result Summary

Result excluding special investment revenue	1H 2021	1H 2020	Movement
Investment revenue – ordinary	\$16.6m	\$27.0m	-39%
Net operating profit after tax	\$14.5m	\$24.5m	-41%
Earnings per share	1.96c	3.35c	-41%
Dividends per share	2.00c	3.625c	-45%
Result including special investment revenue	1H 2021	1H 2020	Movement
Net operating profit after tax	\$14.9m	\$25.5m	-41%
Earnings per share	2.02c	3.48c	-42%
Special dividends per share	nil	nil	
Total dividends per share	2.00c	3.625c	-45%

BKI Performance Overview

BKI Investment Company Limited (“BKI”) announced its 2021 First Half results today. This time last year saw an increase in concerns around global economic conditions and geopolitical events, even as most global share indices tracked upwards. However, the COVID-19 economic crisis created significant social and economic upheaval in the second half of the 2020 financial year. This has continued into the first half of the 2021 financial year, with extreme economic uncertainty across all industries globally, resulting in severe fluctuations in global share markets.

The last 12 months in Australia have been devastating, with the country experiencing the tail end of drought, widespread catastrophic bushfires and the COVID-19 pandemic, and the disruption to the underlying economy has been significant. Despite the Australian Government’s direct economic support packages of \$257 billion positively impacting values of our investment markets, Australian equity investors have continued to experience cuts to dividends they have received. BKI’s income and profits were not immune.

BKI’s results were down across the board, appearing worse given the record profits, dividend and special dividend distributions experienced in 2019. BKI’s Ordinary Revenue for 1H FY2021 from the investment portfolio was down 39% to \$16.6 million compared to 1H FY2020. This result was negatively impacted by lower ordinary dividends received from LendLease, Woodside Petroleum, AGL Energy, Suncorp Group and Transurban Group, while Commonwealth Bank, Macquarie Group, and National Australia Bank dividends were also impacted following APRA’s strict limitations on pay-out ratios. This was exacerbated when Insurance Australia Group, SEEK Limited, Ramsay Healthcare, Regis Healthcare, Evans and Partners and New Hope Corporation did not pay an ordinary dividend at all. BKI received significantly lower interest this half compared with last year.

BKI's basic Earnings Per Share (EPS) before special investment revenue decreased 41% to 1.96 cents per share.

Despite BKI receiving Special Dividends from Wesfarmers and Telstra Corporation, total Special Dividends were down 54% to \$0.5 million for the period. BKI's Net Operating Profit After Tax, including special investment revenue for the first half of FY2021 was \$14.9 million, down 41% on the previous corresponding period.

BKI's EPS, including special investment revenue, decreased 42% to 2.02 cents per share.

The Directors have declared that BKI will pay an interim FY2021 dividend of 2.00cps. The Interim Dividend will be fully franked at a tax rate of 30%.

Dividend Information

As flagged at the BKI Annual General Meeting in October 2020 and given the pressure the current economic situation has placed on dividends received, the BKI Board has declared today a fully franked Interim Dividend of 2.00cps, down from 3.625cps last year. This is disappointing, however, the Board and Management remain very proud to say that the company has now paid out over \$777 million or \$1.11 per share in Dividends and Franking Credits to Shareholders since listing.

The last trading day to be eligible for BKI's fully franked Interim Dividend is Thursday 4 February 2021. Key dates for the dividend are as follows:

Event	
Last trading date to be eligible for BKI's Dividend	Thursday 4 February 2021
Ex-Dividend Date	Friday 5 February 2021
Record Date	Monday 8 February 2021
DRP Nomination	Tuesday 9 February 2021
Payment Date	Thursday 25 February 2021

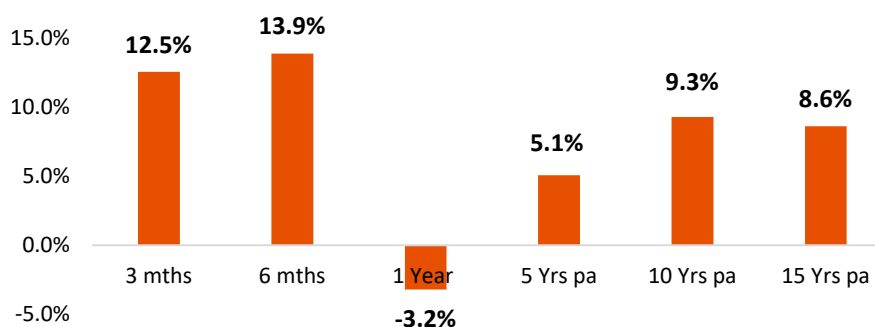
The BKI Board has confirmed that BKI's Dividend Reinvestment Plan (DRP) will be maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount. The last day to nominate for participation in the DRP is Tuesday 9 February 2021. To complete a DRP form please follow the following link: <https://bkilimited.com.au/dividend-information/>

Management Expense Ratio (MER)

BKI's MER as at 31 December 2020 was 0.16%. 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. 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

BKI's 6-month Total Shareholder Returns (TSR) including franking credits was 13.9%. BKI's TSR including franking credits for the year to 31 December 2020 was negative 3.2%. For the year to 31 December 2020, the S&P/ASX 300 Accumulation Index return was 1.7%.



Total Shareholder Returns including franking credits

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 2020 was negative 3.1%.

Portfolio Movements

In the first half of this financial year, we made changes to the portfolio through \$83 million worth of sales, including exiting positions in Westpac Banking Corporation, Sydney Airports, IAG Limited, SEEK Limited and selling a small parcel of New Hope Corporation. These sales were prompted by the significant reduction in dividends received from these companies during the period.

These divestments have allowed BKI to reinvest capital into other positions within the portfolio to offset further losses of Ordinary Income. BKI invested \$95 million during the first half of FY2021 with the largest investments being APA Group, Harvey Norman Holdings, Equity Trustees and Commonwealth Bank. New positions in NAB Convertible Notes, Rio Tinto Limited, Fortescue Metals and IPH Limited were added to the portfolio.

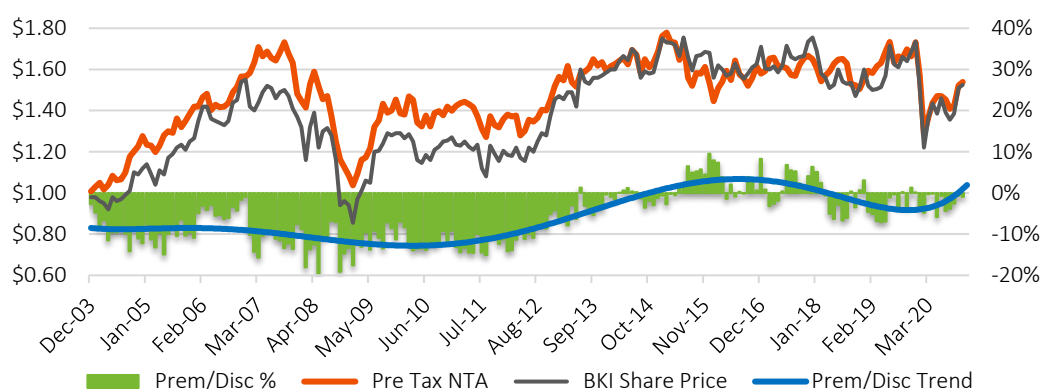
Top 25 Investments

	Stock	% of Total Portfolio
1	Macquarie Group	8.0%
2	Commonwealth Bank	8.0%
3	BHP Group	7.7%
4	APA Group	6.6%
5	Transurban Group	6.6%
6	Wesfarmers Limited	5.0%
7	Woolworths Limited	4.9%
8	National Australia Bank	4.3%
9	TPG Telecom Limited	3.7%
10	Ramsay HealthCare	2.8%
11	Sonic Healthcare	2.7%
12	ARB Corporation	2.6%
13	ASX Limited	2.5%

	Stock	% of Total Portfolio
14	Woodside Petroleum	2.4%
15	Telstra Corporation	2.2%
16	Harvey Norman Holdings	2.1%
17	Magellan Financial Group	1.8%
18	Coles Group	1.8%
19	Invocare Limited	1.7%
20	Fortescue Metals Group	1.6%
21	Arcor	1.6%
22	New Hope Corporation	1.6%
23	Goodman Group Limited	1.6%
24	Rio Tinto Limited	1.5%
25	NAB Convertible Notes	1.5%
Cash and cash equivalents		1.7%
Total of Top 25 including cash and cash equivalents		88.5%

Net Tangible Assets (NTA)

As at 31 December 2020, BKI's share price was trading at a 0.9% discount to the pre-tax NTA and a 3.7% premium on a post-tax basis.



Listed Investment Companies have traditionally only quoted pre-tax and post-tax NTA's on a monthly basis, quite often causing a disconnect between the current share price of the LIC and the underlying NTA of the company. With this in mind, as well as the increasing volatility in the marketplace, BKI believe that now is the right time to introduce weekly unaudited NTA announcements to the market. These will commence in February 2021 and will be released weekly thereafter.

Outlook

Australia's world class performance in controlling the COVID-19 epidemic and economic stimulus packages has been a significant benefit to the Australian household and consumer during the last year. The Government's substantial economic support package of almost \$260 billion and the banks' loan deferrals have been very well received. However, we do remain concerned with forecast unemployment numbers, as well as the impact the upcoming completion of deferral payment programs focused on small/medium businesses and individual mortgages will have on the economy.

Growth in regional tourism and retail sales numbers have been encouraging, while the significant recovery in commodity prices has ensured Australia's current trade balance is very positive. However, BKI believes the global economic and social shutdowns caused by the COVID-19 pandemic could still cause some long-lasting negative impacts on businesses across the Australian market. BKI's Co-Portfolio Manager, Mr Tom Millner, said "We have been pleasantly surprised by the number of domestic economy-oriented businesses that have experienced earnings growth, benefiting over the short-term from a change in consumer behaviour or through significant government stimulus packages. These companies have come out of this situation quicker than first thought. Unfortunately, many companies may continue to have difficulty returning to the level of dividend payments made prior to COVID, as organisation restructures, cost out programs and management caution could take priority. Going forward, we are confident dividends received from BKI's investments will improve but it may take some time".

Despite the negativity from much of the last 12 months, there are a few themes that we still find attractive.

1. Lower rates globally have again seen bond rates decline significantly during the year. Global rates are low and Australian equity yields, despite the fall from previous levels, are very competitive. For the local investor who can utilise them, franking credits are worth more now than ever.
2. Pre COVID, Australia had a relatively undeveloped online retail offering. Many companies have benefited from the changes to behaviour in the COVID world with the trends now driving significant online demand. Many of the changes experienced in COVID we believe are permanent and have fast tracked the online retailing, construction, logistics, transportation, communications and technology offering by many years.
3. The growth in superannuation assets in Australia out to the year 2035 is going to be substantial. From under \$2.0 trillion in 2014, the Australian superannuation pool is expected to grow to over \$7.2 trillion by 2032, despite the most recent economic downturn.

"We've been saying this for a few years now, and it's becoming increasingly clear to us that despite low rates globally - infrastructure spend, superannuation growth and the growth in e-commerce will continue to provide significant tailwinds for many of the stocks within the BKI portfolio in the years to come. This will continue to create opportunities for many of the companies in the BKI portfolio," Mr Millner said.

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

For further information:

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