

ASX and Media Release

23 July 2024

Further Dividend Growth from BKI

Result <u>excluding</u> special investment revenue	FY2024 (\$m)	FY2023 (\$m)	Movement (%)
Ordinary revenue from Investment Portfolio	\$64.03	\$71.13	-10%
Total Revenue - Ordinary	\$68.34	\$72.75	-7%
Operating Result (before tax and special investment revenue)	\$65.91	\$70.34	-6%
Earnings per share	7.83	8.68	-10%
Ordinary Dividend per share	7.85	7.70	2%
Result <u>including</u> special investment revenue	FY24 (\$m)	FY23 (\$m)	Movement (%)
Net profit after tax	\$64.39	\$70.07	-8%
Earnings per share	8.03	9.35	-14%
Special Dividend per share	-	0.50	-100%

Tuesday 23 July 2024: BKI Investment Company Limited (BKI, ASX: BKI) today announced the Group's results for the full year ended 30 June 2024. The Operating Result before tax and excluding special dividends was \$65.9 million and Net Profit after tax and including special dividends was \$64.4 million. The BKI Directors have declared a final dividend of 4.00cps. Full year ordinary dividends for FY2024 of 7.85cps are up 2% on last year.

BKI Performance Overview

FY2024 was a tough year for many businesses, with continued cost pressures, higher interest costs and a slowdown in spending, making it a challenging year. Labour shortages endured, pushing up wages. A lack of consistent base load energy supply has seen prices for wholesale and retail electricity rise significantly. Other utility prices have also risen, as has the price for insurance, healthcare, travel and other general consumer staples.

These factors saw inflation data continue to rise, forcing the Reserve Bank of Australia to implement an additional rate rise over the year, taking the Australian cash rate to 4.35%. This last rate rise is beginning to stem the spend on discretionary retail somewhat, however it has also driven up interest payments for many businesses and mortgage owners.

Australian equity markets performed well over the year with the S&P/ASX300 Accumulation Index returning 11.9%. This is an excellent result with many company profits affected by higher business costs and being forced to pay substantially more interest than in previous years. These cost pressures and rate increases put pressure on company first half profits, which led in many cases, to a reduced payout ratio and a more conservative dividend payment. We suspect this will continue into full year results in the upcoming August reporting period.

In December 2023, BKI celebrated 20 years of listing on the Australian Securities Exchange when trading commenced on Friday the 12th of December 2003. The IPO was for 171 million shares on issue with a listing price of \$1.00 per share. As at 30 June 2024, BKI's Total Assets were \$1.48 billion and we have proudly paid out over \$1.0 billion in dividends and franking credits to shareholders.

BKI's FY2024 results show Revenue from the Investment Portfolio down 6% to \$68.3 million. Dividends received during the 2023 August/September 2023 and February/March 2024 reporting seasons were softer than hoped, with many companies taking the conservative path and lowering payout ratios as they face an uncertain economy, higher expenses and higher interest rate payments. Resources and Energy companies have come off record dividends following a strong period of high commodity prices and record profits. BKI's major holdings including BHP Group, Yancoal, New Hope Group and Woodside Energy all reduced their ordinary dividends by more than 30% on the prior year. Despite this decline in dividends received, we remain confident in the long-term future of our investments within the Resources and Energy sectors, especially oil, gas, copper, iron ore, met and thermal coal.

The result was also impacted by lower ordinary dividends received over the last year from Macquarie Group, Ramsay Healthcare and Harvey Norman, offset by increased dividends from Commonwealth Bank, National Australia Bank, Wesfarmers, APA Group, Aurizon Group and Telstra Corporation.

BKI's interest received was \$4.0 million, up substantially on the FY2023 interest of \$1.6 million following further rises in interest rates during the year. BKI's Net Operating Profit, before tax and special investment revenue, was \$65.9 million, a decrease of 6% over the previous corresponding period. BKI's basic earnings per share before special investment revenue was 10% lower to 7.83 cents per share.

Special Investment Revenue was \$1.7 million in FY2024, with Special Dividends received from New Hope Corporation, Ampol Limited and Smartgroup Limited. Special Dividends received in FY2023 totalled \$5.0 million.

BKI's Net Operating Profit After Tax, including special investment revenue for FY2024 of \$64.4 million was down 8% on the previous corresponding period. BKI's FY2024 basic earnings per share, including special investment revenue, was 8.03 cents per share.

Dividend Information

The BKI Board has declared a final ordinary dividend of 4.00 cents per share fully franked at the tax rate of 30%. The ex-dividend date is Tuesday 6 August 2024, and the Record Date for determining entitlements to the dividends is Wednesday 7 August 2024. The dividend will be paid to shareholders on Thursday 29 August 2024.

BKI's full year ordinary dividends for FY2024 of 7.85cps are up 2% on last year. Using the FY2024 Interim and Final Dividends, BKI's historical grossed-up dividend yield is 6.7%, based on a tax rate of 30% and a share price of \$1.68, as at 30 June 2024.

The BKI Board 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 Thursday 8 August 2024. To complete a DRP form please follow the following link:

bkilimited.com.au/dividend-information/

The last trading day to be eligible for BKI's fully franked dividends is Monday 5 August 2024. Key dates for the dividends are as follows:

Last trading date to be eligible for dividend	Monday 5 August 2024
Ex-dividend Date	Tuesday 6 August 2024
Record Date	Wednesday 7 August 2024
DRP Nomination	Thursday 8 August 2024
Dividend Payment Date	Thursday 29 August 2024
Annual General Meeting	Wednesday 15 October 2024

Management Expense Ratio (MER)

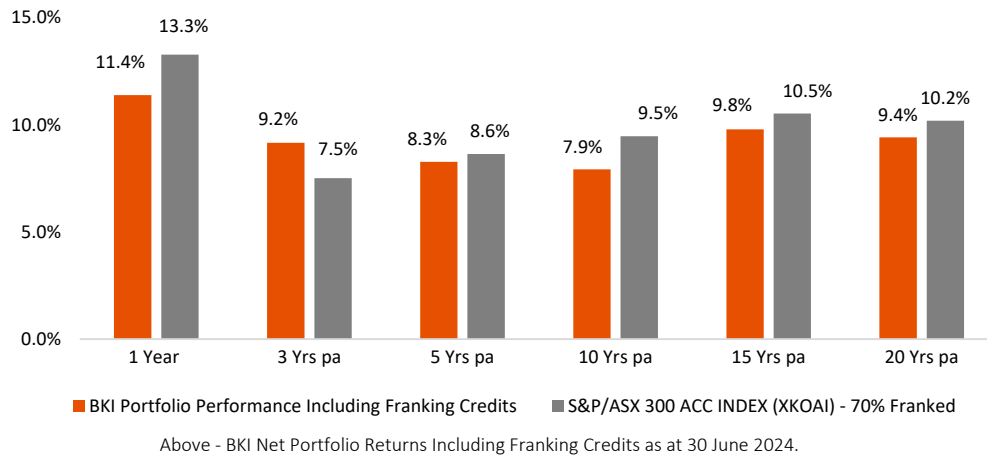
BKI's MER as at 30 June 2024 was 0.169%, down from 0.184% in the corresponding period. The Board and Portfolio Managers are shareholders in BKI. We invest for the long term and do not charge excessive external portfolio management fees or any performance fees. Our focus is on creating wealth for all 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 interest payable on such a facilities.

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

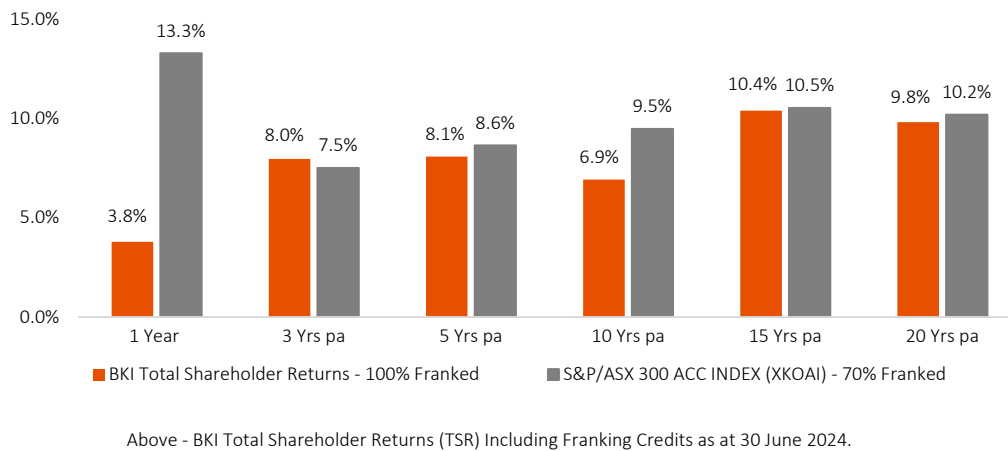
Portfolio Return

BKI's Net Portfolio Return (after all operating expenses, provisions and payment of both income and capital gains tax and the reinvestment of dividends and franking credits) for the year to 30 June 2024 was 11.4% compared to the S&P/ASX300 Accumulation Index which returned 13.3% for the same period.



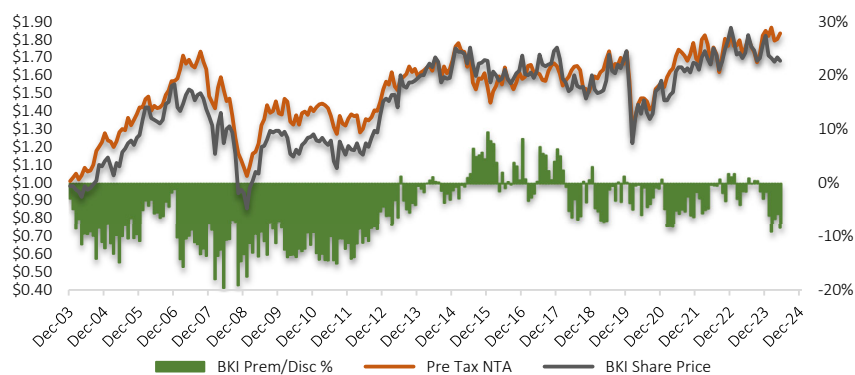
Total Shareholder Return

For the year to 30 June 2024, BKI's Total Shareholder Return was 1.8%. The S&P/ASX300 Accumulation Index returned 11.9% for the same period. BKI's Total Shareholder Returns including franking credits for the year to 30 June 2023 was 3.8%, compared to the index return of 13.3%.



Net Tangible Assets (NTA)

BKI's Pre-Tax Net Tangible Assets as at 30 June 2024 was \$1.83. BKI's share price of \$1.68 represented an 8.4% discount to the pre-tax NTA. The recent discount spread is the widest discount the shares have traded on since 2012.



Above – BKI's Premium/Discount since December 2003.

Portfolio Movements

In the first half of the 2024 financial year, we invested \$68 million. The main investments were into existing holdings including BHP Group (BHP-ASX), National Australia Bank (NAB-ASX), Commonwealth Bank (CBA-ASX), APA Group, (APA-ASX), Telstra Group (TLS-ASX), Stockland (SGP-ASX) and Ampol (ALD-ASX).

BKI established a new position in Mirvac Limited (MGR-ASX), as we believe that MGR provides an attractive investment opportunity for BKI given the discount to NTA and growing dividend yield over the long term. MGR will give BKI unique exposure to commercial and industrial real estate assets as well as the growing build to rent (BTR) segment. MGR has found a niche in the property sector for BTR, and we believe it provides an exciting opportunity for a long term investment. There were a few smaller positions added to the BKI portfolio following the acquisition of an unlisted investment portfolio during the half. These investments include EVT Limited (EVT-ASX), Carlton Investments (CIN-ASX), Endeavour Group (EDV-ASX) and Perpetual Limited (PPT-ASX).

BKI sold Rio Tinto (RIO-ASX) out of the BKI portfolio. While we believe in the resources story long term RIO's dividend has fallen from a peak of \$15.36 to an expected \$5.41 for the current year, with the yield dropping from 10.4% to 4.9%.

In the second half of the 2024 financial year, BKI invested a further \$58 million. The portfolio positioning for the second half of FY2024 included a re-weighting of National Australia Bank (NAB-ASX) and Macquarie Group (MQG-ASX). Our holding in NAB was reduced slightly from 8.4% to 7.0% and MQG reduced from 8.5% to 6.5%. Despite the slight reductions, both companies recently announced solid results including robust dividend outlooks. We believe that they will continue to do well in the current market, and we remain very happy with our investments at current levels.

BKI exited our position in Treasury Wine Estates (TWE-ASX), believing that while the Chinese import tariff removal was a positive development, a return to previous export volumes for TWE may be some way off. There appears to be a glut of product in the system and TWE carries a certain amount of agricultural / seasonal risk.

BKI added Dalrymple Bay Infrastructure (DBI-ASX) to the portfolio. DBI is an Australian infrastructure company, holding a 99-year lease of Dalrymple Bay Terminal, the world's largest export metallurgical coal facility, servicing world leading customers. DBI's valuation is very compelling with a forward PE multiple of 15.1X and a healthy future earnings stream. DBI is offering a 10.6% grossed up dividend yield, franked at 70%.

BKI also added further capital to our new investment in Mirvac (MGR-ASX) and in our existing position in Stockland (SGP-ASX). We consider that both companies are offering good value whilst trading on attractive discounts to their NTA and both offer dividend yields over 5.0%. We believe their future earnings streams are under pinned by significant structural tailwinds through the supply/demand imbalance of housing as well as the significant growth expected in Australia's population.

Over the year BKI invested a total of \$126 million into the market with \$96 million worth of sales. As at the end of June 2024, there were 40 stocks within the BKI Portfolio, with the Top 25 holdings and cash accounting for 90.2% of the total Portfolio. The Investment Portfolio (including cash) was valued at \$1.48 billion, with the cash and cash equivalents representing 7.5%.

Top 25 Investments

	Stock	% of Total
1	Commonwealth Bank	8.7%
2	BHP Group	8.3%
3	National Australia Bank	7.3%
4	Macquarie Group	6.9%
5	Wesfarmers Limited	5.4%
6	APA Group	5.2%
7	New Hope Corporation	4.3%
8	Woodside Energy	3.5%
9	Transurban Group	2.9%
10	Woolworths Limited	2.8%
11	Telstra Group	2.7%
12	ARB Corporation	2.5%
13	Harvey Norman	2.3%

	Stock	% of Total
14	Sonic Healthcare	2.2%
15	Goodman Group	2.2%
16	Yancoal Australia	1.9%
17	Ramsay Healthcare	1.8%
18	Amcor PLC	1.8%
19	Suncorp Group	1.8%
20	TPG Telecom	1.8%
21	Aurizon Holdings	1.5%
22	Stockland	1.4%
23	Coles Group	1.3%
24	Mirvac Group	1.2%
25	Ampol Limited	1.0%
Cash and cash equivalents		7.5%
Total of Top 25 including cash and cash equivalents		90.2%

Celebrating 20 Years

In December 2023, BKI celebrated 20 years of listing on the Australian Securities Exchange when trading commenced on Friday the 12th of December 2003. The IPO of shares by BKI (formally Brickworks Investment Company), closed with an underwritten amount of \$120 million. These funds were used to buy the Brickworks investment portfolio. In addition, Brickworks maintained equity in the newly listed BKI with a holding of 25.2%.

Following the IPO, BKI had 171 million shares on issue with a listing price of \$1.00 per share. Since then, BKI's Total Assets have increased significantly from \$171.2 million to \$1.4 billion, and in addition to growing the core investment portfolio, BKI has been successful in executing various corporate actions and capital raisings. BKI has always operated under a very stable Board, Investment Committee, Audit Committee and Investment Management team. All aligned with shareholders and who always strive for a common goal of investing for the long-term and generating an increasing income stream for distribution to BKI shareholders as fully franked dividends.

It's been a wonderful journey thus far and we would like to thank all BKI shareholders for their support over the last 20 years. We have a very strong and proud track record. We continue to hold a portfolio of high-quality dividend paying stocks, have no debt, operate at a very low cost and are very well positioned to take advantage of any market opportunity which may present itself over the year ahead with over \$99 million currently held in cash.

Outlook

Inflation continues to be the biggest focus in global economies. We continue to expect further challenges to emerge in our local market following high inflation and rising interest rates over the short to medium term. However, more recent inflation numbers in the US and Europe may see Central Banks within these markets begin to cut rates prior to Christmas 2024. This will be well received by equity markets. Australia is a little behind, as we were initially slower to lift rates as inflation emerged post COVID-19. Australian is still printing a CPI number that is larger than our Reserve Bank is comfortable with, and with that we believe that our local official cash rate may stay higher for longer.

Despite this, we continue to find pockets of opportunities to invest within our equity market. There are many high-quality companies that have strong balance sheets that are not affected by higher interest rates. They continue to have a clear competitive advantage with pricing power, enabling them to pass on higher costs and many are managed by capable and trustworthy people who think and act long term. Most of these quality businesses have Boards and Executives have skin in the game and own shares in the companies they manage, proving time and time again that they have a real focus on paying shareholders an attractive and sustainable dividend stream throughout each cycle.

Given the current backdrop, we are very curious as to the outcome of the last six months which will be shown in the various half and full year company results during the upcoming July/August 2024 reporting season. We will have a particular interest in the following topics:

- The consumer discretionary sector – can this sector continue to show resilient top line sales relative to previous conservative assumptions?
- The materials sector – major miners including BHP, Rio Tinto and Woodside are again recycling large profits. Will the impact of commodity and energy cost curves steepening and challenging labour conditions be softened by increased volumes and a low Australian dollar?
- Interest costs – These will remain a headwind for many companies with excessive debt. Will companies with stretched balance sheets reduce dividends to pay down debt?
- Artificial Intelligence – AI has become an increasing talking point. Will tech continue to dominate?

It is worth noting again that while the headline P/E multiples for the market appear elevated, there are still opportunities within sectors and certainly for stock pickers. Relative to global peers, we continue to believe that the Australian market looks attractive. Even in a rising interest rate environment, it is highly likely that Australian equities can keep delivering reasonable earnings growth in FY2025 on the back of a stable unemployment rate, a very strong housing market, tight global commodity markets, and strong migration and population growth.

BKI continues to hold a portfolio of high-quality dividend paying stocks and has no debt. We have cash available and are well positioned to take advantage of any market opportunity which may present itself over the year ahead. We will continue to look to invest in businesses at a reasonable price with a view of holding them for long-term capital growth and increasing dividend income.

For further information:

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