**ARGO INVESTMENTS LIMITED** ACN 007 519 520

# *ASX / Media Release*

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## Argo raises interim dividend after strong half-year profit result

Argo Investments Limited (ASX: ARG), a major Australian listed investment company with $5.3 billion in assets, announces a 42.2% increase in half-year profit to $157.2 million. The interim dividend has been raised to 16 cents per share fully franked.

| **Summary of financial results** | ***Half-year to 31.12.18*** | *Half-year to 31.12.17* | *change* |
|---|---|---|---|
| Profit | $157.2 million | $110.5 million | +42.2% |
| Earnings per share | 22.1 cents | 15.9 cents | +39.0% |
| **Profit excluding Coles demerger dividend** | **$121.1 million** | $110.5 million | +9.6% |
| **Earnings per share excl. Coles demerger dividend** | **17.0 cents** | 15.9 cents | +6.9% |
| **Interim dividend per share** | **16.0 cents** | 15.5 cents | +3.2% |
| **Net tangible asset backing (NTA) per share** | **$7.34** | $8.06 | -8.9% |
| **Management expense ratio** | **0.15%** | 0.15% | - |

The very strong profit result was significantly influenced by a one-off, non-cash income item of $36.1 million, due to the demerger of Coles Group from Wesfarmers. Excluding this corporate action, Argo's profit increased by 9.6% on the previous half-year result.

Argo's revenue was boosted by higher dividends from BHP, Rio Tinto, CSL, Macquarie Group and Ramsay Healthcare. Profit from trading investments, which includes income from writing options, rose by $4.5 million to $6.8 million. Interest income on cash deposits was steady and administration expenses were slightly lower.

**Investment portfolio**

Over the half-year, Argo purchased $265 million of long-term investments and received proceeds of $132 million from long-term investment sales. The larger movements in the portfolio were:

| Purchases | Sales |
|---|---|
| Bega Cheese | AMP |
| Boral | Asaleo Care |
| Coles Group *(due to demerger from Wesfarmers)* | Coca-Cola Amatil *(exited position)* |
| Corporate Travel Management *(new position)* | Twenty-First Century Fox *(exited position)* |
| Eclipx Group *(new position)* | Wesfarmers *(partly demerged into Coles position)* |
| James Hardie Industries *(new position)* | |
| Oil Search | |
| QBE Insurance Group | |
| Rural Funds Group | |
| Star Entertainment Group *(new position)* | |
| Transurban Group | |
| Viva Energy *(new position)* | |

Sharp falls in the Australian equity market toward the end of the calendar year created opportunities for buying at more attractive prices than had been the case during most of 2018.

Investment sales were led by the disposal of the remainder of our Twenty-First Century Fox holding, resulting in a $50 million capital gain during the half-year. After these transactions, the number of stocks held in the portfolio rose from 93 to 99 and the cash balance decreased slightly to $199 million at 31 December 2018, representing 3.8% of the Company's total assets.

**Investment performance**

Following the substantial declines in equity markets in the December quarter, Argo's investment (NTA) performance returned -8.3% after all costs and tax over the half-year to 31 December 2018, underperforming the S&P/ASX 200 Accumulation Index which returned -6.8% (without any allowance for costs or tax). Argo's share price fared better, as it often does when markets fall quickly, returning -3.0% to outperform the market by 3.8%.

Technology One, Ramsay Healthcare and Washington H. Soul Pattinson were positive contributors to portfolio performance, but were outweighed by our holdings in Origin Energy, Adelaide Brighton and Lendlease, which all performed poorly. Argo's underweight position in property trusts also negatively impacted relative performance.

**Refundable franking credits**

Argo is very concerned that many of its retired and self-managed superannuation fund shareholders may experience significant reductions in income due to the Australian Labor Party's policy to prevent them receiving refunds of excess franking credits. We believe the proposed policy is inequitable.

Argo maintains a prudent franking account balance to protect franking on its next dividend and we do not have excess franking credits to distribute at this time.

**Share Purchase Plan**

Argo is not intending to offer a Share Purchase Plan to its shareholders in the near future. If this position changes later in the year, we will make an announcement to the ASX and shareholders will be notified immediately.

**Outlook**

The 2018 calendar year began with accelerating earnings for US corporations, helped by tax cuts and a strong synchronised global growth outlook. However in the last quarter of the year, an increasing focus on geopolitical tensions, deteriorating economic data and, as Apple showed with its profit warning, economic and trade-related issues, started to have a material impact on company earnings. Mounting concerns of a global growth slowdown, fears of higher US interest rates, failing Brexit negotiations and soft data out of China added to uncertainty.

As a result, global equity markets recorded their largest monthly falls for the year in December, and the December quarter saw the largest quarterly declines since September 2011. The S&P/ASX 200 Index finished the year with a 12-month return of -6.8% (-2.8% including dividends). Health Care (+17.3%) was the standout sector, led by CSL and ResMed. Communication Services (-21.4%) was the worst performing sector for the third year running. Roughly two thirds of all S&P/ASX 200 Index companies delivered negative share price returns in 2018.

While the lower market valuations may seem more appealing for a long-term investor, we remain cautious. In addition to global macroeconomic issues, a number of local uncertainties need to be resolved during the next few months. These include the final outcomes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the duration and severity of the housing downturn and its associated consumer impact, and the result of the federal election.

In our view, investors can expect volatility to continue throughout 2019 as the primary trends driving instability last year are likely to persist. In recent months, market expectations for company earnings growth in Australia have been tempered by a consistent stream of downgrades to earnings forecasts for the 2019 financial year, although corporate balance sheets are generally sound and we expect dividend levels from our investee companies to be at least maintained in the upcoming results reporting season.

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