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**BRICKWORKS**

INVESTMENT COMPANY LIMITED

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ABN 23 106 719 868

9 April 2009

The Manager  
Company Announcements  
Australian Stock Exchange Limited  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Dear Sirs

**Re: Presentation to shareholder**

Please find attached a copy of a presentation being delivered to a major shareholder of BKI today.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R. Pillinger'.

**Richard Pillinger**  
Company Secretary



**BRICKWORKS**  
INVESTMENT COMPANY LIMITED

## DIXON ADVISORY

Presentation to Shareholders  
8<sup>th</sup> April 2009

Robert Millner - Chairman  
Tom Millner – CEO



## Disclaimer

This material has been prepared by Brickworks Investment Company Limited.

The information within this document is not intended to provide advice to investors or take into account an individual's financial circumstances or investment objectives. This is general investment advice only and does not constitute advice to any person. The opinions within this document are not intended to represent recommendations to investors, they are the view of Brickworks Investment Company Limited as of this date and are accordingly subject to change.

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Investors should consult their financial adviser in relation to any material within this document.

## Group Profile

- Brickworks Investment Company (BKI) was formed on the 17<sup>th</sup> October 2003 to take over the investment portfolio of Brickworks Limited.
- BKI's investment portfolio has been built on a philosophy of long term investment with a focus on Australian equities. It primarily seeks to invest in well-managed businesses with a profitable history and with the expectation of sound dividend and distribution growth.
- BKI's key objective is to generate an increasing income stream for distribution to its shareholders in the form of fully franked dividends.

## Group Profile

- BKI does not charge an entry or exit fee when shareholders acquire or dispose of stock. Any transaction costs will be generated through the shareholders advisor or stockbroker.
- BKI does not charge any management fees nor does BKI charge any performance fees.
- An investment in BKI gives shareholders access to a diversified portfolio. As at 31<sup>st</sup> March 2009 BKI held 68 companies within the investment portfolio across most sectors of the market.
- BKI's Market Capitalisation as at 31<sup>st</sup> March 2009 was \$382m.

## BKI Milestones

**24<sup>th</sup> October 2003** – BKI was formed to acquire the \$157.2m investment portfolio of Brickworks Limited that had been established over the previous 15 years.

**12<sup>th</sup> December 2003** - BKI was created through an initial public offering of the investment portfolio held by Brickworks Limited by raising \$250m.

**9<sup>th</sup> August 2004** – BKI announces merger with Pacific Strategic Investments (PSI). The terms of the merger being 2 BKI shares for every 7 PSI shares.

**22<sup>nd</sup> February 2007** – BKI announces a \$57m Renounceable Rights Issue at \$1.35 (13% discount to closing price as at 21<sup>st</sup> February 2007).

## BKI Milestones

**27th August 2007** – BKI announces a \$49.3m placement at \$1.45 to clients of Dixon Advisory.

**12th June 2008** – BKI announces that the management of the Listed Investment Portfolio will be brought in house on the 1<sup>st</sup> December 2008.

**17th September 2008** – BKI announces takeover of Huntley Investment Company Limited (HIC). The offer being 0.6 BKI shares for each HIC share, valuing HIC at \$0.73 per share.

HIC was acquired under compulsory acquisition on the 23rd January 2009. MD of HIC, Mr Ian Huntley has since accepted positions on the BKI Board and Investment Committee. Ian brings a wealth of knowledge and experience to BKI.

## BKI Milestones

**17<sup>th</sup> February 2009** - Brickworks Limited (ASX : BKW) announces divestment of its entire shareholding in BKI.

Washington H. Soul Pattinson & Company Limited (ASX : SOL), an experienced and long term investor in listed investment vehicles, acquired 60% of Brickworks Limited's divestment and has now become the largest shareholder in BKI with a holding of 13.68% (previously 5.85%).

The Directors of BKI believe that this transaction will benefit the company by introducing new investors to the register and creating greater liquidity.

## 1H09 Performance Highlights

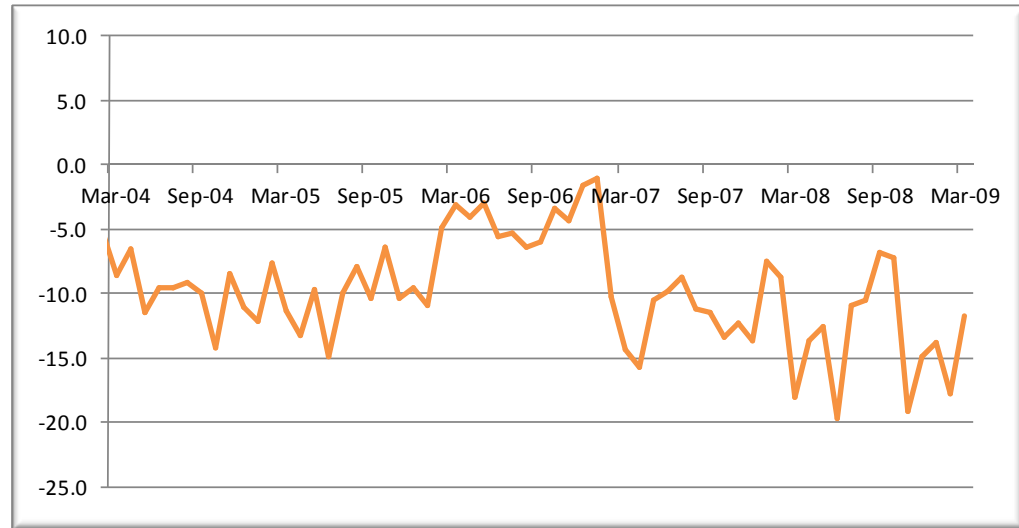
- Operating revenue up 5.4% to \$11.1m.
- Operating Profit After Tax but before special investment revenue, other gains and realised gains on investment portfolio increased by 8.0% to \$9.9m.
- Net Profit After Tax has increased by 6.2% to \$14.2m.
- Interim dividend maintained at 3 cents per share fully franked on the increased share capital.

## Dividend Reinvestment Plan (DRP)

- As announced at the 1H09 results, the DRP has been maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI at a discount to the market price without paying brokerage or other charges.
- BKI's DRP price is a 2.5% discount to the volume weighted average sale price of BKI's shares during the period of 5 trading days which ended on the 5<sup>th</sup> March 2009. The DRP share price for the 2009 interim dividend payment on the 12<sup>th</sup> March 2009 was \$0.80.
- BKI issued 2,678,521 new shares following the Interim 2009 DRP.

## Net Tangible Assets (NTA)

- BKI's NTA as at 31<sup>st</sup> March 2009 was \$1.093.
- As at the 31<sup>st</sup> March 2009, BKI was trading at an 11.3% discount to the NTA.
- This is one of the largest discounts within the LIC sector.



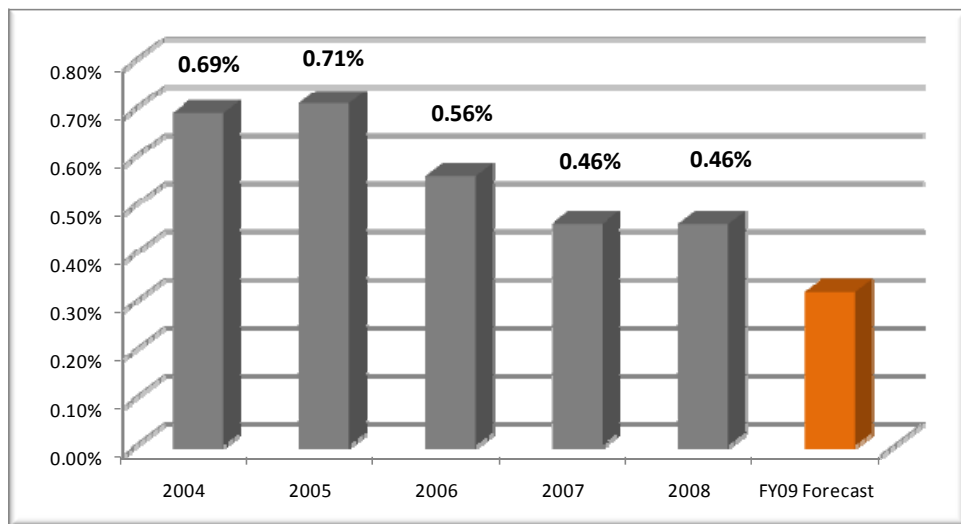
Source: Brickworks Investment Company

## Management Expense Ratio (MER)

- BKI's MER is calculated using total expenses for the financial year, expressed as a percentage of the average total assets for the financial year.
- The BKI MER has decreased from 0.46% as at 30th June 2008 to 0.42% as at 31st December 2008.
- Following the internalisation of the investment management on the 1<sup>st</sup> December 2008 and HIC acquisition, and based on the level of net tangible assets as at 31st December 2008, BKI is confident that the MER at 30th June 2009 will be between 0.30%-0.35%.

## Management Expense Ratio (MER)

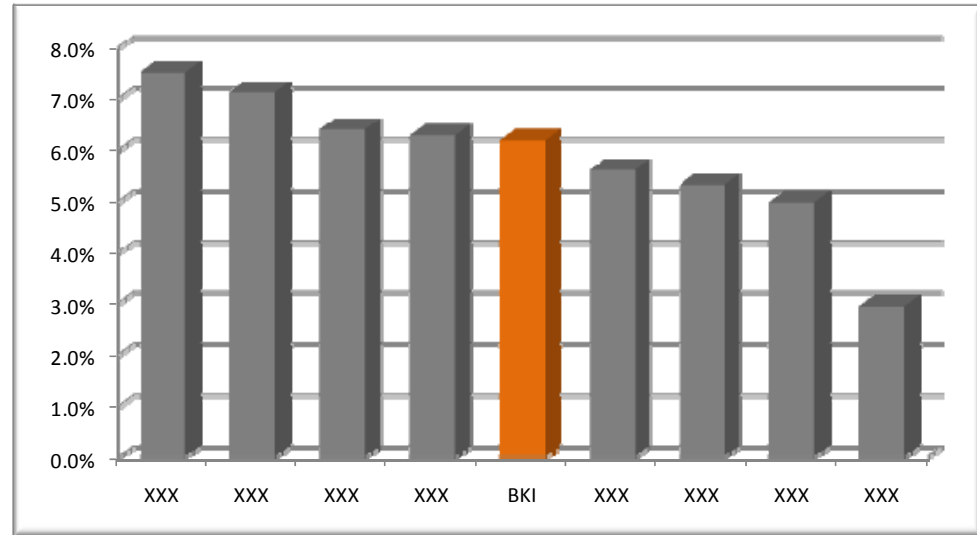
- The Management and Board of BKI are focused on keeping a tight control over administration and management costs.
- This cost focus has had a positive impact on reducing the MER since listing.



Source: Brickworks Investment Company Limited

## Historical Dividend Yield - Comparable to Australian LIC's

- BKI's key objective is to generate an increasing income stream for distribution to its shareholders in the form of fully franked dividends.
- BKI's Historical Dividend Yield as at the 31<sup>st</sup> March 2009 was 6.2%. This is very competitive within the LIC sector.

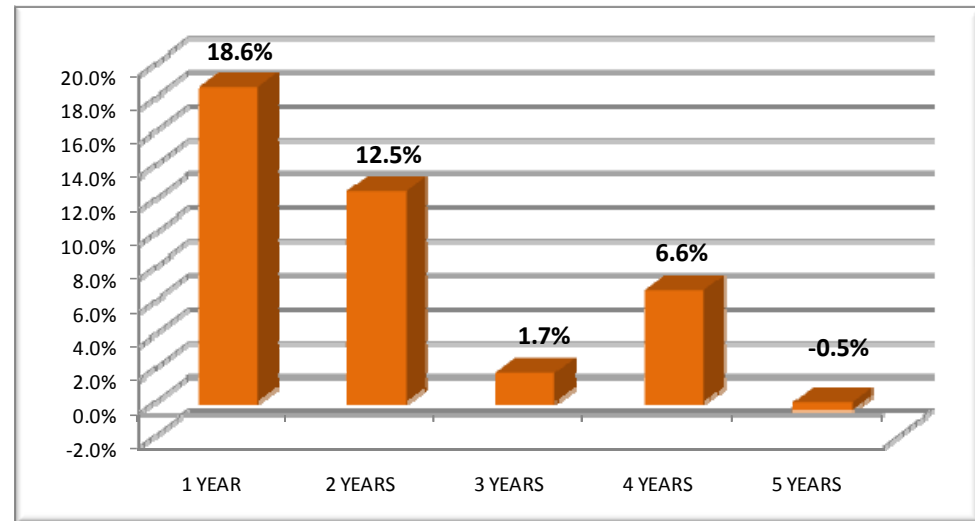


Source: IRESS

Dividends stated in the above chart are historical and do not reflect future dividend yields.

## Total Shareholder Returns – BKI Outperformance

- For the 12 months to 31<sup>st</sup> March 2009 the Total Shareholder Return of the S&P/ASX 300 Accumulation Index declined 29.8% compared to BKI's negative 11.2%, an outperformance of 18.6%.
- BKI's Total Shareholder Returns have seen some significant outperformance over the medium term.



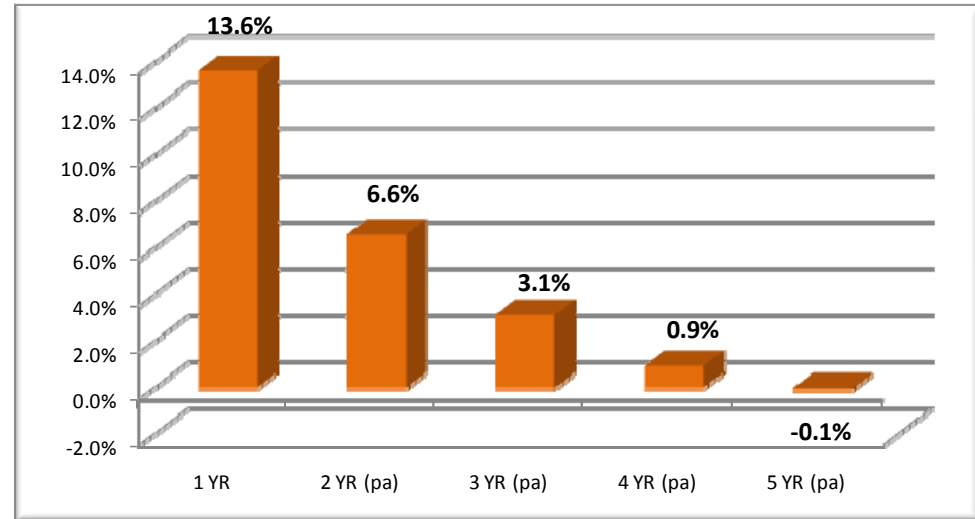
Source: IRESS

Total Shareholder Returns include reinvestment of dividends.

Past performance is not indicative of future performance.

## Portfolio Returns – BKI Outperformance

- BKI's Outperformance of the S&P/ASX 300 Accumulation Index for the 12 months ending 31<sup>st</sup> March 2009 can be attributed to contributions from BKI's top 5 holdings and strong cash position.
- In particular the overweight holding in NHC which has outperformed the S&P/ASX 300 Accumulation Index by 77.6% in the 12 months to March 2009.



Source: Brickworks Investment Company Limited

Portfolio Returns are measured by change in NTA and include the reinvestment of all dividends.

Past performance is not indicative of future performance.

## Top 20 Investments (as at 31<sup>st</sup> March 2009)

1. New Hope Corporation Limited
2. BHP Billiton Limited
3. National Australia Bank Limited
4. Westpac Banking Corporation
5. Commonwealth Bank
6. Telstra Corporation Limited
7. AGL Energy Limited
8. Woolworths Limited
9. Woodside Petroleum Limited
10. Wesfarmers Limited
11. QBE Insurance Group Limited
12. Metcash Limited
13. Coca Cola Amatil Limited
14. ASX Limited
15. Australia and New Zealand Bank
16. AMP Limited
17. Brambles Limited
18. Brickworks Limited
19. Choiseul Investments Limited
20. Campbell Brothers Limited

## New Hope Corporation Limited (NHC)

Portfolio Weight 13.0%

NHC produces thermal coal for the international and domestic markets from 3 mines based in Queensland. NHC also owns coal shipping port operator QBH and interests in coal seam gas producer Arrow Energy.

NHC recently released their 1H09 result to the market with Operating Profit of \$78.8m, up 143.3%. NPAT for the period was \$1.8bln, up from \$36.6m following the sale of the New Saraji Coal Deposit in September 2008.

Saleable coal production growth was 12.8%.

NHC's Earnings Per Share (EPS) grew 261% to 16.4cps.

NHC declared an Interim Dividend of 4.75cps. NHC also reiterated its intention to pay a fully franked special dividend of approx \$600m (74cps) in conjunction with the FY09 dividend in November 2009; of which BKI is expected to receive \$10.9m. This places NHC on an FY09 Fully Franked Dividend Yield of approx 24%.

NHC is currently trading on a PE multiple of 1.6X and has a cash balance of \$2.5bln.

For 12 months to 31<sup>st</sup> March 2009 NHC outperformed the S&P/ASX 300 Accumulation Index by 77.6%.

## BHP Billiton Limited (BHP)

Portfolio Weight 10.1%

BHP is the world's largest diversified resources group. Their first class asset portfolio produces iron ore, coal, copper, silver, lead, zinc, nickel, gold, uranium, minerals, manganese ore, crude oil, LNG, LPG, natural gas and bauxite.

BHP announced their 1H09 results in February with revenues increasing 16.6% to US\$29.8bln whilst EBIT grew 23.7% to US\$11.9bln.

Having generated operating cash flows of US\$13.1bln for the half, BHP continues to have minimal gearing (10% with interest coverage of over 40X). This places the company in an extremely strong position to add to their portfolio with asset values lower due to volatile commodity markets.

BHP's interim dividend was lifted 103% from 31.94cps to 64.95cps. BHP's FY09 dividend yield is forecast at 4% and is fully franked.

For 12 months to 31<sup>st</sup> March 2009 BHP out performed the S&P/ASX 300 Accumulation Index by 22.0%.

## National Australia Bank Limited (NAB)

Portfolio Weight 8.2%

NAB is an international financial services company focused on Banking (business, institutional, private and retail), Wealth Management and international capital markets. Brands include NAB and MLC (Australia), Clydesdale Bank and Yorkshire Bank (UK), Bank of New Zealand (NZ) and Great Western Bank (US).

NAB held a strategy update on the 12<sup>th</sup> of March noting in particular; 1) that their UK exposure remains a real concern, 2) a 25% cut to the FY09 dividend and 3) that the Australian business is performing well and will be the centre of focus over the medium term.

NAB's share price has been negatively impacted by offshore financial sectors and in particular the US and UK banking systems. For 12 months to 31st March 2009 NAB has significantly underperformed its peers. However since the strategy update NAB's share price has performed strongly with a majority of investors appreciating the capital preservation taken in cutting the dividend and the focus back on the Australian market.

Despite the UK business having a continual drag on earnings, NAB is well positioned to take advantage of some domestic opportunities that should emerge at some very compelling valuations. NAB are due to release their results to the market on the 28<sup>th</sup> April 2009.

## Westpac Banking Corporation (WBC)

Portfolio Weight 7.7%

WBC is Australia's first bank having commenced operations as the Bank of New South Wales in 1817. WBC's business consists of Banking (Westpac Retail, Westpac Business, Institutional, Westpac New Zealand and St George retail and Business) and Wealth Management (BT Financial Group)

WBC released an update to the market on the 18<sup>th</sup> February 2009. In particular noting that they are gaining market share, expanding interest margins, progressing well with the St George Bank merger and that following the underwriting of the November dividend and institutional placement the WBC Tier 1 ratio was 8.3%. The update in Tier 1 ratio does not include the SPP that raised \$442m and the Preferred Securities offer that raised a further \$908m. Impairment charges rose in the quarter to \$800m from \$144m. This was impacted by a \$300m increase in provisions for 3 specific corporate exposures.

WBC has not as yet reported any change to the 1H09 Dividend. The market has assumed WBC may well follow the lead set by ANZ and NAB in reducing their dividends to improve capital positions in the current environment.

For 12 months to 31st March 2009 WBC has outperformed the S&P/ASX 300 Accumulation Index by 16.2%.

WBC are due to release their 1H09 results on the 6<sup>th</sup> May 2009.

## Commonwealth Bank of Australia (CBA)

Portfolio Weight 6.4%

CBA commenced operations in 1912 and are today Australia's largest retail bank. CBA offer a full range of banking services (Retail, Business, and Institutional), Investment and Superannuation (CommSec, FirstChoice, Colonial First State) and Insurance (CommInsure).

CBA released their 1H09 results on the 11<sup>th</sup> February. The quality of banking revenue surprised the market and was a good indication that the business model for Australian Banks was not broken (unlike their offshore peers). CBA's Tier 1 ratio was 8.75% up from 8.2% in FY08.

However CBA's 1H09 Bad Debt Charge grew to \$1.6bln, up from \$333m in 1H08. This was impacted by a movement in provisions from \$132m in 1H08 to \$1.4bln.

CBA managed to hold their 1H09 Dividend at \$1.13 per share. Although CBA did state that they could not guarantee that the dividends will be maintained at historical levels. CBA will most probably reduce their FY09 dividend in order to improve their capital position. However on current prices CBA is still yielding 8% fully franked.

For 12 months to 31st March 2009 CBA has outperformed the S&P/ASX 300 Accumulation Index by 19.2%.

## Reporting Season Update

From BKI's Investment Portfolio perspective, there were two major themes that emerged from this reporting season:

- **Balance Sheets:** Companies with a high level of gearing and inadequate interest coverage have generally been sold down. However Companies with robust balance sheets are now seeing opportunities becoming available.
- **Dividends:** Companies who have been well managed, have profitable histories and solid balance sheets were able to maintain or lift dividend distributions. However many payout ratios were cut and in some cases, no dividend paid at all.

## Reporting Season Update

### Balance Sheets

- The tightening of the global financial crisis saw many Australian companies being caught out with high levels of gearing and inadequate interest cover. A worsening economic climate will only exacerbate this further and could force companies to raise additional capital or sell assets at historically low valuations.
- GSJBWere are forecasting the S&P/ASX 300 index to have average Interest Cover of 5.7X for FY09. This is significantly below the 11.3X Interest Coverage seen in FY06.
- From 1<sup>st</sup> October 2008 to 31<sup>st</sup> March 2009 there has been a total of A\$35.7bn raised in the Australian secondary equity market (This does not include hybrids, convertible notes or sell-downs and only includes deals completed that were above A\$20m).

## Reporting Season Update

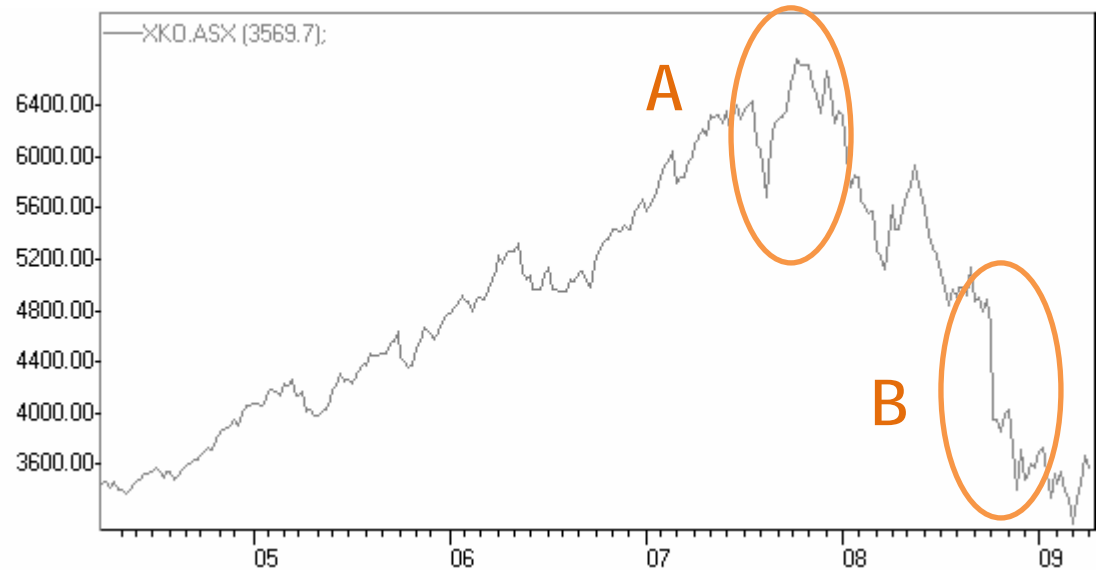
### Dividends

- Despite the negativity concerning the condition of many company balance sheets in the market place, the BKI Portfolio fared reasonably well in regard to dividends received during the recent reporting season.
- Of the companies within the BKI portfolio who have reported their Interim or Final dividends:
  - 37% have **increased** their dividend
  - 22% have **held** their dividend
  - 34% have **reduced** their dividend
  - 7% **did not** pay a dividend

## Reporting Season Update

### Dividends

- It should be highlighted that the previous corresponding period during this reporting season compares the peak (A) and trough (B) of the current cycle.
- This represents a 42% downward shift in the S&P/ASX 300 Index from December 2007 to December 2008.



Source: IRESS

## Cyclical, Defensive or Cash

### Cyclical

- With a long term investment horizon, cyclical companies are able to be added to the portfolio at very attractive valuations. Opportunities to acquire cyclical stocks at the lower end of the cycle are ample. However what is concerning is just how cyclical some companies or sectors have been when faced with a “worst case” scenario.

Company Code	Share Price	FY09 PE Ratio	FY09 Dividend	Dividend Yield	FY09 EPS	FY09 POR	FY09 Gearing	FY09 Interest Cover	1 Year Performance
BHP	\$31.91	11.4	\$1.27	4.0%	\$2.80	45%	10%	40X	-7.8%
NHC	\$3.80	1.6	\$0.92	24.2%	\$2.37	39%	0%	0X	47.8%
MSL	\$0.95	6.4	\$0.08	8.2%	\$0.15	53%	29%	11X	-57.9%
BSL	\$2.57	4.7	\$0.10	3.9%	\$0.55	18%	130%	4X	-70.7%
OST	\$2.25	4.9	\$0.13	5.8%	\$0.46	28%	60%	4X	-61.7%
BKW	\$9.86	10.5	\$0.40	4.1%	\$0.94	43%	28%	6X	1.7%
BLD	\$3.61	18.6	\$0.12	3.3%	\$0.19	62%	62%	2X	-38.4%
S&P/ASX300		10.2		4.9			42.6	5.7	-33.4%

## Cyclical, Defensive or Cash

### Defensive

- It continues to be a very difficult investment environment. As a long term investor, BKI will continue to hold defensive companies within the portfolio. There continue to be many well managed, profitable businesses with strong balance sheets and attractive dividend yields in the investable universe.

Company Code	Share Price	FY09 PE Ratio	FY09 Dividend	Dividend Yield	FY09 EPS	FY09 POR	FY09 Gearing	FY09 Interest Cover	1 Year Performance
WOW	\$25.01	16.9	\$1.01	4.0%	\$1.48	68%	39%	14X	-10.5%
MTS	\$4.06	14.2	\$0.22	5.4%	\$0.29	77%	36%	7X	4.9%
CCL	\$8.67	15.1	\$0.42	4.8%	\$0.58	73%	120%	5X	6.6%
SHL	\$11.07	13.3	\$0.56	5.1%	\$0.83	67%	52%	6X	-15.6%
QBE	\$19.27	10.6	\$1.26	6.5%	\$1.81	70%	N/A	N/A	-7.6%
NAB	\$20.10	10.5	\$1.45	7.2%	\$1.91	76%	N/A	N/A	-26.9%
WBC	\$19.09	12.4	\$1.42	7.4%	\$1.54	92%	N/A	N/A	-13.6%
S&P/ASX300		10.2		4.9			42.6	5.7	-33.4%

## Cyclical, Defensive or Cash

### Cash

- As the cash rate reduces, portfolio's with a view to the long term must continue to invest sensibly into the market taking advantage of some very attractive dividend yields.
- The biggest issue is sustainability of dividend payments. GSJBWere are forecasting the S&P/ASX 300 index dividend per share growth to be negative 15.7% for FY09.
- The continuing market fluctuations have provided further investment opportunities for BKI. Post investment and payment of Interim Dividend BKI's cash position as at 31<sup>st</sup> March 2009 was \$34.9m or 8.1% of total portfolio.

## BKI Stock Selection Criteria

- **Income** - Dividend Yields, Franking levels, POR.
- **Debt Levels** - Gearing Ratios, Net Interest Coverage.
- **Earnings and Valuations** - Earnings profiles, PE Multiples, EV/EBITDA Multiples.
- **Management and Board** – Ownership, Board Meeting Attendance, History of creating shareholder wealth.

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**QUESTIONS**

