



Argo Investments Limited
ABN 35 007 519 520

Appendix 4D

Half-year Report
for the period ended 31 December 2019
(previous corresponding period being
the half-year ended 31 December 2018)

**RESULTS FOR ANNOUNCEMENT TO THE MARKET
HALF-YEAR ENDED 31 DECEMBER 2019**

(Comparative figures being the half-year ended 31 December 2018)

				Consolidated \$'000
Income from operating activities	down	21.8%	to	132,835
Profit for the half-year	down	24.4%	to	118,837

Dividend

Interim fully franked dividend payable 6 March 2020 (previous corresponding period 16.0 cents fully franked)	16.0 cents
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The Company's Dividend Reinvestment Plan will operate for the interim dividend. The Directors have resolved that the shares will be allotted at the market price of Argo shares, which will be the volume-weighted average ex-dividend market price of the shares traded on the record date and the three business days following the record date. No discount will apply.

The record date for determining entitlements to the interim dividend	17 February 2020
The election date for determining participation in the Dividend Reinvestment Plan	18 February 2020

Final fully franked dividend for year ended 30 June 2019 paid 13 September 2019	17.0 cents
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Net Asset Backing

Net Tangible Asset Backing per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio was \$8.54 as at 31 December 2019, compared with \$7.34 as at 31 December 2018.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains was to be deducted, the net tangible asset backing per share would be \$7.47 as at 31 December 2019, compared with \$6.60 as at 31 December 2018.



ASX / MEDIA RELEASE

3 February 2020

Argo Investments Limited (ASX code: ARG), one of Australia's oldest and largest listed investment companies with a market capitalisation of \$6.3 billion and no debt, announces a half-year profit of \$118.8 million and an interim dividend of 16.0 cents per share fully franked.

SUMMARY OF FINANCIAL RESULTS

	<i>Half-year to</i> 31 December 2019	<i>Half-year to</i> 31 December 2018	<i>Change</i>
Profit	\$118.8 million	\$157.2 million	-24.4%
Profit ex. Coles demerger dividend	\$118.8 million	\$121.1 million	-2.3%
Earnings per share ex. Coles demerger dividend	16.6 cents	17.0 cents	-2.4%
Interim dividend per share (fully franked)	16.0 cents	16.0 cents	steady

The decline in profit was primarily due to a one-off, non-cash income item which boosted the reported profit in last year's first half, being the \$36.1 million demerger dividend due to Wesfarmers divesting the Coles Group. Excluding this prior period item, Argo's first half profit fell by -2.3%, with trading income and interest on cash deposits slightly lower.

The interim dividend of 16 cents per share fully franked is unchanged from last year and has been maintained at this level despite significant dividend cuts from Westpac Banking Corporation, National Australia Bank and Telstra Corporation.

INVESTMENT PERFORMANCE

Pleasingly, Argo's investment performance (NTA) returned +3.8%, to outperform the benchmark S&P/ASX 200 Accumulation Index return of +3.1% over the six months to 31 December 2019. Argo's share price returned +9.5% for the half-year and achieved an all-time high of \$9.08 last month, assisted by continuing strength in the Australian equity market and Argo's ability to deliver sustainably growing dividends over the long-term.

INVESTMENT PORTFOLIO

Despite equity markets rising in general, the first half saw further weakness in banking stocks as escalating remediation costs, new AUSTRAC allegations and continued management changes, particularly for Westpac, continued to weigh on the sector. This has resulted in a change in the composition of Argo's top 10 portfolio holdings by market value, with the major banks slipping down the order and being overtaken by Macquarie Group and CSL, which have again surged in value to become the largest holdings in Argo's portfolio at 31 December 2019.

During the half-year, Argo purchased \$93 million of long-term investments which included adding to a number of existing holdings as well as new positions. Argo received proceeds of \$65 million from sales and takeovers of long-term investments. The larger movements in the portfolio were:

Purchases

Amcor
 AP Eagers (takeover of Auto. Holdings)
 Corporate Travel Management
 Downer EDI
 Freedom Foods
 Ramsay Health Care
 Rural Funds Group
 Treasury Wine Estates*
 Tassal Group

Sales

Automotive Holdings Group** (taken over by AP Eagers)
 DuluxGroup** (taken over by Nippon Paint)
 Incitec Pivot**
 Milton Corporation
 Nufarm

* *New portfolio position*

** *Fully exited position*

OUTLOOK

With investor confidence bolstered by central banks' ongoing commitment to accommodative monetary policy, global share markets shrugged off many negative factors in 2019 to post strong returns. Data indicating global growth is stabilising and the announcement of a 'Phase 1' US/China trade deal in December, pushed major equity markets to new highs in January.

More recently, the growing threat of the coronavirus is creating some market volatility, with some sectors and stocks particularly affected. Tourism operators, education providers and some exporters to China are among those businesses currently most exposed. At this stage, the severity of the outbreak and the impact on China's economy remains unknown.

As China is the world's second largest economy and Australia's largest trading partner, the flow-on effects domestically could be significant if the health crisis escalates further. Notwithstanding the coronavirus threat, the Australian market rose 5% in January, despite a dour outlook for the economy and company profits.

As we enter the local corporate results reporting season, company valuations remain stretched as markets have rallied while earnings continue to be downgraded. In our view, the impacts of Australia's tragic bushfires and the unfolding coronavirus outbreak could dent the second half outlook for a number of companies and potentially lead to additional short-term market volatility. Although stocks are generally expensively priced, we anticipate that continued low (and possibly lower) interest rates will support global economic activity and ultimately drive equities higher as investors seek returns above cash rates.



Argo Investments Limited
ABN 35 007 519 520

Half-year Report
31 December 2019

Directors' Report

The Directors present the financial report of the consolidated entity, consisting of Argo Investments Limited and its controlled entity (Argo or Company), for the half-year ended 31 December 2019.

The Company's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth. It does this by investing in a diversified Australian equities portfolio which is actively managed in a tax-aware manner within a low-cost structure.

REVIEW OF OPERATIONS

Profit for the half-year under review decreased by 24.4% on the previous corresponding period to \$118.8 million and earnings per share reduced 24.9% to 16.6 cents per share. The decline in profit was primarily due to a one-off, non-cash income item which was reported in last year's first half profit, being the \$36.1 million demerger dividend due to Wesfarmers divesting the Coles Group.

The Directors have declared a fully franked interim dividend of 16.0 cents per share compared with 16.0 cents per share paid for the half-year to 31 December 2018. This dividend totals \$114.9 million, compared with \$113.9 million in the previous corresponding period and will be paid on 6 March 2020.

Net tangible asset backing per Argo share was \$8.54 as at 31 December 2019, compared with \$8.42 as at 30 June 2019 and \$7.34 as at 31 December 2018.

During the half-year, \$23.0 million of additional capital was raised for investment from the Dividend Reinvestment Plan.

The following persons were Directors during the half-year and are in office at the date of this report:

<u>Name</u>	<u>Period of Directorship</u>
Russell Allan Higgins AO (Chairman)	Director since 1 September 2011
Jason Beddow (Managing Director)	Director since 3 February 2014
Anne Bernadette Brennan	Director since 1 September 2011
Christopher Edgar Cuffe AO	Director since 25 August 2016
Roger Andrew Davis	Director since 1 June 2012
Elizabeth Anne Lewin	Director since 1 July 2018
Joycelyn Cheryl Morton	Director since 1 March 2012

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 3.

ROUNDING OF AMOUNTS

Australian Securities and Investments Commission Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 applies to the Company and accordingly amounts have been rounded to the nearest one thousand dollars in accordance with that Instrument, unless otherwise stated.

This report is made in accordance with a resolution of the Board of Directors.

On behalf of the Board



R.A. Higgins AO
Chairman

Sydney
3 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Argo Investments Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Argo Investments Limited and the entities it controlled during the period.



M.T. Lojszczyk
Partner
PricewaterhouseCoopers

Sydney
3 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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Consolidated Statement of Profit or Loss

for the half-year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Dividends and distributions		124,349	159,060
Interest		2,215	2,838
Other income		1,196	1,149
Net gains on trading investments		5,075	6,822
Income from operating activities		132,835	169,869
Administration expenses		(4,799)	(4,214)
Profit before income tax expense		128,036	165,655
Income tax expense thereon		(9,199)	(8,440)
Profit for the half-year		118,837	157,215
		cents	cents
Basic and diluted earnings per share	2	16.6	22.1

Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2019

	2019 \$'000	2018 \$'000
Profit for the half-year	118,837	157,215
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Revaluation of long-term investments	100,853	(613,712)
Provision for deferred tax (expense)/benefit on revaluation of long-term investments	(32,082)	172,646
Other comprehensive income for the half-year	68,771	(441,066)
Total comprehensive income for the half-year	187,608	(283,851)

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Financial Position

as at 31 December 2019

	31 December 2019	30 June 2019
	\$'000	\$'000
Current Assets		
Cash and cash equivalents	211,092	219,006
Receivables	10,903	86,323
Investments	11,640	10,595
Other financial cash assets	60,000	-
Total Current Assets	293,635	315,924
Non-Current Assets		
Receivables	45	56
Investments	5,874,062	5,747,794
Property, plant and equipment	1,933	537
Total Non-Current Assets	5,876,040	5,748,387
Total Assets	6,169,675	6,064,311
Current Liabilities		
Payables	1,012	1,433
Derivative financial instruments	6,234	8,165
Current tax liabilities	10,625	16,107
Provisions	635	611
Total Current Liabilities	18,506	26,316
Non-Current Liabilities		
Payables	1,199	-
Deferred tax liabilities	790,026	766,481
Provisions	219	195
Total Non-Current Liabilities	791,444	766,676
Total Liabilities	809,950	792,992
Net Assets	5,359,725	5,271,319
Shareholders' Equity		
Contributed equity	2,861,961	2,838,980
Reserves	1,968,037	1,928,508
Retained profits	529,727	503,831
Total Shareholders' Equity	5,359,725	5,271,319

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2019

	Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	Total \$'000
Balance as at 1 July 2019	2,838,980	1,928,508	503,831	5,271,319
Profit for the half-year	-	-	118,837	118,837
Other comprehensive income	-	68,771	-	68,771
Total comprehensive income for the half-year	-	68,771	118,837	187,608
Transactions with shareholders:				
Dividend Reinvestment Plan	23,031	-	-	23,031
Cost of share issues net of tax	(50)	-	-	(50)
Executive performance rights reserve	-	(645)	-	(645)
Dividend paid	-	(28,597)	(92,941)	(121,538)
Total transactions with shareholders	22,981	(29,242)	(92,941)	(99,202)
Balance as at 31 December 2019	2,861,961	1,968,037	529,727	5,359,725

for the half-year ended 31 December 2018

Balance as at 1 July 2018	2,795,816	1,871,129	410,203	5,077,148
Profit for the half-year	-	-	157,215	157,215
Other comprehensive income	-	(441,066)	-	(441,066)
Total comprehensive income for the half-year	-	(441,066)	157,215	(283,851)
Transactions with shareholders:				
Dividend Reinvestment Plan	21,497	-	-	21,497
Cost of share issues net of tax	(43)	-	-	(43)
Executive performance rights reserve	-	(521)	-	(521)
Dividend paid	-	(28,373)	(85,118)	(113,491)
Total transactions with shareholders	21,454	(28,894)	(85,118)	(92,558)
Balance as at 31 December 2018	2,817,270	1,401,169	482,300	4,700,739

(To be read in conjunction with the accompanying notes)

Consolidated Statement of Cash Flows

for the half-year ended 31 December 2019

	2019 \$'000	2018 \$'000
Cash flows from operating activities		
Dividends and distributions received	147,456	148,713
Interest received	2,166	2,914
Other receipts	1,191	1,149
Proceeds from trading investments	3,512	8,917
Payments for trading investments	(1,412)	(10,092)
Other payments	(5,884)	(4,970)
Income tax paid	(23,198)	(27,067)
Net operating cash inflows	123,831	119,564
Cash flows from investing activities		
Proceeds from sale of long-term investments	100,427	182,376
Payments for long-term investments	(73,601)	(239,112)
Proceeds from other financial cash assets	-	120,000
Payments for other financial cash assets	(60,000)	(75,000)
Executive share scheme repayments	11	11
Payments for fixed assets	(4)	(63)
Net investing cash outflows	(33,167)	(11,788)
Cash flows from financing activities		
Cost of share issues	(71)	(61)
Dividend paid – net of Dividend Reinvestment Plan	(98,507)	(91,994)
Net financing cash outflows	(98,578)	(92,055)
Net (decrease)/increase in cash held	(7,914)	15,721
Cash at the beginning of the half-year	219,006	108,519
Cash at the end of the half-year	211,092	124,240

(To be read in conjunction with the accompanying notes)

Notes to the Financial Statements

for the half-year ended 31 December 2019

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

The general purpose financial report for the half-year ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this half-yearly report is to be read in conjunction with the Annual Report for the year ended 30 June 2019 and any public announcements made by Argo Investments Limited (Company) during the half-year, in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

Accounting Standard AASB 16 *Leases* was applied from 1 July 2019. The standard requires lessees to recognise property lease (right-of-use) assets and lease liabilities for most leases. The property lease assets and lease liabilities have been determined based on the present value of the lease payments and are accounted for over the period of the lease. The application of this standard did not have a material impact on the Company's financial statements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2. EARNINGS PER SHARE

	2019 number '000	2018 number '000
Weighted average number of ordinary shares on issue used in the calculation of earnings per share	716,626	710,916
	\$'000	\$'000
Profit for the half-year	118,837	157,215
	cents	cents
Basic and diluted earnings per share	16.6	22.1

3. DIVIDENDS

	2019 \$'000	2018 \$'000
Dividend paid during the half-year:		
Final dividend for the year ended 30 June 2019 of 17.0 cents fully franked at 30% tax rate paid 13 September 2019 (2018:16.0 cents fully franked at 30% tax rate)	121,538	113,491
Since the end of the half-year, the Directors have declared the following dividend which has not been recognised as a liability at the end of the half-year: Interim dividend for the year ending 30 June 2020 of 16.0 cents fully franked at 30% tax rate payable 6 March 2020 (previous corresponding period: 16.0 cents fully franked at 30% tax rate)	114,847	113,927

4. CONTRIBUTED EQUITY

Ordinary shares rank pari passu, have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the Company in the proportion to the number of the shares held. The Company does not have a limited amount of authorised capital.

	2019 No. of shares	2018 No. of shares	2019 \$'000	2018 \$'000
Issued and fully paid ordinary shares:				
Opening balance	714,930,941	709,317,039	2,838,980	2,795,816
Dividend reinvestment plan ^(a)	2,861,032	2,724,536	23,031	21,497
Cost of share issues net of tax	-	-	(50)	(43)
Closing balance	717,791,973	712,041,575	2,861,961	2,817,270

(a) On 13 September 2019, 2,861,032 shares were allotted at \$8.05 per share pursuant to the Dividend Reinvestment Plan in operation for the final dividend paid for the year ended 30 June 2019.

5. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the investment industry predominately within Australia.

The Company is managed as a whole and is considered to have a single operating segment. There is no further division of the Company or internal segment reporting used by the Directors when making strategic, investment or resource allocation decisions.

The Company is domiciled in Australia and derives its income from the investment portfolio through the receipt of dividends, distributions, interest and other income. Argo has a diversified portfolio of investments, with no single investment accounting for more than 10% of income.

There has been no change to the operating segments during the half-year.

6. EVENTS AFTER BALANCE DATE

Since 31 December 2019, to the date of this report, there have been no events specific to the Company of which the Directors are aware which has had a material effect on the Company or its financial position.

7. CONTINGENCIES

At balance date the Directors are not aware of any material contingent liabilities or contingent assets.

Directors' Declaration

In the opinion of the Directors of Argo Investments Limited (Company):

- (a) the consolidated financial statements and notes set out on pages 4 to 10 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



R.A. Higgins AO
Chairman

Sydney
3 February 2020



Independent auditor's review report to the members of Argo Investments Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Argo Investments Limited (the Company) and the entities it controlled during the half-year (together the Consolidated Entity), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, for the half-year ended on that date, the notes to the financial statements and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Argo Investments Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

PricewaterhouseCoopers, ABN 52 780 433 757

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**Independent auditor’s review report to the members of Argo Investments Limited
(continued)**

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

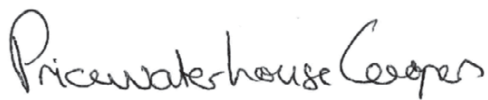
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Argo Investments Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Consolidated Entity’s financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



M.T. Lojszczyk
Partner

Sydney
3 February 2020