ASX / MEDIA RELEASE

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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

	Half-year to 31 December 2019	*Half-year to 31 December 2018*	*Change*
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	Sales
Amcor	Automotive Holdings Group** (taken over by AP Eagers)
AP Eagers (takeover of Auto. Holdings)	DuluxGroup** (taken over by Nippon Paint)
Corporate Travel Management	Incitec Pivot**
Downer EDI	Milton Corporation
Freedom Foods	Nufarm
Ramsay Health Care	
Rural Funds Group	
Treasury Wine Estates*	
Tassal Group	

*   *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.

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