Investing in Australia

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Argo increases fully franked dividends for seventh successive year

Argo Investments Limited (ASX code: ARG), a major listed investment company (LIC) with assets of more than $6 billion, today announces a +33.7% increase in full year profit to $292.7 million. The final dividend has been raised to 17.0 cents per share, fully franked.

Argo's Managing Director, Jason Beddow, said the Board was pleased to raise annual dividends for the seventh year in a row to 33.0 cents per share fully franked, an increase of 4.8% on last year and another record high for the Company.

Summary of financial results	***2019***	*2018*	*change*
Profit	**$292.7 million**	$218.9 million	+33.7%
Profit excluding Coles demerger dividend	**$256.6 million**	$218.9 million	+17.2%
Earnings per share excl. Coles demerger dividend	**36.0 cents**	31.3 cents	+15.0%
Final dividend per share (fully franked)	**17.0 cents**	16.0 cents	+6.3%
Full year dividends per share (fully franked)	**33.0 cents**	31.5 cents	+4.8%
Management Expense Ratio	**0.15%**	0.15%	steady

The large increase in reported profit 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 income item, Argo's profit was $256.6 million, an increase of +17.2% on the previous full year result.

Mr Beddow said: "Our dividend income was boosted by a number of special dividends, with the larger ones from BHP Group, Rio Tinto and Wesfarmers, as well as improved ordinary dividends from companies including Macquarie Group and Ramsay Healthcare."

Some portfolio sales resulted in significant capital gains being crystallised, allowing Argo to again include a capital gain component of 4 cents per share in the final dividend. Most individual and self-managed superannuation fund shareholders can claim a tax deduction relating to these capital gains, in addition to the benefit of franking credits. Argo is one of only a handful of companies in Australia which is able to pass on this benefit due to its tax status as a long-term investor.

Investment portfolio

During the financial year, Argo purchased $343 million of long-term investments which included adding to a number of existing holdings. Argo received proceeds of $256 million from sales and takeovers of long-term investments. The larger movements in the portfolio during the year included:

Purchases	*Sales*
Bega Cheese	Asaleo Care**
Boral	BHP Group
Eclipx Group*	Coca-Cola Amatil**
James Hardie Industries*	Incitec Pivot
Oil Search	Milton Corporation
The Star Entertainment Group*	Navitas**
Transurban	Rio Tinto
Viva Energy*	Twenty-First Century Fox**

* *New portfolio position*

** *Sale of complete position and removal from portfolio*

Coles Group has also been added following its demerger from Wesfarmers during the year.

Investment performance

With investors continuing to favour growth stocks, the Australian equity market achieved new highs this year. Argo's investment (NTA) performance returned +7.3% after all costs and tax, compared with the S&P/ASX 200 Accumulation Index which returned +11.6% without any allowance for costs or tax.

Argo's performance reflects the composition of its long-term portfolio which tends to be weighted to mature companies with reliable cashflows and higher dividend payout ratios, rather than high growth stocks. This reflects our primary objective of providing sustainably growing dividends to Argo shareholders over the long-term.

Outlook

Despite a weak December 2018 quarter and increased volatility, equity markets globally delivered a strong overall performance in financial year 2019, as investors seemed to shrug off the largely unresolved issues of trade wars and geopolitical tensions which were weighing on markets at the end of the last calendar year.

Sentiment has been bolstered by central banks globally cutting interest rates and showing a renewed willingness to consider additional quantitative easing measures. After raising rates in 2018, the US Federal Reserve promptly pivoted its view and recently cut interest rates for the first time since December 2008. Following the federal election in Australia, the Reserve Bank of Australia quickly cut interest rates in both June and July, to leave the headline cash rate at 1.0%.

Valuation ratios of listed companies look to be close to the upper end of historic ranges and despite improved sentiment, earnings growth appears to be challenged for the majority of the market with the exception of the resources sector. Although many stocks seem expensive based on fundamentals, investors continue to be drawn to the higher yields offered by the share market, compared to bonds and term deposits.

In our view, there is likely to be ongoing downward pressure on corporate earnings. Given this subdued outlook, Argo's investment team is focused on identifying companies with strong cashflows and dividend histories, as well as solid longer-term prospects, that will provide profit and dividend growth into the next phase of the economic cycle.

With cash available, Argo is well-positioned going into this corporate profit reporting season. As high expectations are already built into many companies' share prices, we expect there will be volatility following some result announcements which could create buying opportunities to further build our long-term investment portfolio.

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