



26<sup>th</sup> June 2018

## **CHAIRMAN'S ADDRESS**

### **ANNUAL GENERAL MEETING**

Kina Asset Management Limited has had a remarkable year in 2017, delivering a total return of 16.8%. Net profit was K8.4 million for the year which is an increase of K2.2 million from the previous year.

We were able to achieve another year of double digit returns in 2017 due to strong performances from international share markets assisted by a weakening of the PGK against most major currencies. Domestically, despite ongoing low economic growth the portfolio also performed well. Net assets for KAML grew from K57.5 million at the end of the 2016 to K63.4 million by the end of 2017, the strongest outcome over the last 4 years. Capital growth was 10.4% and income yield was 6.4% for the year.

KAML's performance was a result of the strategic positioning of the portfolio in terms of asset domicile and asset class selection. With respect to our domestic investments, capital gains were mainly driven by solid growth in energy stock, Oil Search yielding a total return of K906,000 while a strong contribution was made to the income yield by a strong performance from banking stock, Bank South Pacific which contributed a total return of K2.2 million for the year, the highest return by a single security held in the portfolio.

International investments also returned impressive results on the back of strong international markets. Notable performers were, Australian pharmaceutical stock, CSL Ltd and Vanguard International contributing a total return of K1.2 million and K1.6 million respectively. Both investments contributed about 34.1% to the total return of the portfolio. In total, capital gains amounted to K5.8 million over the year, inclusive of foreign exchange effects.

During the year, we introduced Telstra Corporation to the portfolio as a company with a very strong franchise and attractive fundamental value. We are gradually building a position in the stock so as to achieve an attractive long term average entry price. Other transactions comprise of the partial stock disposal of Oil Search to trim exposure and take advantage of strong gains in the share price in line with a seasonal increase in the oil price.

The cash position of the Fund remained healthy and ended the 2017 year at 20.3%. Since that time we have deployed further cash and the cash position now is at 13.4%. Of the total cash held, 12.9% was held offshore in United States and Australian dollars. With the PGK depreciating through the year, holding our liquid funds offshore contributed strongly to the overall return. Your board remains cautious in the deployment of cash, looking for companies

that are considered to be deep value and supported by a catalyst for positive change to realise value and also protect capital.

Domestically companies exposed to domestic consumption continued to suffer from low growth levels in our economy. City Pharmacy undertook a capital raising during the 2017 year mainly as a result of difficult trading conditions. KAML declined participation in the capital raising for a variety of reasons including we did not see that the tough conditions faced by the company will change any time soon. We continued to monitor our position in BSP throughout the year and based on the company's strong profitability and attractive consistency of dividend yield, we maintained the portfolio weighting slightly above 20%. The total dividend paid by BSP increased by 25.0% from the 2016 year, supporting KAML's income levels. BSP remains one of the strongest performing investments for KAML with an impressive total return of 17.9%, outperforming the benchmark index, KSi Home index by 15.4%.

KAML shares traded in minimal volumes during 2017 and ended the year at 95 toea per share. This price represents a discount of 26.9% compared to Net Tangible Assets (NTA) per share of K1.30 at year-end. We believe that this price level is not reflective of the value of the underlying assets of the company and historical performance of the company over the last 10 years. The last 10 years has delivered to shareholders an average annual return on the issue price of K1.00 per share of 8.4%, a track record that would be enviable in any Jurisdiction.

As a result of the very good financial result this year, we were pleased to have declared a final dividend of 3 toea for the 2017 financial year, which brings the total dividend for the 2017 year to 5 toea. This represents an increase of 25.0% in dividends from the previous year and reflects KAML's commitment to provide shareholders with income through regular dividends in times of strong performance.

### **2018 and going forward**

Moving onto the current year, 2018 to date has seen a high level of overseas market volatility and specific factors presenting challenges to investors of which KAML is not immune. These include events such as the Royal Commission into banking practices in Australia, increasing bond yields in the United States and the spectre of a global trade war being only some of the issues. Domestically conditions remained subdued generally, however what appears to be a sustained increase in commodity prices does seem to be aiding economic activity, albeit at low levels of growth. Although foreign exchange constraints remain an issue for the local economy, access to foreign exchange has improved recently providing some temporary relief.

The performance of the company for the year to date reflects the difficult current conditions in markets. Despite this the company was still able to achieve a positive investment return of K808,579 for the five months to May 2018, representing a return of 1.2% notwithstanding subdued performance in global markets and an appreciation of the PGK against the AUD as foreign currency access improved somewhat as discussed.

## **Conclusion**

In closing, I and my fellow directors would like to thank you, our valued shareholders, for your continued confidence in, and unwavering support to, the Board and management of the company.

KAML will continue with our disciplined and conservative approach to investment that will remain focused on capital preservation through value investing and income generation.

And lastly we would also like to thank the management team for another successful year, and I would now like to move to the formal part of the meeting and resolutions.

Sir Rabbie Namaliu GCL, CSM, KCMG  
**Chairman**

## **End**

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