



26 June 2019

CHAIRMAN'S ADDRESS

2019 ANNUAL GENERAL MEETING

2018 was a challenging year for Kina Asset Management Limited. The company performed respectably well in a difficult global political and economic environment, delivering a total return of 2.2%. Net profit was K0.1 million, down from K8.2 million from the previous year.

This result was achieved in year marked by increasing geo-political uncertainty – most notably, the US/China trade crisis, and the extension to the BREXIT deadline in Europe - a slowing global economy; and at home, the destructive earthquake in PNG Highlands. The year ended dramatically for investment markets. US equity markets fell 13.5% during the year. In Australia, equity markets fell 6.9%. In PNG, despite the earthquake and falling prices for our key export commodities, equity markets managed to rise by 4.8%.

The company's net assets at year end stood at K61.4 million, a fall of 3.2% from K63.4 million at the end of 2017. Capital losses arising from falls in the prices of most of the company's share holdings amounted to K2.7 million, and the 6.1% appreciation of the PNG Kina against the Australian Dollar resulted in currency losses of K2.1 million. Offsetting these losses was a strong rise in dividend and interest income to K4.2 million.

BSP continues to maintain its position as the biggest driver of the Company's investment performance. Total return from BSP was 22.2%, comprising a dividend yield of 13.9%, and an 8.3% increase in share price. BSP is the company's largest single investment, representing 23.4% of the portfolio at year end.

As I noted earlier, it was a difficult year for international investments. Notwithstanding, the company's Australian bank holdings – ANZ, NAB, and Westpac – generated strong dividend returns, which helped to offset falls in their respective share prices. Australian pharmaceutical giant CSL continues to be the best performing stock in the international portfolio – and the only one to report a positive return for the year – at 25.1%.

During the year, the company increased its holdings in Telstra, Credit Corporation, Kina Securities and Oil Search. Overall, the company's transaction activity was light, reflecting the fund manager's view that markets were approaching full value as deteriorating global market conditions saw an inevitable rise in volatility.

The cash position of the Fund remains strong, and was 13.5% at year end. With rising equity markets and new portfolio activity in the current year, the cash position had been reduced to 11.0% at 31 May 2019. 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.

KAML shares traded in small volumes during 2018 and ended the year at 95 toea per share. This price represents a discount of 24.6% compared to Net Tangible Assets (NTA) per share of K1.26 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.

An interim dividend of 2 toea per share was paid to shareholders in October 2018. As a result of the company's modest investment return for the year, the directors have decided not to pay a final dividend for 2018.

2019 and going forward

Turning now to the current year, I am pleased to report that investment markets have rebounded strongly in 2019, despite a continuation of the geo-political tension and economic headwind which affected the company's returns in 2018.

For the five months to 31 May 2019, the company's investment return was 13.2%.

Despite domestic economic conditions remaining subdued, strong gains were reported in most of the company's key PNG shareholdings. BSP rose 7.7%, Credit Corporation rose 13.9%, and Kina Securities Limited – who announced the acquisition of ANZ Bank's retail and SME business from later this year – rose 32.2%. The company's international investments have also performed well, with Australian listed securities rising as a group by 17.9%, and the global index funds by 11.0%, inclusive of currency fluctuations.

The company remains optimistic that despite the many challenges faced both domestically and internationally, it will continue to deliver positive results for shareholders over the long term.

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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