AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED
ABN 37 004 268 679

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15 October 2020

Electronic Lodgement

2020 Annual General Meeting Presentation

Dear Sir/Madam,

In accordance with the ASX Listing Rules, I enclose the presentation of the Chairman, which will be delivered today at the Australian United Investment Company Ltd 2020 Annual General Meeting.

Authorised by:
James Pollard
Company Secretary

AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

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CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 66th ANNUAL GENERAL MEETING OF THE COMPANY HELD BY AUDIO AND SLIDE WEBCAST ON THURSDAY 15TH OCTOBER 2020 AT 11.00 AM

Welcome to this year's Annual General Meeting.

For the financial year just ended the Company's operating profit after income tax, which excludes net realised investment gains, was $41.1 million compared to $55.8 million in the previous year – a decrease of 26.3%.

If special dividends and distributed capital gains received from managed funds in both periods are excluded, profit decreased 18.2% to $40.0 million. This year special dividends and distributed capital gains totalled $1,103,000 after tax compared to $6,806,000 in the previous year.

Excluding special dividends and distributed capital gains received the Company's revenue fell 18.7% on last year. During the second half of the financial year the COVID-19 pandemic affected the operations and outlook for many of the investee companies and a number of dividends and distributions were deferred, reduced or cancelled.

The weighted average number of ordinary shares on issue for the year was 124.5 million as against 124.2 million in the previous year, an increase of 0.3%.

Earnings per share was 33.1 cents, compared to 44.9 cents for the previous year, a decrease of 26.3%. Excluding special dividends and capital gains distributions received, earnings per share was 32.2 cents, compared to 39.4 cents for the previous year, a decrease of 18.3%.

The final dividend for the year ending 30 June 2020 is 19.0 cents per share fully franked which, with the interim dividend of 17.0 cents per share fully franked, makes a total dividend for the year of 36 cents per share fully franked, unchanged from last year.

The Company has maintained or increased its dividend paid per share every year since 1994.

The directors have decided to maintain the final dividend even though total dividends paid for year ended 30 June 2020 of 36 cents are not fully covered by earnings per share of 33.1 cents in the year. Over the previous years, there have been some accumulated retained earnings and franking credits, and these are being drawn on to cover the dividends for the year ended 30 June 2020.

Given the uncertainties, the directors cannot foreshadow whether or not this will be the case for the current year which will see another significant fall in dividends received by the company.

The Company's operating expenses (excluding borrowing costs) were equivalent to 0.12% of the average market value of the portfolio compared to 0.10% in the previous year. As foreshadowed last year, our costs rose with the appointment of Mr. James Pollard as an additional Company Secretary, to provide greater depth of operating capability for the Company. The management expense ratio was also affected by the average market value of the portfolio falling during the year by 5%.

Bank borrowing facilities were $150 million, drawn as to $85 million at the end of the financial year (last year $150 million, drawn as to $100 million). Gross debt as a proportion of the portfolio including cash was 7.4% (2019: 7.5%). Cash on hand, cash deposits and net short-term receivables were $20.8 million or 1.8% of the investment portfolio at market values (2019: $95.7 million, 7.2%). Net debt as a proportion of the portfolio excluding cash was 5.7% (2019: 0.4%).

Annual interest expense was covered 14.8 times by investment income (last year 13.5 times).
The net asset backing per share after provision for the final dividend and before estimated tax on unrealised gains was $8.40 at 30 June 2020, compared to $9.66 at 30 June 2019, a fall of 13%.

Continued Over

The performance of an investment in AUI based on net asset backing per share, and separately on share price, assuming all dividends were re-invested, compared to the S&P/ASX 200 Accumulation Index in each of the past one, three, five and ten year periods is as follows:

To 30 June 2020	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	(9.55)	(7.86)	(7.68)
3 Years	3.98	3.96	5.19
5 Years	4.19	4.33	5.95
10 Years	6.86	6.43	7.80

The Company's net asset backing accumulation performance is after tax and expenses and the impact of the Company's gearing for which no allowance is made in the index. Further the Company's dividends are fully franked, while the level of franking of the whole market is around 75%.

Including the benefit of franking credits for shareholders who can fully utilise them, the Company's accumulation return for the year to 30 June 2020 was a fall of 8.0% compared to a fall of 6.6% in the S&P/ASX 200 franking credit adjusted return.

The Company's relative performance for the year was assisted by overweight allocations to CSL, Rio Tinto and consumer stocks, and underweight holdings in property stocks. Performance was held back by holdings in the banking and energy sectors and underweight allocations to the strong technology and gold sectors.

The year saw considerable changes in the performance of various sectors with the ASX 200 Energy sector falling 29%, the Property sector falling 21% and the Financials falling 20%. In contrast Health Care rose by 27%, Information Technology rose 19%, and the Gold sector rose 17%.

If we look at the USA S&P500 the performance of the technology sector is shown starkly. For the financial year to 30 June 2020 the S&P500 rose 5%. However, if we exclude the FAANG Stocks (Facebook, Apple, Amazon, Netflix and Google) and Microsoft, the S&P500 fell 3%. The FAANG stocks plus Microsoft rose 49%.

We are invested in CSL, Seek and Carsales but are generally light on technology stocks partly due to our difficulty in justifying their valuations, the lack of profits and dividends for many of these companies, their short history as listed companies and our view that better value is found in the international technology companies. As the name of our Company indicates, we focus on Australian companies.

We are a value investor and the value sector of the market has in recent years lagged the growth sector by a fair margin. Those shareholders who wish to participate in the technology sector should consider doing so outside their investment in AUI and should consider the international market.

The portfolio of the Company is invested in Australian equities and one New Zealand stock (Napier Ports) and at balance date was spread over 39 companies. The Annual Report provides a list of the shareholdings at 30 June 2020 and 30 June 2019; the changes to the portfolio during the year; the percentage of the investment portfolio in terms of market values of each investment; and the twenty-five largest investments ranked in order of size as at 30 June 2020.

The largest investments in terms of market value at balance date were CSL, Commonwealth Bank, Transurban, Rio Tinto, BHP, DUI, Wesfarmers, ANZ and Westpac. These nine investments at 30 June 2020 comprised 57% of the portfolio and our twenty-five largest investments comprised 90% of the portfolio.

At 30 June 2020 the main sectors of the portfolio were Banks and other Financials 30%, Mining and Energy 20%, Consumer 15%, Healthcare 15% and Infrastructure and Transport 13%. Other investments were 5% and cash on hand was 2%.

Since the end of the financial year, we have increased our holdings in Orica, Invocare, Atlas Arteria, Challenger Group, Link Administration, LendLease, BHP Group, and participated in capital raisings by Sydney Airport and Tabcorp, and added General Property Trust, Stockland Group and James Hardie Industries to our portfolio. We have sold our holding in Scentre Group and reduced our holdings in ANZ Bank, National Australia Bank and Westpac.

Continued Over

At 30 September the composition of our portfolio was broadly Banks and other Financials 28%, Mining and Energy 20%, Infrastructure and Transport 17%, Consumer 16% and Healthcare 15%. Other investments were 2% and cash on hand was 2%. Borrowings facilities were $150 million, drawn as to $100 million, or 9% of the portfolio.

Our net asset backing per share based on investments at market values and after provision for tax on realised gains, but not on net unrealised gains and losses, and after allowing for the final dividend was $8.40 at 30 June 2020 and $8.18 at 30 September 2020

AUI is a long-term investor and does not intend disposing of its total portfolio. However, under current accounting standards the Company is required to provide for estimated tax that would arise on a theoretical disposal of the entire portfolio. After deducting this provision the net asset backing at 30 June 2020 was $7.30 per share and at 30 September 2020 was $7.18.

OUTLOOK:

We should reflect back and realise the world was not in great shape when the Coronavirus arrived. World growth was slowing down, world debt was at a peace-time record, and there were wars in the Middle East, strains in relationships in the EU, there was Brexit, tensions with North Korea and trade tensions between the US and China.

Then we had the fall in the oil price from around US$65 to US$30 a barrel causing severe problems in the Middle East and for other countries such as Venezuela.

Then in January 2020 the Coronavirus crisis arrived and it is different to previous crises. In war there is a destruction of capital; in the Global Financial Crisis (GFC) there was concern with the soundness of the banking system and a shortage of liquidity; and in cyclical recessions there is usually a deterioration of economic activity and then a gradual recovery. This crisis is a health/medical recession and its impact is immediate, severe and worldwide. In the June Quarter 2020 the Gross Domestic Product in Australia fell around 7%, in USA 12%, in the EU 12%, in the UK 15% and in India 20%.

It has had an uneven impact between countries; between states within a country; between industries with for example travel and hospitality services being hit hard while groceries and online businesses have prospered; and there have been different impacts on prices with rents adversely affected, but prices of groceries and household goods rising.

It has been met with an unprecedented response from Governments and Central Banks. In the Advanced Economies there has been broadly a 6% of GDP stimulus which is double that for the GFC in 2008 and Central Banks have increased their balance sheets to around 18% of GDP or more than three times the level in 2008.

There is talk of whether we can expect a V-shaped or a U-shaped recovery. Much will depend on when we develop a vaccine, its effectiveness and its take-up by the community. If we had to pick a letter it would be a half V with a quick partial recovery after lockdown restrictions are substantially eased, followed by a slow further recovery. The drag on recovery will be from unemployment taking years to reduce to its former low level, a more cautionary risk-adverse environment in the community, low wages growth, and a slow return to former levels of private capital expenditure.

We will also have a transition from larger Government transfer payments such as Job Seeker and Job Keeper to Government fiscal expenditure on health, education and infrastructure and incentives to encourage private sector employment and investment.

In this difficult and uncertain environment, the share market seems high to us based on historical price-earnings ratios, on dividend yields and the outlook for earnings growth in the next few years. However, in light of the very low interest rates and very high liquidity from Government deficits and quantitative easing, the market can be seen as reasonably valued.

Your Company's portfolio turnover last year was 4% and we expect to continue to hold our broadly based portfolio of established leading companies in the knowledge that we will receive a lower dividend income in the year ahead.

Charles Goode
Chairman