

## Djerriwarrh Investments Limited (ASX: DJW): Seeks To Provide an Enhanced Level of Fully Franked Income

BY ACE INVESTORS / 06 DECEMBER 2023



Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX:DJW
Shares O/S	262.27 million
Closing Price	AUD 2.84
Market Cap	726.48 million
52 High/Low	3.02/2.70
One Year Stock Performance	-3.07%
Avg volume (TTM)	0.12 million
EPS (TTM)	0.152
P/E	18.54
Annual Dividend Yield	5.26%
Franking	100%
Last Dividend Ex-Date	10 Aug 2023
Last Dividend Pay Date	25 Aug 2023
DPS (AUD)	0.15
ROE %	4.73%

### COMPANY OVERVIEW

Djerriwarrh Investments Limited (“**DJW**” or the “**Company**”) is a Listed Investment Company investing in Australian equities with a focus on stocks where there is an active options market. The Company uses Exchange Traded Options to enhance income returns to investors. The Company pays out a high percentage of profits as fully franked dividends. Dividends are able to be sourced from current year profits, retained profits, and profits from the sale of investments.

The Company's top 20 largest holdings largely determine the portfolio return and generation of dividend and option income. The Company regularly reviews the net asset backing per share both before and after the provision for deferred tax on the unrealized gains or losses in Djerriwarrh's long term investment portfolio.

Constructing a diversified portfolio of quality companies across different sectors with the appropriate balance of Income and Growth is the key for Djerriwarrh to deliver on its Investment Objectives in a variety of market conditions.

#### Top 20 Holdings



Source – Company's Report

Source – Company's Report

- Investment objectives: Djerriwarrh aims to pay a higher level of fully franked dividend than is available from the S&P/ASX 200 and to provide capital growth over the medium to long term.
- Benchmark: S&P/ASX 200 Accumulation Index.
- Size of portfolio: \$909.8 million on 30 November 2023.
- Low Management cost: 0.40 percent, no additional fees.
- Investment style: Long-term, fundamental, bottom-up, uses options to enhance income.
- Option coverage: Normal range 30% to 40% – currently 31.6%.
- Suggested investment period: Five years to 10 years or longer.
- Net asset backing: released every month with top 20 investments.



**Note – The stock rose above its 50 day moving average, improving its intermediate-term outlook by crossing above that important trendline. Based on Crossed Above 50 DMA, Crossed Above 20 DMA and MACD Bullish Signal Line Cross Indicators, the stock chart represents a bullish case.**

## INVESTMENT RATIONALE

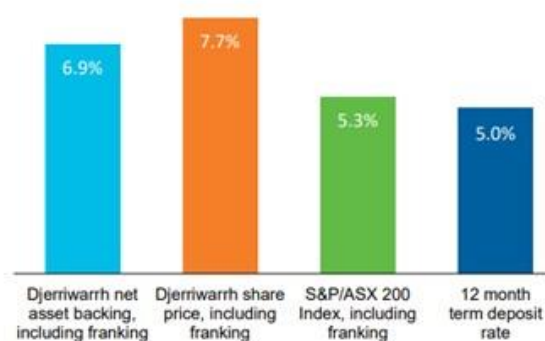
The Company’s investment philosophy is built on taking a medium to long term view on companies in a diversified portfolio with an emphasis on identifying and investing in quality companies that are likely to sustainably grow their earnings and dividends over this timeframe. The Company prefers companies that have a leadership position or are developing one within the industry in which they operate. This will often mean the Company is investing in a unique set of assets with competitive advantages that produce attractive returns on invested capital. As a long term, tax aware investor, the Company seeks to be in companies that have a long term sustainable business model, with a low risk of disruption. This helps to ensure portfolio turnover remains low.

Portfolio performance percentage per annum-periods ending 30 November 2023



Source – Company’s Report

Current Yield



Source – Company’s Report

- **Strong Business Model | How Company Generates Income** – The selling of options over part of its investment and trading portfolios is an important component of Djerriwarrh's ability to pay a higher yield than the S&P/ASX 200 Index. This activity generates current income from the option premium Djerriwarrh receives for selling the options. The use of options will however typically reshape the profile of returns producing more immediate income at the expense of potential capital growth. The amount that the Company receives from selling options depends on a number of factors: • level of volatility in share price anticipated for the underlying stock; • level of the option exercise price and particularly how far it is from the current share price; • time to expiry, i.e. how far the option has to run; • level of interest rates: the lower interest rates are, other things being equal, the lower the option premium received; and • the percentage of the portfolio over which it is prepared to sell options.
- **FY23 Financial Position** – The full year profit was \$39.1 million, up from the previous corresponding period figure of \$38.0 million (the 2022 figure excludes the non-cash dividend of \$6.5 million received last year resulting from the BHP Petroleum/Woodside merger). In the financial year to 30 June 2023 there was significant improvement in the amount of option income generated, \$14.8 million versus \$12.5 million in the corresponding period last year. Dividend income increased 16 percent to \$35.6 million from \$30.7 million (excluding the BHP Petroleum/Woodside merger dividend) in the previous financial year. The portfolio benefitted this year from large increases in dividend income received from JB Hi-Fi, Woodside Energy Group, Region Group, and National Australia Bank because of our increased holdings in these companies. We also benefitted from higher dividends paid by Macquarie Group, Commonwealth Bank of Australia, and Transurban.
- Djerriwarrh seeks to provide an enhanced level of fully franked income that is higher than is available from the S&P/ASX 200 Index, and which is delivered at a low cost to shareholders. The enhanced yield is achieved through a bias to investing in companies with higher dividend income, produced over the short and long term, as well as using option strategies to generate additional income. The final dividend has been increased to 7.75 cents per share fully franked, up 10.7 percent from 7.0 cents per share fully franked for the corresponding period last year, and an increase from the interim dividend of 7.25 cents per share fully franked.

#### **ACE's RECOMMENDATION:**

The Company continues to focus on constructing a portfolio that will deliver a suitable balance between short term income yield and long term growth in capital and income. It also has to be prepared to reinvest potential sizeable option exercise proceeds which typically occur in rising markets at appropriate times. Major purchases for the 12-month period focused on quality companies that it assessed as being able to deliver the right amount of income and growth for the portfolio.

Djerriwarrh also has access to lines of credit, which allows the Company to gear its balance sheet when appropriate investment returns are available to enhance shareholder returns. In building the investment portfolio with the principles outlined, the Company believes it can offer investors a well-diversified portfolio of quality companies structured to deliver a higher level of fully franked dividend than is available from the market in general, and which can provide an attractive total return including capital growth over the medium to long term. We recommend the stock as **BUY** at the closing price of \$2.84.

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