

SANDON CAPITAL

Sandon Capital Investments Limited
ACN 107 772 467

Level 5, 139 Macquarie Street, Sydney
Telephone: (02) 8014 1188
Email: info@sandoncapital.com.au

Monthly Report

As at 31 October 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 October 2020 were:

NTA before tax (ex-dividend)	\$0.8419	+2.3%
Deferred tax asset	\$0.0199	
Deferred tax liability on unrealised income and gains	(\$0.0163)	
NTA after tax (ex-dividend)	\$0.8455	+2.2%

Investment Performance

Gross Performance to 31 October 2020 ¹	1 Month	Financial YTD	Since inception ²
SNC	2.9%	18.0%	8.0%
All Ordinaries Accumulation Index	2.1%	3.2%	7.0%
Outperformance³	0.8%	14.8%	1.0%

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after incurred brokerage expenses. Dividends paid during the period are included when calculating SNC's gross investment performance.

2. Annualised.

3. Note figures may not tally due to rounding.

Dividends

SNC has declared 39.0 cents per share of fully franked dividends since listing in December 2013. The FY20 fully franked final dividend of 2.5 cents per share will be paid on 12 November 2020. The profits reserve is currently 9.8 cents per share after the payment of the 12 November dividend and there are 10.0 cents per share of franking credits.

The Board anticipates paying an interim dividend for the first half of FY21 of a similar amount, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
21 October 2020	2.5 cps	100%	27.5%	Final
5 May 2020	3.5 cps	100%	27.5%	Interim
21 October 2019	3.5 cps	100%	27.5%	Final
16 May 2019	3.5 cps	100%	27.5%	Interim
23 October 2018	3.5 cps	100%	27.5%	Final
8 May 2018	3.5 cps	100%	27.5%	Interim
23 October 2017	3.5 cps	100%	27.5%	Final
18 May 2017	3.5 cps	100%	30.0%	Interim
21 October 2016	3.0 cps	100%	30.0%	Final
18 April 2016	2.0 cps	100%	30.0%	Interim

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets*	\$114.9m
Market capitalisation	\$79.3m
NTA before tax	\$0.8419
Share price	\$0.7300
Shares on issue	108,624,261
Options on issue	nil
Fully franked dividends	\$0.025
Dividend yield (annualised)	6.8%
Profits reserve (per share)	9.8 cps
Franking (per share)	10.0 cps

*includes the face value of Mercantile 8% unsecured notes.

Company overview

Sandon Capital Investments Limited is a specialist 'Activist' listed investment company, managed by Sandon Capital. Sandon Capital devises and implements activist shareholder strategies that seek to unlock value inherent in securities held in our investment portfolios.

SNC provides investors with exposure to a portfolio of Australian companies that are typically not available to traditional investors. Through active engagement with the target company, Sandon Capital seeks to release the embedded value for shareholders. Target companies are likely to be in the small to mid cap market segment.

Sandon Capital has successfully employed its Activist investment strategy since September 2009. The wholesale Sandon Capital Activist Fund's investment performance since inception is 10.8% p.a. (after all fees and expenses).

Investment Objectives

- To provide absolute positive investment performance over the medium to long term, ensuring capital preservation, while providing capital growth.
- To provide an investment strategy that few investors have the capacity to implement themselves.
- To provide shareholders with a growing stream of fully franked dividends.

Portfolio commentary

The Portfolio was up 2.9% for the month, on a gross basis, before all fees and expenses, compared to an increase of 2.1% for the All Ordinaries Accumulation Index.

Key contributors to the month's returns were Spectra Systems Corporation (SPSY), Coventry Group Ltd (CYG), Consolidated Operations Group (COG) and Fleetwood Corporation Ltd (FWD), partly offset by City Chic Collective Ltd (CCX).

After rising over 30% in September following the announcement of a solid 1H result and an encouraging outlook, SPSY had another strong month after announcing that it had won a services contract with an unnamed central bank. The initial development phases help underpin shorter term earnings, however the balance of development work, comprising the supply of sensors (estimated by the company to generate revenues of up to US\$34m in 2024-25), servicing revenues (US\$7.5m) and resulting high margin material sales through to at least 2035, provides significant support for long term prospects.

A number of Australian domiciled companies provided updates on trading in the first quarter of FY2021 (Q1FY21).

CYG provided an update at their AGM held during the month, noting generally that *"trading performance continued to improve..."* Sales in the Trade Distribution and Fluid Systems businesses were up 4.8% and 12.7% respectively on the prior comparable period. The AGM presentation noted the operational leverage within the business as sales grow. Translated, this means sales growth should flow through to profits as fixed costs remain relatively stable. The company also cited potential for significant growth opportunities. All in all, we are pleased with progress at CYG, which is beginning to be reflected in an improving share price.

COG also provided a solid trading update, building on the positive full year results released a few months ago. Q1FY21 saw a 129% increase in net profit before amortisation. Although the amount financed was down by approximately 15% on the prior period, the result from the Finance Broking & Aggregation (FB&A) division was up strongly due to cost reductions instituted as the pandemic took hold earlier in the year. We understand many of these costs savings are permanent and should lead to increased margins as loan volumes recover along with economic activity. SME business activity is reportedly strong in many sectors, especially those directly or indirectly exposed to government stimulus programs, viz infrastructure. We are pleased with this result and look forward to further updates as the financial year evolves.

The situation at FWD has been topsy turvy to say the least in recent weeks. In a letter accompanying the AGM Notice of Meeting, the company had written warning shareholders of *"any activism by minority interests"*. By the end of the month, FWD had announced the resignation of the CEO. More announcements followed month's end, including one announcing the intention to appoint Mr John Klepec to the Board after the AGM. We believe Mr Klepec is an outstanding addition to the Board and support his appointment. The AGM will be held on 18 November 2020 and we expect the company to provide an update including on recent events.

CCX's share price fell as investors expressed continued disappointment in the failed attempt to acquire the e-commerce assets of US-based Catherine's. We see this as evidence of board and management price discipline. While we too would have like to see the acquisition made (at the right price), we are glad to see a disciplined approach to acquisitive growth. The company currently holds cash equivalent to approximately 20% of its market capitalisation and has no debt. We believe the strategy remains sound and growth prospects are exciting.

Global markets remain at the mercy of the COVID-19 pandemic, the US political situation and China tensions, while the Australian market has been buoyed by its government's significant stimulus announcements. A significant proportion of the portfolio is likely to benefit from Federal, State and Local infrastructure spending.

Investment Portfolio

	October 2020
Listed Australian Equities	72%
Listed International Equities	17%
Unlisted investments	9%
Cash or Cash Equivalents	2%

Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzynski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

Further information:

Sandon Capital Investments Limited

Tel: 02 8014 1188

Fax: 02 8084 9918

Website: www.sandoncapital.com.au

Share registry:

Link Market Services

Tel: 1300 554 474 (toll free within Australia)

Email: registrars@linkmarketservices.com.au