

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 30 November 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 30 November 2020 were:

NTA before tax	\$0.9068	+7.7%
Deferred tax asset	\$0.0045	
Deferred tax liability on unrealised income and gains	(\$0.0225)	
NTA after tax	\$0.8889	+5.1%

Investment Performance

Gross Performance to 30 November 2020 ¹	1 Month	Financial YTD	Since inception ²
SNC	7.6%	27.0%	9.1%
All Ordinaries Accumulation Index	10.2%	13.7%	8.4%
Outperformance³	-2.6%	13.3%	0.7%

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 and paid 39.0 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 14.1 cents per share and there are 9.8 cents per share of franking credits, both after the payment of the 12 November dividend.

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%	26.0%	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*	\$122.3m
Market capitalisation	\$84.7m
NTA before tax	\$0.9068
Share price	\$0.7700
Shares on issue	109,939,843
Options on issue	nil
Fully franked dividends	\$0.025
Dividend yield (annualised)	6.5%
Profits reserve (per share)	14.1 cps
Franking (per share)	9.8 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 11.3% 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 7.6% for the month, on a gross basis, before all fees and expenses, compared to an increase of 10.2% for the All Ordinaries Accumulation Index.

Key contributors to the month's returns included Fleetwood Ltd (FWD), COG Financial Services Ltd (COG), Deterra Royalties Ltd (DRR) and City Chic Collective Ltd (CCX). Buoyed by a strong market, a number of other positions were also positive contributors to the month's strong return. The major negative contributor was Alliance Resources Ltd (AGS).

There was significant change announced at Board and management level at FWD during the month. Initially, the Managing Director announced his resignation. This was followed by the Chairman announcing at the Annual General Meeting (AGM) that he would be bringing forward his retirement to early 2021. Following the AGM, John Klepec, who is Executive Chairman at Wellard Ltd (WLD), was appointed to the FWD Board. We are also substantial shareholders in WLD and believe John has done an exceptional job at that company turning around a business that was previously bleeding cash, had a heavily levered balance sheet and a flawed business model. We look forward to John bringing his skills to bear at FWD. We believe the company has an enormous opportunity in the manufactured accommodation market over the next 5-10 years and we look forward to a refreshed Board and management team taking advantage of the numerous organic and inorganic opportunities available.

Following the demerger from Iluka Ltd (ILU), the DRR share price has performed strongly with the company now having a market capitalisation in excess of \$2.5bn. When we first went public with our campaign arguing for ILU to demerge its Mining Area C (MAC) royalty in November 2016, we valued the asset at \$1.6-1.8bn. This was predicated on expanded MAC production of 110Mtpa and an iron ore price of US\$60/t. Whilst our valuation was more than double the consensus broker valuations for the MAC royalty at the time, it is now apparent we were too conservative. With an expanded MAC now expected to produce ~140Mtpa at full capacity and using a long-term iron ore price of \$70/t (vs spot at >US\$140/t), we believe the MAC royalty could be worth north of \$3bn (equating to a DRR share price >\$6). Suffice it to say, the decision by the ILU Board to demerge the MAC royalty has been well and truly vindicated. DRR remains a core holding for the portfolio.

AGS announced a disappointing update regarding its gold resources, with further feasibility work seeing the resource base downgraded by 16% from the initial estimate produced in 2018. Whilst disappointing, we do not believe this is terminal for the development of the mine and expect to hear more about a definitive feasibility study in 2021. On the positive side, the company announced its maiden iron ore resource. Given the current strong pricing environment for iron ore and the relatively short time frame with which the product can be brought to market, we believe the economic prospects for gold and iron ore production at AGS' Weednanna deposit are both very good.

Whilst the market has rebounded strongly post the COVID-19 induced lows reached in March, we continue to find unloved and undervalued stocks, predominantly at the smaller end of the market. We hope to discuss one idea in the near future and others in 2021 once we finish accumulating positions. Many of our companies currently have post-pandemic tailwinds and yet remain moderately priced, with solid prospects for continued share price appreciation in 2021.

Investment Portfolio

	November 2020
Listed Australian Equities	74%
Listed International Equities	16%
Unlisted investments	9%
Cash or Cash Equivalents	1%

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.

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