

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 January 2021

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 January 2021 were:

NTA before tax	\$0.9355	+0.9%
Deferred tax asset	\$0.0059	
Deferred tax liability on unrealised income and gains	(\$0.0319)	
NTA after tax	\$0.9096	+0.7%

Investment Performance

Gross Performance to 31 January 2021 ¹	1 Month	Financial YTD	Since inception ²
SNC	1.1%	32.3%	9.5%
All Ordinaries Accumulation Index	0.3%	16.0%	8.5%
Outperformance³	+0.8%	+16.3%	+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 and paid 39.0 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 16.2 cents per share and there are 10.0 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*	\$128.8m
Market capitalisation	\$92.3m
NTA before tax	\$0.9355
Share price	\$0.8400
Shares on issue	109,939,843
Options on issue	nil
Fully franked dividends	\$0.025
Dividend yield (annualised)	6.0%
Profits reserve (per share)	16.2 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 11.9% 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 1.1% for the month, on a gross basis, before all fees and expenses, compared to an increase of 0.3% for the All Ordinaries Accumulation Index.

Key contributors to the month's returns included COG Financial Ltd (COG), Coventry Group Ltd (CYG) and Spectra Systems Corporation (SPSY LN). These gains were partly offset by losses at City Chic Collective Ltd (CCX), Deterra Royalties Ltd (DRR) and Alterra Ltd (1AG).

COG announced that it had achieved a profit after tax and before amortisation in the six months ended 31 December 2020 of \$10.1 million on an unaudited basis, representing a 140% increase. The announcement detailed higher brokerage margins in the Finance Broking & Aggregation segment and strong increases in the Lending segment. The CEO flagged the acquisition of more finance brokers and increased capabilities in insurance broking. We were pleased with this update and believe COG is well placed to benefit from the post-pandemic recovery and continue its growth trajectory.

CYG announced that its 1HFY21 sales were up 12.5% on the prior corresponding period (11.9% excluding acquisitions). The growth was driven by continued strong performance from the Fluid Systems business (sales +21.1%) and a continued turnaround in the Trade Distribution business (sales +7.5%). Importantly, the company disclosed that its net assets had increased by \$3.2m in 1HFY21, implying a net profit of the same amount during the period. This will exceed the profit generated in the entire FY20 year and is the best half year profit performance since 1HFY13. We remain encouraged by the outlook for CYG, expecting solid organic growth to be augmented by bolt-on acquisitions.

During the month we released a presentation with our thesis on Tabcorp Ltd (TAH), arguing that the Company should optimise its structure by demerging its world class Lotteries & Keno (**Lotteries**) business. The presentation can be found [here](#). In our 2016 campaign at Tatts Group Ltd (TTS), we made the case for the company to demerge its Lotteries business. At the time, we argued Lotteries was being undervalued by the market and was a globally unique business with infrastructure-like characteristics. Unfortunately, TTS was acquired by TAH, with great expectations for the enlarged entity.

Fast forward to today, and TAH has failed to deliver many of the promises of the merger and is in the midst of a changing of the guard. We believe the time has come for TAH to accept that Lotteries and Wagering are fundamentally different businesses facing challenges and opportunities that are incompatible. A demerger would ensure existing TAH shareholders have the choice to retain exposure to the Lotteries business.

In early February, TAH announced that it had received a number of unsolicited approaches and proposals in relation to a potential transaction involving its Wagering and Media business. We will discuss this in more detail in our February newsletter.

We continue to accumulate positions in new positions as well as adding to existing ones. We are excited by the prospects for a number of our holdings in 2021. Many of them have strong post-pandemic tailwinds and yet remain moderately priced, with solid prospects for continued share price appreciation during 2021. We look forward to reporting to you on their progress in future newsletters.

Investment Portfolio

	January 2021
Listed Australian Equities	76%
Listed International Equities	15%
Unlisted investments	8%
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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