# 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 30 June 2021**

## Net Tangible Assets (NTA)

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

| | | |
|---|---|---|
| NTA before tax (ex-dividend) | **$1.1137** | **+3.5%** |
| Deferred tax asset | **$0.0069** | |
| Deferred tax liability on unrealised income and gains | **($0.0673)** | |
| NTA after tax (ex-dividend) | **$1.0534** | **+2.3%** |

## Investment Performance

| Gross Performance to 30 June 2021[1] | 1 Month | 1 year | Since inception[2] |
|---|---|---|---|
| SNC | 4.3% | 68.5% | 12.5% |
| All Ordinaries Accumulation Index | 2.6% | 30.2% | 9.7% |
| **Outperformance[3]** | **+1.8%** | **+38.3%** | **+2.8%** |

1. The SNC gross returns are after investment management fees and brokerage expenses but before performance fees and corporate expenses. Index returns are before all fees and expenses and before any taxes. 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 paid 41.5 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 30.0 cents per share and there are 9.6 cents per share of franking credits.

SNC's FY21 interim dividend of 2.5cps was paid on 3 June 2021. The Board anticipates paying a final dividend for FY21 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

| Ex-date | Dividend Amount | Franking | Corporate Tax Rate | Type |
|---|---|---|---|---|
| **17 May 2021** | **2.5 cps** | **100%** | **26.0%** | **Interim** |
| 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* | **$156.9m** |
| Market capitalisation | **$109.8m** |
| NTA before tax | **$1.1137** |
| Share price | **$0.99** |
| Shares on issue | **110,888,889** |
| Options on issue | **nil** |
| Fully franked dividends | **$0.05** |
| Dividend yield (annualised) | **5.4%** |
| Profits reserve (per share) | **30.0 cps** |
| Franking (per share) | **9.6 cps** |

*includes the face value of Mercantile 4.8% 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 13.6% 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 4.3% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to an increase of 2.6% for the All Ordinaries Accumulation Index.

The fiscal year to 30 June 2021 was one of exceptional returns, with gross portfolio returns of 68.5%. The Portfolio's nadir was March 2020 as the COVID-19 pandemic took hold around the world. The year to 30 June 2020 was the first time ever the Portfolio reported a fiscal year loss. So, one could be forgiven for thinking that 2021 fiscal year return simply reflects the rebound in equity markets. In fact, it is a result borne of the last three to four years of work on key investments. What we see in these portfolio positions are the fruits of several years' worth of effort by us (and in turn the companies themselves) to foster changes we believed would benefit the companies and their shareholders. Iluka Resources Ltd (ILU)/Deterra Royalties Ltd (DRR) and Fleetwood Ltd (FWD) are two prime examples.

If we look at the portfolio today compared to two years ago, our core holdings remain largely the same, albeit their prices are generally higher today than before. The Portfolio is more than 37% higher than its pre-pandemic high in December 2019.

We've given some thought to how we achieved this. Looking back, our portfolio activity could be described, in Warren Buffet's words, as *"lethargy bordering on sloth"*. However, a lack of portfolio activity should not be confused with lack of work. In fact, we have been very busy. Our efforts have been focused on encouraging changes and improvements in some companies, sometimes in the face of clear and direct opposition from incumbent management teams and boards, while in others, we worked to elucidate the value proposition.

From a portfolio perspective before and during the pandemic, it meant that in most instances our work led us to conclude that changes to the portfolio were unnecessary. Perhaps another way of describing it is that we *"worked on"* rather than *"worked in"* the portfolio. This paraphrases the advice often given to small and medium business owners, which is to "work on" not "in" your business.

The companies we "worked on" are those that have given us our best returns. The operant conditioning arising from these returns will certainly inform our future activities.

We've also continued to find new opportunities to invest in. Big market dislocations have a habit of throwing such opportunities in your path. Boral Ltd (BLD), which we discuss below, is one such opportunity. You just have to be attuned and aware to seize them (and have enough spare cash). Looking back, there are a few of these we today we wish we'd been more aggressive in our purchases, but then again, hindsight is a wonderful thing. We'll write more about these as time goes on.

Key contributors to the month's returns included BCI Minerals Ltd (BCI), City Chic Collective Ltd (CCX) and ILU. There were few negative contributors this month.

BCI's share price continued to rise as interest in, and understanding of, the company increases. BCI has two drivers of value: 1) the development of the Mardie salt and potash project, and 2) a royalty from iron ore production from the Iron Valley mine. The Iron Valley royalty is reaping the rewards of the strong iron ore price, with earnings likely to exceed A$140 million annually while iron ore prices remain above US$200 per tonne. Even at lower prices, the earnings capacity of the royalty is strong. Mardie continues to achieve development milestones as it progresses to first shipments of salt and sulfate of potash in 2024/25.

There was no news from CCX during the month, though the filing of an IPO prospectus for a US competitor, Torrid, may have provided some insights as to the growth opportunity for plus-size fashion retailing in the US. In particular, the Torrid prospectus highlighted how the under-45 year old women's, plus sized consumer segment is underserved. According to the prospectus, the market is estimated to be growing at twice the rate of overall women's apparel market. This underscores the opportunity that exists for CCX and why we continue to hold this investment.

ILU sought to dampen speculation surrounding a potential sale of its troubled Sierra Rutile operation. Zircon prices continue to rise in the face of increased demand and falling supply. According to industry journals, Australian producers of zircon implemented a price increase of US$130/t (~9%) on 1 July. The increase in South Africa was even higher, with producers there reported to have implemented price increases of US$200/t (~15%). This comes on top of price increases of US$70/t (~5%) implemented on 1 April in both jurisdictions. A key reason for the weak supply in the market became apparent in early July when Rio Tinto's Richards Bay Minerals (RBM) ceased operations and declared force majeure following increased local violence, including the murder of the mine's general manager in May 2021. This takes a significant amount of zircon and high grade titanium dioxide feedstock (slag) supply from the world market. There have been a number of shorter term closures at RBM over the past few years as a result of industrial unrest. It would appear that these problems continue to persist.

There has also been an increased focus on rare earths as ILU starts to highlight the opportunities available to it in that sector.

During the month, the takeover battle for BLD continued. Press reports indicated an escalation in tensions between Seven Group (SVW) and BLD. Speculation had been building during the month whether SVW might raise its bid price for BLD. Late in the month it did, ultimately raising its bid price to $7.40 per share upon obtaining acceptances of 34.5%. Unlike some, we believe there is a real possibility that SVW may ultimately receive acceptances greater than 50%. Either way, with a shareholding above 40%, we fear the BLD Directors will have little appetite to refuse SVW's requests for increased board representation. Despite the current directors outlining a preferred model for governance structures, we expect SVW's influence over BLD will be significant, as would befit a shareholder owning such a stake.

While we consider $7.40 to be significantly below our valuation of BLD (and below the lower end of the independent expert's valuation of $8.25), sometimes pragmatism has to trump theoretical valuations. As SVW's holding in BLD increased to the point of significant influence, we reluctantly decided to sell.

We do not know how SVW's influence at BLD will manifest itself in future. We retain a keen interest in BLD and will monitor the situation as it develops. We may, like we did many years ago with Warrnambool Cheese and Butter Factory Company Holdings Ltd, take a plunge again after the takeover closes. We'd like to make any such decision with the benefits of some insights into how much influence, if not control, SVW will exercise. BLD was one of our key "pandemic special" purchases, so we bought well. While disappointed to be selling for less than we think BLD is worth, we are selling having made substantial gains (more than 100% in just over 12 months).

Our long-held investments in moderately priced companies with predominant exposures to the industrial economy continue to deliver rewards. We continue to be excited by the prospects for a number of our holdings in 2021. We look forward to reporting to you on their progress in future newsletters.

## Corporate Update

SNC's wholly owned subsidiary, Mercantile Investment Company Ltd (MVT), completed a restructure of its listed unsecured notes (ASX:MVTHA). The restructure allowed for the redemption of notes, the placement of new notes and an amendment of the note terms. The amended terms included a new interest rate of 4.8% per annum and an extension of the maturity until 10 July 2026. Following the redemption and issue of new notes, there are now 290,578 notes on issue, with a face value of $29.1 million. Based on the 30 June 2021 NTA, this represents a loan-to-assets (LTA) ratio of 19%. This ratio sits comfortably within SNC's LTA ratio limit of 33%. Under the amended terms of the notes, if this ratio is exceeded, MVT will pay additional interest of 2% per annum while the ratio is exceeded. The LTA figure will be reported in the SNC NTA from now on.

### Investment Portfolio

| | June 2021 |
|---|---|
| Listed Australian Equities | 83% |
| Listed International Equities | 10% |
| Unlisted investments | 6% |
| Cash or Cash Equivalents | 1% |

## Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzyminski 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