

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 28 February 2018

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 28 February 2018 were:

NTA before tax	\$0.9895
Deferred tax asset	\$0.0020
Deferred tax liability on unrealised income and gains	(\$0.0318)
NTA after tax	\$0.9597

Investment Performance

Gross Performance to 28 Feb 2018 ¹	1 Month	Financial YTD	Since inception ²
SNC	-4.0%	6.5%	9.7%
All Ordinaries Accumulation Index	0.2%	9.1%	9.0%
Outperformance ³	-4.2%	-2.7%	+0.6%

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

The Board anticipates being able to declare an interim dividend for the period ending 30 June 2018 similar to the interim dividend, subject to prudent business practices and the availability of profits. SNC has declared 22.5 cents per share of fully franked dividends since listing in December 2013.

The table below shows the SNC dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
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
22 October 2015	1.0 cps	100%	30.0%	Special
22 October 2015	2.0 cps	100%	30.0%	Final
1 June 2015	2.0 cps	100%	30.0%	Interim
14 October 2014	2.0 cps	100%	30.0%	Special

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets	\$48.5m
Market capitalisation	\$48.1m
NTA before tax	\$0.9895
Share price	\$1.000
Shares on issue	48,139,837
Options on issue	40,380,575
Fully franked dividends	\$0.07
Dividend yield	7.0%

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 11.8% 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 down 4.0% in February. Gross portfolio returns since inception are the equivalent of 9.7% per annum, compared to 9.0% per annum for the All Ordinaries Accumulation Index.

The main detractors to performance were Fleetwood Corporation Ltd (FWD) and Consolidated Operations Group Ltd (COG).

FWD shares fell nearly 15% during February. Headline profit figures overall were disappointing, particularly in the struggling recreational vehicles (RV) business. Breakeven has, once again, been pushed out: this time to July 2019. Last year management were bullish on a recovery. Inventories were built up yet the most recent results reported an industry-wide decline in demand for caravans and discounting by competitors. Neither of these factors is comforting, nor do they inspire confidence in management. A decision to sell the business appears to have been deferred, something that we find frustrating. The manufactured accommodation (MA) business reported an increase in revenues but a decline in margins. Management explained the margin decline was the result of a skew to more, traditionally lower margin, mining accommodation units being sold and some inventory build-up in school units. We are unconcerned by this decline, as it is anticipated to be temporary. We remain excited by the prospects for the MA business, more so if additional capital from the sale of other businesses can be deployed at MA's 16.1% return on capital employed. We are considering whether our posture viz-a-viz FWD requires modification.

COG reported what we considered a good result. Earnings before interest, tax, depreciation and amortisation (EBITDA) were up 29% on the prior period. There was a 52% increase in lease origination over the prior comparable period. FY18 lease origination is forecast to increase 29%. The company also published EBITDA forecasts for FY18 and FY19 of growth between 23% and 50% (FY18) and 32% and 42% (FY19). While the growth forecast is impressive, what we find even more significant is that the company has the confidence to make the forecast. The presentation itself was far better than any earlier ones released by COG. It seems their communications are improving.

Despite the solid result, COG's share price fell further following the result. Following discussions with management, we believe there is now an appreciation that results alone will not suffice and that marketing of the company's story is essential.

Post month end, the company announced an on-market buy-back that will allow it to buy up to 10% of issued capital over 12 months. We are pleased to see this, as this provides the company with an important tool to further manage its capital, especially if shares can be bought below what directors consider the company is worth. This should prove accretive to shareholders who don't sell.

Watpac Ltd (WTP) was the main positive contributor for the month following the announcement that the company had entered into a scheme implementation agreement with biggest shareholder BESIX for a 1-for-2 proportional takeover at \$0.92 per share. WTP reported NTA of \$0.974 per share as at 31 December 2017. We're curious to know how shareholders will respond to this proposal. Prior to the announcement WTP shares were trading at \$0.67.

Stock markets seem to have shrugged off earlier volatility as anomalous. We remain cautious.

Investment Portfolio

	February 2018	January 2018
Listed Equities	98%	98%
Cash or Cash Equivalents	2%	2%
Number of investments	29	28

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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