

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 August 2018

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 August 2018 were:

NTA before tax	\$1.0289	+2.3%
Deferred tax asset	\$0.0010	
Deferred tax liability on unrealised income and gains	(\$0.0496)	
NTA after tax	\$0.9804	+1.7%

Investment Performance

Gross Performance to 31 August 2018 ¹	1 Month	Financial YTD	Since inception ²
SNC	2.4%	4.6%	11.0%
All Ordinaries Accumulation Index	1.7%	3.0%	9.7%
Outperformance³	+0.7%	+1.6%	+1.3%

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 has declared a 3.5 cents per share fully franked final dividend for the year ended 30 June 2018. SNC will shares trade ex-dividend on 23 October 2018. SNC has declared 26.0 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
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
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	\$51.5m
Market capitalisation	\$46.9m
NTA before tax	\$1.0289
Share price	\$0.97
Shares on issue	48,435,427
Options on issue	nil
Fully franked dividends	\$0.07
Dividend yield	7.2%

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 12.6% 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.

Company update

We are pleased to advise that SNC has been reviewed by Independent Investment Research (IIR). This is the first independent review of SNC, with IIR rating SNC as “Recommended.” The IIR report is available on our website (www.sandoncapital.com.au).

The final fully franked dividend that has just been declared will be franked at the 27.5% tax rate. Despite recent changes to the corporate tax law, SNC will continue to be eligible for the reduced corporate tax rate, which determined the rate at which dividends can be franked.

Portfolio commentary

The Portfolio was up 2.4% in August. Gross portfolio returns since inception are the equivalent of 11.0% per annum, compared to 9.7% per annum for the All Ordinaries Accumulation Index.

Specialty Fashion Group Ltd (SFH), Consolidated Operations Group Ltd (COG) and IDT Australia Ltd (IDT) were the main contributors for the month. The main detractors were Iluka Resources Ltd (ILU) and Centrepont Alliance Ltd (CAF) with both companies delivering results that underwhelmed investors.

Late last year, SFH was described as a ‘beleaguered company’ with ‘struggling brands’. According to press reports at the time, the banks were breathing down its neck and the company was going to find it nigh on impossible to survive the onslaught from Amazon’s arrival in Australia. Fast forward nine months and following the sale of a portfolio of brands to Noni B Ltd, SFH and its remaining City Chic brand is (rightfully) seen as a high growth business with a strong balance sheet and the capacity to undertake meaningful capital management. We believe the company’s significant cash and franking balances, combined with the recent Adjustment to Share Capital should facilitate meaningful dividends to shareholders for the foreseeable future. We congratulate Chair, Anne McDonald, and the Board on the actions taken over the past six months and look forward to continued strong performance from SFH’s City Chic Brand as well as shareholder friendly capital management initiatives.

ILU’s share price was sold down following a disappointing 1H result. In particular, its Sierra Rutile operations where rising costs and capital expenditure forecasts were viewed negatively by the market. We believe the negative share price reaction further highlights why ILU should spin out its immensely valuable Mining Area C (MAC) royalty. Royalties have no exposure to costs or capital expenditure, which are two of the key reasons why they trade at such a significant premium to the underlying assets. As long as the MAC Royalty remains housed within Iluka, it will continue to be priced at its lowest common denominator; a cyclical and capital-intensive mining company with finite reserves. At current exchange rates and commodity prices, we estimate the MAC Royalty will generate ~\$150m per annum in pre-tax cash flows when the South Flank project is running at capacity. We believe this stream of pure cash flows would be much more highly valued by the market were it to trade on a standalone basis.

New Zealand retailer, Smiths City, held its AGM in early September, and new Chairman, Alastair Kerr pulled no punches. In our opinion, his address to shareholders was an indictment on the previous Board. We had been seeking substantial changes at the Board for some time. Mr Kerr’s comments would seem to regrettably vindicate our concerns. We believe the new Board under Mr Kerr’s leadership is well placed to steer Smiths into the future and they enjoy our full confidence.

Despite the strength in equity markets, we continue to find pricing anomalies in the market. We expect to have a number of investments convert to cash over the next month, which will allow us to take advantage of other opportunities we have identified.

Investment Portfolio

	August 2018	July 2018
Listed Equities	92%	89%
Cash or Cash Equivalents	8%	11%
Number of investments	32	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.

Further information:

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