

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 31 January 2019

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 January 2019 were:

NTA before tax	\$0.9071	-1.3%
Deferred tax asset	\$0.0010	
Deferred tax liability on unrealised income and gains	(\$0.0056)	
NTA after tax	\$0.9026	+1.2%

Note: NTA was impacted beyond investment performance by a tax provision. This reduced the deferred tax liability, but will result in an increased franking balance.

Investment Performance

Gross Performance to 31 January 2019 ¹	1 Month	Financial YTD	Since inception ²
SNC	+0.9%	-3.3%	+8.4%
All Ordinaries Accumulation Index	+4.0%	-3.6%	+7.5%
Outperformance ³	-3.1%	+0.3%	+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 26.0 cents per share of fully franked dividends since listing in December 2013. The Board anticipates declaring an interim dividend of a similar amount to the final dividend paid in November 2018, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

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	\$45.3m
Market capitalisation	\$41.7m
NTA before tax	\$0.9071
Share price	\$0.86
Shares on issue	48,435,427
Options on issue	nil
Fully franked dividends	\$0.07
Dividend yield	8.5%

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 11.0% 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 0.9% in January. Gross portfolio returns since inception are the equivalent of 8.4% per annum, compared to 7.5% per annum for the All Ordinaries Accumulation Index.

The main contributor to this month's results was Spicers Ltd (~1.3%) following the announcement of a proposal to sell itself to Japanese paper company Kokusai Pulp & Paper Co. Ltd (KPP). The scheme, which would see KPP acquire all the shares of Spicers, is expected to deliver an estimated 7.0 cents per share to shareholders.

If approved, the Scheme will bring to a close an investment we began when the Fund accumulated a holding in PaperlinX Preference Shares (PXUPA) at an average price of \$13.12 per preference share beginning in late 2015. By 2017, a decade after they were first listed (at \$100), PXUPA were restructured by a conversion into ordinary shares, thus waking PaperlinX (by now known as Spicers) from its pref-induced coma. The conversion equated to an ordinary share price of approximately 2.6 cents per share. Even after the restructure, Spicers was largely overlooked by the market and traded at a substantial discount to its net assets until almost immediately prior to the KPP announcement (our kind of investment!).

A new board nominated by shareholders, ably-led by Mr Jonathan Trollip, and the management team led by Mr David Martin, have done an exceptional job leading the company to this opportunity. We commend each and every one of the Board and management team for their efforts. We intend to vote in favour of the scheme proposal.

Consolidated Operations Group Ltd (COG) was the largest detractor for the month (~1.0%). The Fund's second largest position continues to be a source of frustration. The strategy, consolidating the SME finance broker industry, is a significant opportunity for value creation. Based on its latest announcements, COG estimated it accounts for some 14% of the net asset finance settled by brokers in Australia, making it the largest non-bank finance broker aggregation platform. This is valuable, but not reflected in COG's share price. The leasing business is fast growing and also valuable. Depending on how one approaches the valuation of COG, there remains a significant discrepancy between its value and market price. It is also worth noting that SME finance broker lending was not caught up in the recent Royal Commission.

Historically, COG had a complex structure, but it has become simpler and we expect the simplification to continue. This should facilitate a better understanding of value, but not without a concerted effort by management to educate the equity market. This has been our main criticism of the company for several years. Our frustration peaked after the end of the month following press reports that COG might have received unsolicited approaches from private equity investors. The COG situation will take its course, but we think some general observations are useful.

A problem when investing in companies undervalued by the market is that sometimes other investors, who are in the business of seeking full control, may also discover those undervalued nuggets. In those instances, such investors may be able and prepared to bid for the whole company.

Typically, battles for corporate control involve the payment of a premium for that control (though not always). What can be very challenging is a takeover proposal made at a premium to the share price, yet at a discount to the true worth of the company. The challenge for directors considering a proposal is whether that proposal is fair relative to value or attractive relative to share price. Adding shareholders with differing views of value and time horizons, and the scene may be set for a value shift. Given our investment approach, we have faced such risks a number of times before. Sometimes, we've been able to fight to achieve a higher price. Yet at other times, most recently with the takeover of Watpac Ltd by BESIX, the actions of other shareholders have consigned us to having to accept a bid we consider undervalues a company.

As of today, there is no proposal for COG, and there may never be. While we consider the shares remain significantly undervalued, the transaction risk we describe above remains live. We are also conscious that there are other companies in our portfolio that we consider undervalued that face the same risk.

We have continued to take the opportunity of volatile markets to selectively add to some existing positions. As noted last month, we are also evaluating a number of new opportunities, some of which may make it into the portfolio. On both counts, we remain patient.

Investment Portfolio

	January 2019	December 2018
Listed Equities	96%	93%
Cash or Cash Equivalents	4%	7%
Number of investments	36	32

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:

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