SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 December2019

Net Tangible Assets (NTA)

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

NTA before tax	**$0.9654**	**+1.9%**
Deferred tax asset	**$0.0006**	
Deferred tax liability on unrealised income and gains	**($0.0277)**	
NTA after tax	**$0.9382**	**+1.4%**

Investment Performance

Gross Performance to 31 December 2019[1]	1 Month	Financial YTD	Since inception[2]
SNC	+2.4%	+7.9%	+9.9%
All Ordinaries Accumulation Index	-1.9%	+3.6%	+9.4%
Outperformance[3]	**+4.3%**	**+4.3%**	**+0.5%**

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 33.0 cents per share of fully franked dividends since listing in December 2013.

Following payment of the most recent 3.5 cents per share dividend, SNC has profits reserves equivalent to 3.7 cents per share and franking of approximately 12.0 cents per share.

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
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*	**$127.5m**
Market capitalisation	**$88.0m**
NTA before tax	**$0.9654**
Share price	**$0.8250**
Shares on issue	**106,658,126**
Options on issue	**nil**
Fully franked dividends	**$0.07**
Dividend yield	**8.5%**
Profits reserve (per share)	**3.7 cps**
Franking (per share)	**~12.0 cps**

*includes 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 11.5% 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 2.4% for the month, on a gross basis, before all fees and expenses. Cash levels ended the month at approximately 5%.

Yellow Brick Road Holdings Ltd (YBR) was the largest contributor this month, followed by Spectra Systems Corp PLC (SPSY LN).

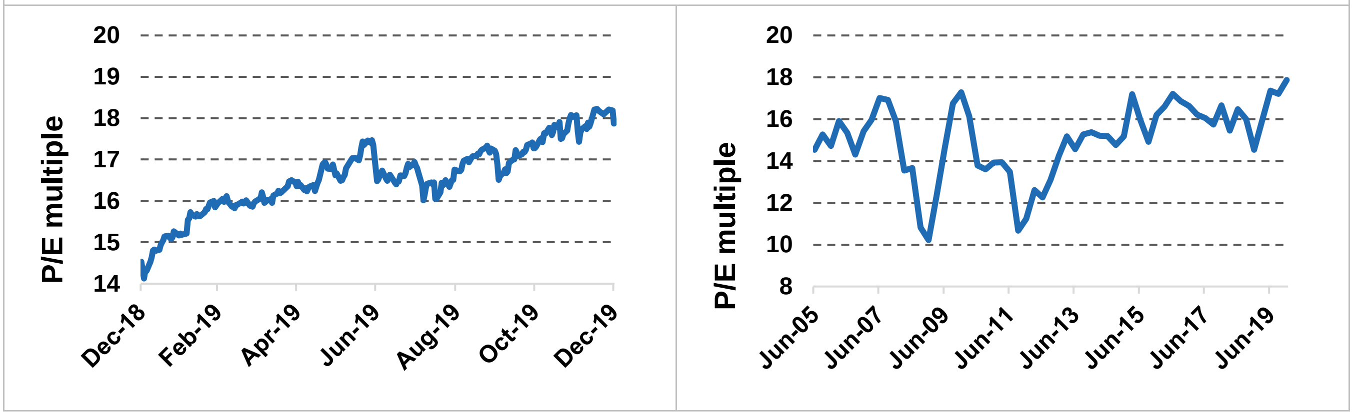
Calendar year 2019 was a strong one for the Company, generating a total gross return of 17.7%. However, this was less than market indices, which recovered strongly from the poor performance in 4QCY18 and also benefited from the increasingly higher prices that investors are willing to pay for earnings streams that at best are treading water, and in many cases are going backwards.

A recent research report from the Goldman Sachs Australian Strategy team highlighted the increasingly higher multiples that investors are willing to pay for listed equities. According to the report, which deconstructed the performance of stocks in Australia in CY19, 90% of the market's return came from Price-to-Earnings (P/E) multiple expansion, with the remainder of the return driven by dividends. Earnings downgrades, i.e. the fundamentals that will drive the longer-term share price performance of a company, were a headwind. At the end of November, the 12-month forward earnings per share estimates for the market as a whole, were 2% below where they started the year.

Looking forward, the Goldman report noted that following strong performance for equity markets driven by multiple expansion rather than strong fundamentals (i.e. earnings improvement), the return in the following year was generally poor. Whilst we don't try to predict the direction of equity markets, we do note that the multiples that investors are willing to pay for listed equities are at peak levels.

The chart below shows the 12-mth forward P/E multiple of the Australian market over the past 12 months (short term) and the past 15 years (long term). In an environment where equity markets are at peak valuations, we believe stock selection becomes very important to ensure precious capital is not put at risk.

12-mth forward P/E multiple of the S&P/ASX200 over the past 12 months (LHS) and 15 years (RHS)



Source: Bloomberg

Looking at the Company's portfolio over the course of 2019 tells a different story to that of the market. As has been the case since inception over six years ago, most of the portfolio's return was driven by company specific performance and events, rather than benefiting from the market's willingness to ascribe higher and higher valuations to companies that demonstrate no apparent improvement in underlying fundamentals. The five largest contributors to the Company's performance in 2019 were City Chic Collective Ltd, OneMarket Ltd, Coventry Group Ltd, Spicer's Ltd and Iluka Resources Ltd.

City Chic Collective Ltd (CCX) had a very strong year with the share price improving 158%. In a very difficult retailing environment, CCX reported 12.2% comparative sales growth in FY19, translating to underlying EBITDA growth of 25%. On top of the strong earnings growth, the solid balance sheet allowed CCX to reinstate its dividend; the first time one had been paid in 5 years. In the last quarter of the year, CCX announced the acquisition of the e-commerce assets of Avenue Stores LLC (Avenue), a US-based specialty retailer targeting value-conscious women aged 25 to 55. If the management team, ably lead by Managing Director Phil Ryan, can successfully integrate the assets of Avenue and continue to grow its burgeoning US business, we expect the future for shareholders, including ourselves, to be very fruitful.

The Company first invested in OneMarket Ltd (OMN) in 2018, however substantially increased its position in late March 2019 when the share price plumbed all-time lows and was trading at less than half of net cash backing. At its AGM several months later, the OMN Chairman announced that the Board had "been reviewing options to maximise value for shareholders and to proactively manage the discount to cash backing at which OneMarket trades." This strategic review culminated in OMN announcing that it would undertake an orderly winding-up and distribution of its assets. We commend the OMN Board for having taken this difficult decision. We expect to receive the bulk (>90%) of our current investment in OMN in the first quarter of 2020, with the remaining stub likely to be received in late 2021.

After many years of underperformance, Coventry Group Ltd (CYG) finally turned a corner in 2019. As a result of some judicious acquisitions and improving performance in the legacy businesses, CYG returned to underlying profitability in FY19 with strong earnings and cash flow growth expected in FY20 and beyond. A strong balance sheet and highly cash generative operations provides significant capacity to make further bolt on acquisitions in fragmented industries. CYG also has a bank of franking credits which should facilitate the resumption of dividends after a 5 year hiatus. The stock remains cheap (FCF yield >10%) and if management continues to deliver solid operational performance, we expect another strong year for CYG in 2020.

In early 2019, Spicer's Ltd (SRS) received a takeover offer from Japanese company, Kokusai Pulp & Paper Co., Ltd (KPP). The successful completion of the Scheme of Arrangement in July 2019, brought to an end a very rewarding investment in SRS, and its predecessor, PaperlinX. The Company began accumulating a holding in the PaperlinX Preference Shares (PXUPA) in late 2015. In 2017, PXUPA were restructured by a conversion into ordinary SRS shares, thus waking SRS from its pref-induced coma. Even after the restructure, SRS was largely overlooked by the market and traded at a substantial discount to its net assets until the KPP takeover offer. A new board nominated by shareholders, ably-led by Mr Jonathan Trollip, and the management team led by Mr David Martin, did an exceptional job leading SRS to this opportunity.

After advocating publicly and privately for 3 years for Iluka Resources Ltd (ILU) to "spin-off" or demerge its valuable Mining Area C (MAC) Royalty, we were pleased to see ILU announce a review of its corporate and capital structure in early November 2019. We believe the MAC Royalty is the best mining asset in Australia, and arguably the best single royalty anywhere in the world. Although ILU's review does not guarantee a demerger, the door is now well and truly open. We believe a demerger will lay the basis for what could, and should, become a globally significant royalty company.

Whilst 2019 was a very good year for equity markets globally, we expect the future to be more difficult. As a result of historically low interest rates, market participants are ascribing historically high multiples to equities, meaning further gains will be speculative rather than investment driven. Preservation of capital is our foremost objective, and in an environment where risk tolerance is high, it is more important than ever that we stick to our knitting and focus on idiosyncratic opportunities rather than relying on the market to drive returns. This should stand the Company in good stead when the inevitable downturn in the market arrives.

Investment Portfolio

	December 2019
Listed Australian Equities	70%
Listed International Equities	16%
Unlisted investments	9%
Cash or Cash Equivalents	5%

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.

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