

27 February 2020

## **Sandon Capital Investments NPAT up 7-fold, declares fully franked interim dividend of 3.5 cents per share**

- **Net profit after tax of \$7.4m, up 727% on pcg**
- **The Board has declared a fully franked interim dividend of 3.5 cents per share**
- **SNC Shares offer an attractive fully franked dividend yield of 8.8% (12.1% incl. franking)<sup>1</sup>**
- **Gross returns were 13.3%<sup>2</sup> for the 6 months to 31 December 2019, compared to 3.6% for the All Ordinaries Accumulation Index**

Sandon Capital Investments Limited (ASX:SNC) (**SNC** or the **Company**) is pleased to report a 1HFY20 net profit of \$7.4m, a 727% increase on the prior corresponding period. Following these strong results, the Board has declared a fully franked interim dividend of 3.5 cents per share. Upon payment of this dividend, SNC will have paid 36.5 cents per share of fully franked dividends since listing in December 2013.

The investment portfolio delivered gross returns of 13.3%<sup>1</sup> for the 6 months ended 31 December 2019, significantly ahead of the 3.6% delivered by the All Ordinaries Accumulation Index ("the Index") over the same period. Net returns including dividends, after all fees and expenses, were 9.9% for the period (11.4% including the value of franking credits at the 27.5% corporate tax rate), also ahead of the Index.

The Company has continued to re-build its Profits Reserve following the completion of the takeover of Mercantile Investment Company Limited (MVT) during the period. As at 31 December 2019, the profits reserve is equivalent to 4.7 cents per share and the franking account stands at approximately 11.5 cents per share.

### **Key Dates for Interim Dividend:**

<b>Dividend Dates</b>	
Announcement date	27 February 2020
DRP Election Date	7 May 2020
<b>Ex-date</b>	<b>5 May 2020</b>
Record date	6 May 2020
Date payable	28 May 2020

The reinvestment plan (DRP) will apply in respect of the interim dividend. There will be no discount offered.

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<sup>1</sup> Based on a closing price of \$0.80 on 26 February 2020

<sup>2</sup> Gross return performance is before management and performance fees, corporate expenses and tax paid.

## Results breakdown for the 6 months ended 31 December 2019

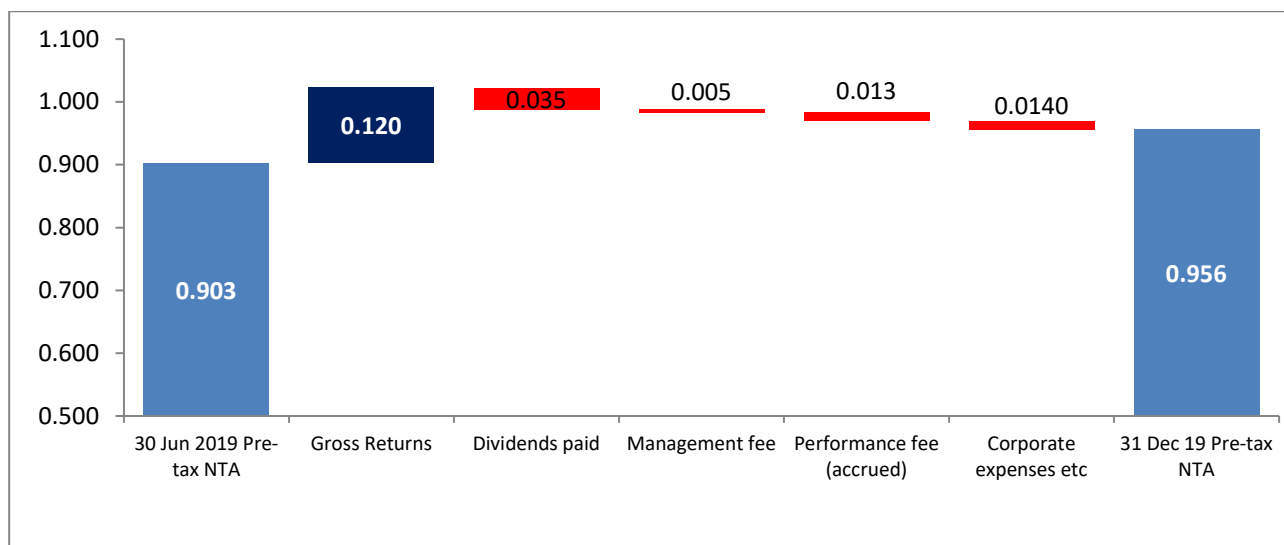


Figure 1

Gross returns (before fees and expenses) were 12.0 cents per share, equating to 13.3%. Corporate expenses were higher than usual due to the legal and registry costs associated with the takeover of MVT. In the absence of further corporate activity, we expect corporate expenses to return to normalised levels.

The impact of takeover costs borne by MVT are reflected in the portfolio performance. MVT is carried as an investment entity in the SNC balance sheet and its post-tax NTA (after all fees and expenses) performance is reported in SNC's portfolio performance.

## Portfolio structure

The chart below illustrates the broad composition of SNC's portfolio, including a look-through to MVT, as at 31 December 2019. Note that all figures are approximate and may have changed since 31 December 2019.

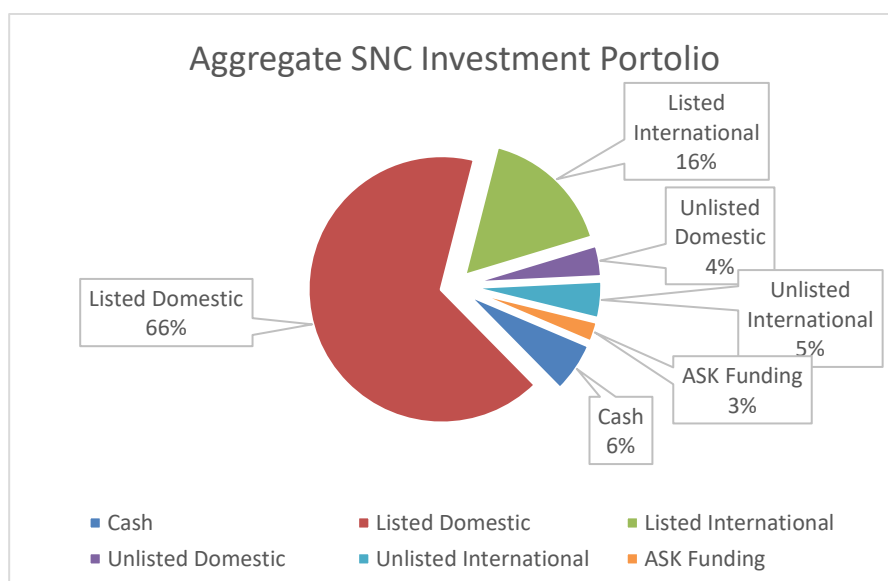


Figure 2

Note: percentages are approximate and provide an illustration of the combined investment portfolio.

The bulk of SNC's assets are in listed securities, mainly in Australia and with approximately 16% spread between the UK and New Zealand. Unlisted assets are largely accounted for by Foundation Life, a New Zealand life company in run-off and a number of private equity funds that were acquired when MVT acquired IPE Limited. These funds too are in run-off.

Richfield Maritime Agencies (RMA), the Company's Singapore-based shipping agency, delivered a half year profit of approximately \$67,641 for the period.

SNC shareholders should note that MVT's 8% unsecured notes are due for redemption in July 2021. These are accounted for in MVT's post-tax NTA, and therefore do not appear directly in SNC's accounts.

### Investment Manager Commentary on Portfolio Performance

Investment returns in the first half of FY2020 were strong, outperforming those from the broader market. The investment manager, Sandon Capital, is pleased with the underlying operational performance of the majority of companies in the portfolio, with some exceptions.

	<b>SNC Gross Return<sup>1</sup></b>	<b>Small Ordinaries Accumulation</b>	<b>All Ordinaries Accumulation</b>
6 months to 31 December 2019	<b>13.3%</b>	3.1%	3.6%
12 months to 31 December 2019	<b>17.8%</b>	21.4%	23.4%
Return per annum since inception	<b>9.9%</b>	9.0%	9.3%

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after include dividends paid during the period.

Note: past performance should not be taken as being indicative of future performance.

For the companies that have already reported, their results were largely within our expectations. We will make comments on the December 2019 half year reporting season in the SNC February NTA release in March.

Notable contributors to the 1HFY20 result included City Chic Collective Ltd (**CCX**), OneMarket Ltd (**OMN**), Iluka Resources Ltd (**ILU**) and Coventry Group Ltd (**CYG**).

CCX continued to deliver solid results as it well and truly puts the chequered past of its former parent company behind it. The Board led by Michael Kay and management team led by Phil Ryan, continue to impress us with their humility and focused execution of their strategy. We have continued to lighten our shareholding as the share price has risen, however CCX remains a core holding in the portfolio.

The share price performance of OMN was a highlight following the announcement by the company that it would undertake a voluntary liquidation. The company provided an estimate of an initial distribution between 88 and 94 cents per share, anticipated to be paid by March or April 2020. OMN shares were suspended in December 2019 following shareholder approval of the voluntary liquidation. SNC's OMN shares were bought for an average of 69 cents per share.

Late 2019 saw an announcement by ILU that it was undertaking a strategic review of its Mining Area C (**MAC**) Royalty. We had begun a campaign in November 2016 seeking the demerger of the MAC Royalty. At the time, we argued that the market price of ILU shares was not reflecting the value of the MAC Royalty. Met with scepticism by both the company and the market, we persisted with our campaign, spending time with both analysts and fund managers working to articulate the merits of our argument. During 2019, a

number of ILU's largest institutional shareholders also joined in pressing the company for the demerger. Good ideas become reality when a consensus emerges. The consensus became a reality last week when ILU announced the Board had decided to demerge the MAC Royalty, subject to shareholder approval. We are very excited by this. We believe the two companies that will emerge from this process will each be stronger and more focused than they are today. We look forward to further details as they are released.

Consolidated Operations Group Ltd (**COG**) was active during the half, attempting at least two major acquisitions. The first, to acquire Thorn Business Finance from the distressed Thorn Group Ltd (**TGA**), was thwarted at the last minute when TGA recapitalised itself. The second, an agreed merger with CML Group Ltd (**CGR**), was on track until Scottish Pacific (**ScotPac**) submitted a non-binding indicative offer. That proposal led the CGR board to offer ScotPac (a competitor) access to conduct due diligence. While appearing to throw a spanner in the works for COG, COG was able to turn the tables when it acquired a 17.4% stake in CGR. Such a position will make it difficult for ScotPac to mount a competing offer without COG's support.

Funds managed by Sandon Capital also own ~2.4% of CGR. We acquired these CGR shares in lieu of participating in COG's 9 cents per share non-renounceable entitlement offer. We did this because:

- (i) if the merger proceeded according to the announced terms, we were effectively buying COG at 8.6cps, almost 5% below the price paid in the entitlement offer
- (ii) in the event a competing bid were to emerge for CGR, we would have exposure

Although we are in favour of the COG-CGR scheme proceeding, this strategy provided us with a "heads we win, tails we win" payoff potential. For now, the parties are at a stand-off. This situation is likely to continue well into March before providing some resolution.

In terms of outlook, the outbreak of COVID-19 has shattered the complacency that seemed to exist in financial markets for most of 2019 and the early part of 2020. Whilst impossible to predict events such as these, we believe investors have priced perfection into markets for far too long. When a curveball, such as COVID-19 is thrown, investors scatter and panic. We stand by our comments made previously that market indices have been driven more by sentiment (multiple expansion) than earnings growth (fundamentals). The return expectations of many investors in the past year have been far too optimistic, in our view. More than ever believe that patient, value-focused investing will deliver sound long-term returns. We remain committed to this approach.

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