

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 30 April 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 30 April 2020 were:

NTA before tax	\$0.7872	5.8%
Deferred tax asset	\$0.0006	
Deferred tax liability on unrealised income and gains	(\$0.0001)	
NTA after tax	\$0.7877	7.4%

Investment Performance

Gross Performance to 30 April 2020 ¹	1 Month	Financial YTD	Since inception ²
SNC	9.3%	-14.6%	5.4%
All Ordinaries Accumulation Index	9.5%	-13.7%	5.9%
Outperformance³	-0.2%	-0.9%	-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 36.5 cents per share of fully franked dividends since listing in December 2013.

SNC has profits reserves equivalent to 4.7 cents per share and franking of approximately 11.5 cents per share (prior to the payment of the soon-to-be paid interim dividend).

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
5 May 2020	3.5 cps	100%	27.5%	Interim
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*	\$115.4m
Market capitalisation	\$67.2m
NTA before tax	\$0.7872
Share price	\$0.6300
Shares on issue	106,658,126
Options on issue	nil
Fully franked dividends	\$0.035
Dividend yield (6-mths)	5.6%
Profits reserve (per share)	4.7 cps
Franking (per share)	~11.5 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 8.5% 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 9.3% for the month, on a gross basis, before all fees and expenses, compared to an increase of 9.5% for the All Ords Accumulation Index.

The portfolio recovered some of its recent mark-to-market losses, though we still have some way to go before we fully recover this drawdown. Market gains in the portfolio this month were widespread with a large number of positions reporting monthly gains well in excess of 20%. The main contributors to the positive performance were Stanmore Coal, Spectra Systems PLC, City Chic Collective Ltd, Fleetwood Corporation Ltd, Infigen Energy and IDT Australia Ltd.

A common theme in announcements across the market was the withdrawal of any prior results guidance, and in some instances, dividends were deferred, delayed or cancelled. The indiscriminate selling that occurred in many companies halted and buyers returned after a focus on hard evidence suggested many companies would survive the COVID-19 shutdowns, with some even thriving.

One of the investments in the portfolio that is a potential beneficiary of the COVID-19 pandemic is IDT Australia Ltd (IDT), a pharmaceutical manufacturing company. The company's services range from early stage active pharmaceutical ingredient (commonly known as APIs) development through to finished drug formulation, clinical trial research and scaled commercial manufacturing for global distribution. Funds managed by Sandon Capital are together the second largest IDT shareholder, owning approximately 8%.

Over the last 20 years, much of Australia's API manufacturing has been shifted offshore to lower cost jurisdictions such as China and India. Today, Australia imports 90% of its medicines and is at the end of a very long supply chain, making us particularly vulnerable to supply chain disruptions. The COVID-19 pandemic has highlighted offshoring as a key risk to the sourcing of many critical APIs in both Australia and the US (where many of Australia's finished pharmaceutical products are sourced from).

In its recent update to the ASX, IDT noted that its existing contracts remain unimpacted by the COVID-19 pandemic. The company also stated that it has been asked by the Australian Government to assist with certain COVID-19 response activities. Whilst the company has been loss making and consuming cash for some time, its recent foray into manufacturing medicinal cannabis has taken it to the cusp of profitability. We believe the government should take steps to reduce risk in Australia's pharmaceutical supply chain and bring the manufacturing of APIs back onshore. IDT's underutilised facilities and TGA/FDA accreditation place it in a strategically important position to contribute to increasing the resilience and capacity of our domestic pharmaceutical industry.

During the month, our long-held position in Stanmore Coal Ltd (SMR) received a takeover offer from its largest shareholder, Golden Investments (Australia) Pte. Ltd (Golden Investments). Shares in SMR were first purchased in early 2015 by our recently acquired subsidiary, Mercantile Investment Company Ltd. At the time, the company was little more than a cash box. Since then, the Board and management of SMR have done an exceptional job. The Isaac Plains mine and Isaac Plains East deposit and surrounding infrastructure were acquired at bargain basement prices and successfully brought back into production. The company has deployed capital judiciously through the acquisition of the Wotonga South resource (since renamed the Isaac Downs Project) and shareholders have been further rewarded through the payment of fully franked dividends.

Soon after Golden Investments launched its takeover offer, we wrote to the SMR Board encouraging them to pay a special fully franked dividend, given the company was in a net cash position and had an excess of franking credits. Whilst our idea was not able to be adopted, our letter to the company did prompt the Independent Board Committee to look at other means by which additional value could be returned to SMR shareholders. The result of this was a 1-for-33 bonus issue of shares, which effectively increased Golden Investments' offer price from \$1 per share to \$1.03 per share. We congratulate the CFO Ian Poole, the Independent Board Committee and the company's legal advisers (Allens Linklaters) for their hard work and novel thinking to devise a solution that delivered an improved outcome for shareholders. Given Golden Investments had moved to control of SMR and the Independent Board Committee recommended that shareholders accept the Golden Investments offer, we sold our shares subsequent to month end.

Writing today, it seems that Australia's response to the public health aspects of the COVID-19 pandemic has been quite successful, avoiding some of the terrible fatalities seen in other countries. The government now appears to be focusing on how successfully the economy can be restarted. The business and investment communities are understandably arguing the case for a faster and wider resumption of economic activity. We continue to review our existing and any prospective investments in the context of an environment of uncertainty. Uncertainty does not, and should not, lead to inaction, but rather we need to ensure prices reflect the prevailing uncertainty. We continue to observe parts of our market where we believe the prices at which investors are prepared to trade are either over-stating risks and under-estimating opportunity as well as the converse.

Whilst our cash balances at the end of April appear low, we are expecting a significant cash to be returned over the next 2-3 months through a number of different avenues: (i) the acceptance of the takeover offer for SMR, (ii) the proceeds from the liquidation of OneMarket Ltd, and (iii) the long awaited liquidation of MG Unit Trust. This cash will allow us to take advantage of some of the opportunities we currently see in the market.

Investment Portfolio

	April 2020
Listed Australian Equities	61%
Listed International Equities	14%
Unlisted investments	18%
Cash or Cash Equivalents	6%

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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