

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 August 2022

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 August 2022 were:

NTA before tax (ex-dividend)	\$0.8391	-1.3%
Deferred tax asset	\$0.0003	
Deferred tax liability on unrealised income and gains	(\$0.0078)	
NTA after tax (ex-dividend)	\$0.8315	-1.1%

Investment Performance

Gross Performance to 31 Aug 2022 ¹	1 Month	1 year	Since inception (p.a.)
SNC	-1.5%	-23.7%	8.4%
All Ordinaries Accumulation Index	1.3%	-3.9%	8.3%
Outperformance²	-2.7%	-19.9%	0.1%

1. The SNC gross returns are after investment management fees and brokerage expenses but before performance fees and corporate expenses. Index returns are before all fees and expenses and before any taxes. Dividends paid during the period are included when calculating SNC's gross investment performance.

2. Figures may not tally due to rounding.

Dividends

SNC has paid 48 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 30.1 cents per share and there are 6.5 cents per share of franking credits.

SNC's FY22 final dividend of 2.75cps will be paid on 7 November 2022. The Board anticipates paying an interim dividend for FY23 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows the most recent SNC dividends. A full list of SNC dividends since the IPO in December 2013 can be found [here](#).

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
21 October 2022	2.75 cps	100%	25.0%	Final
16 May 2022	2.75 cps	100%	25.0%	Interim
30 November 2021	1.00 cps	100%	25.0%	Special
19 October 2021	2.75 cps	100%	25.0%	Final
17 May 2021	2.50 cps	100%	26.0%	Interim
21 October 2020	2.50 cps	100%	26.0%	Final
5 May 2020	3.50 cps	100%	27.5%	Interim
21 October 2019	3.50 cps	100%	27.5%	Final
16 May 2019	3.50 cps	100%	27.5%	Interim
23 October 2018	3.50 cps	100%	27.5%	Final
8 May 2018	3.50 cps	100%	27.5%	Interim

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets*	\$145.7m
Market capitalisation	\$102.5m
NTA before tax	\$0.8391
Share price	\$0.7550
Shares on issue	135,764,627
Options on issue	nil
Fully franked dividends	\$0.055
Dividend yield (annualised)	7.3%
Profits reserve (per share)	30.1cps
Franking (per share)	6.5cps
Loan-to-assets (incl. MVTHA)	21%

*includes the face value of Mercantile 4.8% 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 10.7% 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 down 1.5% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to an increase of 1.3% for the All Ordinaries Accumulation Index.

The largest detractors for the month were City Chic Collective Ltd (**CCX**) and Fleetwood Ltd (**FWD**). This was only partially offset by Australian Silica Quartz Group Ltd (**ASQ**) and Karoon Energy Ltd (**KAR**).

CCX continues to be one of the battleground stocks in the market. The FY22 result delivered by the company was in line with prior guidance, however the equity market remains fixated on the strategic short-term inventory that the company has built. We have a more sanguine view and believe that the inventory will allow the company to take share from competitors who are unable to supply (the right) product to their customers. As the inventory is sold down and converted to cash, we expect CCX to use its strong balance sheet to aggressively buy back stock, particularly if it remains at current prices.

The last time CCX traded at these share price levels was soon after the company reported its FY19 results. In FY19, CCX generated revenue of \$148m, underlying EBITDA of \$24.9m and underlying net profit before tax of \$21.3m. In FY22, CCX generated revenue of \$369m, underlying EBITDA of \$47.1m and underlying net profit before tax of \$39.5m. A lot has been achieved in the intervening period – CCX has transformed from a largely Australian/NZ focused bricks and mortar retailer into a global omni-channel retailer, with established positions in the UK and US markets, a burgeoning presence in continental Europe and a resilient global supply chain that is less reliant on China. We believe that CCX's very small share of a growing end market puts it in the enviable position of having the capacity to grow earnings strongly for many years.

Similar to CCX, the equity market seems focused on the shorter term at FWD, notably the problems with the Rio Tinto Ti-Tree Rail Camp Upgrade in Western Australia (part of the Building Solutions segment). Whilst frustrating, the economic impact is now significantly diminished and we expect the company to put this saga behind it in the next few months. The Building Solutions business had been poorly managed for many years and had an entrenched culture of pursuing growth, with no regard for profitability. The shortcomings of this strategy are still apparent in the results this business is delivering today. However, there are reasons to be optimistic. The entire management team of the division has been replaced and there is now a sharp focus on profitability rather than growth at any cost. We speak with a number of FWD's competitors and have a good appreciation of the profit potential of a modular construction business when it is run properly. Given the significant change in management and culture, we do not expect the business to reach its full potential for a number of years. Despite this, we still expect a significant earnings improvement in the short term as the business returns to profitability from the large loss (-\$24.3m) delivered in FY22.

After Board and management changes last year, there is a lot that is (finally) starting to go right at FWD. The Company has a very strong balance sheet (\$55m of net cash), the RV Solutions business is performing exceptionally well and the Searipple accommodation village is rapidly increasing its occupancy rates as a significant amount of large project construction work commences on the Burrup Peninsula. We expect a strong turnaround in earnings in FY23 regardless of the economic environment, with continued growth in later years as the core Building Solutions business starts to deliver on its potential.

Investment Portfolio

	August 2022
Listed Australian Equities	82%
Listed International Equities	11%
Unlisted investments	7%
Cash or Cash Equivalents	0%

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