SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 28 February 2021

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 28 February 2021 were:

NTA before tax	**$0.9739**	**+4.1%**
Deferred tax asset	**$0.0059**	
Deferred tax liability on unrealised income and gains	**($0.0319)**	
NTA after tax	**$0.9413**	**+3.5%**

Investment Performance

Gross Performance to 28 February 2021[1]	1 Month	Financial YTD	Since inception[2]
SNC	5.2%	39.2%	10.2%
All Ordinaries Accumulation Index	1.4%	17.7%	8.6%
Outperformance[3]	**+3.8%**	**+21.5%**	**+1.5%**

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. Annualised.
3. Note figures may not tally due to rounding.

Dividends

SNC has declared 41.5 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 19.4 cents per share and there are 10.1 cents per share of franking credits.

SNC's FY21 interim dividend of 2.5cps will be paid on 3 June 2021. The Board anticipates paying a final dividend for FY21 of a similar amount, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
17 May 2021	**2.5 cps**	**100%**	**26.0%**	**Interim**
21 October 2020	2.5 cps	100%	26.0%	Final
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*	**$134.0m**
Market capitalisation	**$92.3m**
NTA before tax	**$0.9739**
Share price	**$0.8400**
Shares on issue	**109,939,843**
Options on issue	**nil**
Fully franked dividends	**$0.025**
Dividend yield (annualised)	**6.0%**
Profits reserve (per share)	**19.4 cps**
Franking (per share)	**10.1 cps**

*includes the 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 12.4% 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 5.2% 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 0.3% for the All Ordinaries Accumulation Index.

Key contributors to the month's returns included Fleetwood Corporation Ltd (FWD) (~+1.3%), COG Financial Services Ltd (COG) (~+0.4%), Iluka Resources Ltd (ILU) (~+0.3%), Tabcorp Holdings Ltd (TAH) (~+0.3%) and City Chic Collective Ltd (CCX) (~+0.3%). Pleasingly, there were very few detractors.

FWD upgraded its earnings guidance early in the month ahead of its half year report on 25 February. Overall, the company reported that it had delivered a "*solid performance across the … three operating divisions*." Revenues were up 5%, there was a substantial increase in net profits and a 6 cents per share dividend was announced. In future the company expects to pay out 100% of net profits as dividends. The release of the half year report marked the last phase of the board and management changes announced last year. We welcome the appointment of a new Chairman, Mr John Klepec. For Sandon Capital, this brings an end to a campaign for change we started several years ago.

There were some key messages from the new Board, including that management remains "*focused on revenue growth, sustainably improving margins, increasing utilisation and reducing overheads to improve earnings*." As we have long argued, these are much needed improvements. FWD is now better placed than at any time in recent years to capitalise on the opportunities in manufactured accommodation and deliver sustainable results into future. Even with the recent rally in the share price, we consider FWD to be undervalued. Now though, it has the potential to realise that value itself. We estimate FWD's value today at between $3.40 and $4.50 under various scenarios, not including the ~20 cents per share of franking credits it has available.

ILU reported a reasonable result with a solid outlook for both demand and price for its mineral sands products. A $70/t (~5.4%) price increase for zircon from 1 April was announced. The major event during the half year was the demerger of the Mining Area C royalty, creating Deterra Royalties Ltd. Management provided further information on its pipeline of growth projects in the mineral sands business, however we believe more detail should be provided to help the market better understand the value that could be created should these projects eventually move into production. This will help to address the concerns of some investors regarding ILU's growth prospects. Continued global economic recovery augurs well for ILU's short-to-medium term prospects.

TAH reported an improved result for the half year with its Lotteries business again being the standout. Any doubts shareholders might have had about the strength and robustness of that business are well and truly put to rest. The company advised, after unconfirmed press reports, that it had received a number of unsolicited approaches in respect of potential transactions involving its Wagering and Media (W&M) business. Clearly the ugly duckling, W&M is nevertheless a valuable business. Fire sale buyers need not approach.

In our opinion, these reported approaches highlight the logic in TAH separating its two main businesses. Perhaps this is best achieved by a sale of the Wagering and Media business, provided the after-tax proceeds reflect the strategic value of the business and the turnaround opportunity that would be available to an acquirer. In the meantime, we believe the Board should be considering a demerger. Importantly, a demerger would not preclude any future sale of W&M. If a sale is being considered now, we believe such a transaction should be compared against what TAH would be worth under a demerger scenario. We look forward to further announcements by the company.

Like FWD, COG had upgraded expectations ahead of the result announcement. Even stripping out the reversal of prior provisions, the result was good. COG is well positioned to benefit organically from government stimulus measure and the economic recovery. We expect broker acquisitions will continue, which will provide further growth in revenues, all other things being equal. Expanding the product suite to including insurance and diversifying funding sources through Westlawn should benefit existing brokers and their clients, as well as making COG attractive to brokers being acquired. We expect that as time goes on, the growth potential of COG will become increasingly evident, even to the casual observer.

IDT Australia Ltd (IDT) reported its results and provided an investor update. The financial results were uninspiring. Far more inspiring however, was IDT reiterating that it had made a formal submission to the Australian Government detailing its COVID-19 vaccine manufacturing capabilities. The management presentation released to the ASX also highlighted IDT's Sovereign Manufacturing Initiative. This is a broad and strategically significant issue. The pandemic has shone a light on the fragility of most countries' supply chains. Medicines and pharmaceuticals are no exception to this. IDT has actively participated to highlight these risks and is an advocate for developing a sovereign manufacturing capacity. We believe this is an important, yet overlooked issue facing Australia and IDT can benefit if the government takes appropriate steps to address the issue.

We continue to accumulate new positions. We are excited by the prospects for a number of our holdings in 2021. Many of them have strong post-pandemic tailwinds and yet remain moderately priced, with solid prospects for continued share price appreciation during 2021. We look forward to reporting to you on their progress in future newsletters.

Investment Portfolio

	February 2021
Listed Australian Equities	79%
Listed International Equities	13%
Unlisted investments	7%
Cash or Cash Equivalents	1%

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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