SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 May 2021

Net Tangible Assets (NTA)

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

NTA before tax (ex-dividend)	**$1.0764**	**+2.7%**
Deferred tax asset	**$0.0123**	
Deferred tax liability on unrealised income and gains	**($0.0594)**	
NTA after tax (ex-dividend)	**$1.0293**	**+3.2%**

Investment Performance

Gross Performance to 31 May 2021[1]	1 Month	Financial YTD	Since inception[2]
SNC	4.0%	61.6%	12.0%
All Ordinaries Accumulation Index	2.0%	27.0%	9.5%
Outperformance[3]	**+2.1%**	**+34.6%**	**+2.6%**

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 paid 41.5 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 28.1 cents per share and there are 9.4 cents per share of franking credits.

SNC's FY21 interim dividend of 2.5cps was 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*	**$152.2m**
Market capitalisation	**$102.6m**
NTA before tax	**$1.0764**
Share price	**$0.925**
Shares on issue	**110,888,889**
Options on issue	**nil**
Fully franked dividends	**$0.05**
Dividend yield (annualised)	**5.4%**
Profits reserve (per share)	**28.1 cps**
Franking (per share)	**9.4 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 13.2% 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 4.0% 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 2.0% for the All Ordinaries Accumulation Index.

Key contributors to the month's returns included BCI Minerals Ltd (BCI), COG Financial Services Ltd (COG), Boral Ltd (BLD) and Australian Silica Quartz Ltd (ASQ). These gains were partly offset by Fleetwood Ltd (FWD) and IDT Australia Ltd (IDT).

BCI had a strong month after releasing a presentation which detailed the significant leverage that their Iron Valley royalty has to the iron ore price. Since first production in 2014, the Iron Valley royalty has generated in excess of A$100m in EBITDA for BCI. This has occurred in an iron ore price environment materially lower than it is today. The Iron Valley royalty is different to traditional mining royalties in that the royalty percentage increases with an increasing iron ore price. At current prices (benchmark iron ore price >$200/t), the leverage is extraordinary, such that the royalty earnings in the next 12 months could be almost 40% greater than the **total** royalty earnings generated over the past 7 years.

BCI also continues to progress its Mardi salt & potash project. In recent months, the optimised feasibility study has been released, early stage works contracts have been awarded and progress conditions have been satisfied for the A$450m loan from the Northern Australia Infrastructure Facility (NAIF). We look forward to the project receiving final approvals (environmental, port, land access and mining leases) over the next few months. Once these are received, we expect the final investment decision to be made, leading to a capital raising and the commencement of main construction work.

BLD received a nil premium off-market takeover offer from its major shareholder, Seven Group Holdings Ltd (SGH). Since the offer was announced, the BLD share price has traded at a premium to the $6.50/share offer price and SGH has not purchased any shares. However, as a result of BLD buying back its own shares, SGH's shareholding in the company has increased to ~23.5%, a long way from the 'control' position described by some in the media.

After month end, BLD released its Target's Statement, which included an Independent Expert Report (IER). This IER is required under the Corporations Act as BLD and SGH share a common director (Ryan Stokes). The IER ascribed a valuation to BLD of $8.25 to $9.13 per share. Pleasingly, both the BLD Board and the Independent Expert have highlighted the material latent value in BLD's surplus property portfolio, which is estimated to be worth "at least" $850m. With strong tailwinds from its end markets, a significant cost out program and the potential for asset sales to drive further capital management initiatives, we believe the future is bright for BLD and its shareholders. Suffice it to say, we do not believe the current offer of $6.50 per share from SGH anywhere near ascribes fair value to BLD's attractive assets.

Whilst FWD was our worst performer for the month, we believe there was some positive news flow from another company, with implications for FWD, that was completely missed by the market. In early May, Incitec-Pivot announced that they had signed a 20-year offtake agreement for all of the urea production from the (yet to be constructed) Perdaman urea plant. Perdaman are building a $4.5bn plant on the Burrup Peninsula, which will produce >2Mtpa of urea at full capacity. If they can organise financing in 2HCY21, construction will begin in CY22 and take ~3 years. The construction workforce will be ~2,000 people.

The founding chairman of Perdaman is Vikas Rambal. He was responsible for building the Burrup Fertilisers ammonia plant on the Burrup Peninsula in 2003-2006, so has form and experience in building these projects on the Burrup Peninsula. When the Burrup Fertilisers plant was built, the construction workers were housed at Fleetwood's Searipple accommodation village. Whilst this does not guarantee FWD the contract to house the construction workers for the construction of the Perdaman urea plant, it does stand them in good stead. Furthermore, there is unlikely to be any other accommodation of scale available in Karratha if Woodside proceeds with the development of Scarborough and expansion of its Pluto LNG plant (a decision on this is expected later this year). If the Perdaman were to proceed and FWD were awarded the contract to house the construction workers, we believe it would be a very important development for the company.

During the month, Monash Absolute Investment Company Ltd (MA1) shareholders voted overwhelmingly in favour the proposal to restructure the company and distribute units in an exchange traded managed fund (ETMF) to shareholders. The ETMF allows unitholders to redeem their investment at close to the prevailing NTA as well as on market, where a market maker operates to ensure the market price is closer to NTA. Although this process, begun in August 2019, has taken far longer than we would have liked, we believe the outcome is a fair balance for those seeking to exit (like us) and those seeking to remain. The units of the new ETMF began trading on 10 June and we exited our entire investment. We maintain a stub holding in MA1, which contains cash and unlisted investments.

MA1 was bought at a substantial discount to NTA. By pressuring the board to act (including with a takeover proposal by Sandon Capital Investments Limited in October 2018) combined with underlying investment performance and the narrowing of the discount, this has been a very profitable investment.

Our long-held investments in moderately priced companies with predominant exposures to the industrial economy continue to deliver rewards. We continue to be excited by the prospects for a number of our holdings in 2021. We look forward to reporting to you on their progress in future newsletters.

Investment Portfolio

	May 2021
Listed Australian Equities	83%
Listed International Equities	11%
Unlisted investments	5%
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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