

## MONTHLY REPORT

# Sandon Capital Investments Limited (ASX:SNC)

JANUARY 2023

NTA Before Tax

NTA After Tax

\$0.7653

\$0.7801

## INVESTMENT PERFORMANCE

Gross Performance to 31 Jan 2023 <sup>1</sup>	1 month	1 year	Since inception (p.a.)
SNC	2.0%	-22.3%	7.2%
All Ordinaries Accum. Index	6.4%	10.5%	8.2%
<b>Outperformance<sup>2</sup></b>	<b>-4.4%</b>	<b>-32.8%</b>	<b>-1.0%</b>

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 SIN's gross investment performance.

2. Figures may not tally due to rounding.

## SANDON CAPITAL INVESTMENTS LIMITED

ASX Code	SNC
Gross assets*	\$140.7m
Market capitalization	\$92.0m
Share price	\$0.67
Fully franked dividends	\$0.055
Dividend yield (annualised)	8.2%
Profits reserve (per share)	27.0cps
Franking (per share)	8.3cps
Loan-to-assets (incl. MVTHA)	17%

\*Includes the face value of Mercantile 4.8% unsecured notes

## PORTFOLIO COMMENTARY

The Portfolio was up 2.0% 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 6.4% for the All Ordinaries Accumulation Index.

The largest contributors to the performance were A2B Australia Ltd (A2B) (+0.5%), BCI Minerals Ltd (BCI) (+0.5%) and Nuix Ltd (NXL) (+0.4%). These were partially offset by Spectra Systems PLC (SPSY LN) (-0.3%) and Yellow Brick Road Holdings Ltd (YBR) (-0.6%).

CCX provided a trading update for the 26 weeks to 1 January 2023, with sales down 8% year on year. The US was the weakest region with sales down 14%, whilst in Australia sales were down 3%. Consistent with previous guidance, inventory levels are on track to reach between \$125 and \$135 million by 30 June 2023. Debt facilities were renegotiated, with limits reduced and covenant relief provided. Also during the month, an entity associated with renowned retailer and investor Brett Blundy became a 7.3% owner of CCX.

CYG was an example of the dichotomy we've observed in a number of investments over the past 6-12 months. During the month it provided a very strong trading update, with 1H FY23 sales up > 12% on the prior corresponding period and unaudited earnings before interest and tax up by >13%. The announcement also cited growth opportunities across its business segments, tempered by labour and skills shortages (like much of the country). Despite the strong trading update, CYG shares were down >9% for the month, underperforming the small ordinaries index by >15%.

Half year reports are beginning to emerge and outlook statements are being scrutinised. Most of the companies in the portfolio report later in February, so at this stage there is little company specific news to report.

Investment markets continue to be volatile. The news of each day seems to drive markets up or down, with mood oscillating between mania and depression. As the world seems to acclimatise to the war for Ukraine, the battle against inflation (and its sole weapon, interest rates) dominates investor thinking. The human predilection for certainty is clashing with a large amount of geopolitical and economic uncertainty. The decline in prices for many investments means more investors have sought the certainty of selling than the (perceived) uncertainty of remaining invested.

Presently, concerns abound regarding the prospects for businesses in an inflationary environment. In March last year, we wrote about the effects of cost pressures on the companies in our portfolio and that we would be paying attention to how such costs could be mitigated, for example by being passed to customers. Six months later, COG, the largest investment in the portfolio reported increased revenues and profits (evidence of cost increases having been mitigated). We expect COG will report similar dynamics in the most recent half year. Aforementioned CYG has also been able to grow revenues and profits similarly.

A number of the companies we hold are in the midst of turnarounds. In all but one, we've had a hand in fostering board and management changes. These include Fleetwood Ltd (FWD), A2B Australia Ltd (A2B), IDT Australia Ltd (IDT) and Midway Ltd (MWY). By way of example, we expect A2B to report operational and financial improvements and to highlight the opportunity for capital management with its full year result later in the year. All these companies are asset-rich, have little-to-no debt and some even have substantial net cash positions. They're each at various stages of their turnaround processes, however with new boards and management teams, we are optimistic of their prospects. Unfortunately, over the past 6-12 months, their share price performances have been largely dismal (with the exception of MWY).

The share prices of companies undergoing positive changes rarely improve in straight lines due to uncertainty and a lack of investor confidence. Markets tend to use recent history as the basis for the direction of their expectations. Hence poor historic performance is expected to persist (just as with the contrary). With

market turmoil, these tendencies are simply exacerbated, despite any facts to the contrary.

We will continue to objectively assess the prospects of our companies, as opposed to being influenced by share price movements. We believe this gives us the best chance of delivering satisfactory long-term returns for our investors.

During the month we received a \$3.5m distribution from our holding in CM Capital Venture Trust (CMCVT) which sold its final investment (Piedmont Animal Health) for a very good price. The CMCVT holding was acquired through SNC's takeover of Mercantile Investment Company Ltd, which had previously acquired the investment through its own takeover of IPE Ltd. This is the second monetisation event from our unlisted investments in as many months, with an interim distribution received from OneMarket Ltd in December. We expect further monetisation events from our unlisted holdings over the next 6 months.

We have identified some new investment opportunities, which we've begun accumulating. We expect to report on these in future.

## DIVIDENDS

SNC has paid 50.75 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 27.0 cents per share and there are 8.3 cents per share of franking credits. These franking credits support the payment of 24.9 cents per share of fully franked dividends.

SNC's FY22 final dividend of 2.75cps was 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.

A full list of SNC dividends since the IPO in December 2013 can be found [here](#).

## TOP 5 POSITIONS

COG Financial Services	12%
Spectra Systems PLC	9%
Fleetwood	9%
A2B	8%
BCI Minerals	7%

## INSTRUMENT EXPOSURE

Listed Australian Equities	83%
Listed International Equities	11%
Unlisted Investments	5%
Cash or Cash Equivalents	1%

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## 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 9.3% 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.

# SANDON CAPITAL

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