

## MONTHLY REPORT

# Sandon Capital Investments Limited (ASX:SNC)

JUNE 2023

NTA Before Tax

NTA After Tax

\$0.7548

\$0.7619

## INVESTMENT PERFORMANCE

Gross Performance to 30 Jun 2023 <sup>1</sup>	1 month	1 year	Since inception (p.a.)
SNC	3.9%	1.6%	7.3%
All Ordinaries Accum. Index	1.9%	14.8%	8.3%
<b>Outperformance<sup>2</sup></b>	<b>2.0%</b>	<b>-13.1%</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*	\$137.8m
Market capitalisation	\$87.0
Share price	\$0.625
Fully franked dividends	\$0.055
Dividend yield (annualised)	8.8%
Profits reserve (per share)	24.0cps
Franking (per share)	7.5cps
Loan-to-assets (incl. MVTHA)	18%

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

## PORTFOLIO COMMENTARY

The Portfolio was up 3.9% 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 1.8% for the All Ordinaries Accumulation Index.

The largest contributors to performance were Fleetwood Ltd (FWD) (+2.8%), Magellan Financial Group Ltd (MFG) (+0.7%), BCI Minerals Ltd (BCI) (+0.5%) and A2B Australia Ltd (A2B) (+0.5). These were partially offset by IDT Australia (IDT) (-0.5%).

During the month, we launched our latest campaign – MFG. MFG is an Australian-based global funds management company that manages funds across three categories: Global Equities, Infrastructure Equities and Australian Equities. The company was established in 2006 and became a leading asset management franchise in Australia, especially among retail investors and independent financial advisers. However, investment underperformance as financial markets emerged from COVID-19 and then personnel change led to a loss of confidence and substantial fund outflows.

Today, market perceptions of MFG are negative, and we believe the company to be deeply undervalued and misunderstood. A large portion of MFG's current market capitalisation is accounted for by cash and investments that we consider non-core. We believe this provides considerable downside protection for our investment. In order to stabilise the business, and return to strong long-term profitability, we have made five recommendations to the MFG Board. These include (1) Return excess capital to shareholders (2) Prioritise the existing business (3) Review the cost base (4), and

(5) Accelerate Board renewal and improve Board diversity.

More detail on our campaign can be found in our publicly released presentation which can be read [here](#). Should the MFG Board adopt our recommendations, we expect the market price and value of MFG shares to improve significantly.

FWD announced that Rio Tinto (RIO) had exercised its right to secure additional rooms at FWD's Searipple Accommodation Village in Karratha. RIO had previously secured the supply of 250 rooms per night for its exclusive operations and also had an option over additional rooms. The additional rooms have been secured on a take or pay basis and are expected to generate a further \$100m to \$120m in revenue for Fleetwood from 1 April 2024 until 30 April 2027. We are pleased with the longer duration contracted revenue and expect further accommodation agreements at Searipple over the coming months as a result of planned activities in the oil and gas and green energy sectors in northwest WA. The immediate opportunity is for Searipple to provide worker accommodation for the construction of Perdaman's ~A\$6bn urea project to be built on the Burrup Peninsula. Regardless of whether FWD wins this contract (or part thereof), the contracted revenue and earnings outlook is very solid for the medium term.

IDT announced a placement (\$5 million) and share purchase plan (\$2 million) to raise up to \$7 million. The proceeds of the capital raising will be used to fund the company's capital expenditure program, as well as provide working capital to fund anticipated growth. Funds managed by Sandon Capital were strong supporters of the placement and we have subsequently increased our ownership in the company from ~14% to ~17%. We believe the new Board and management team at IDT are implementing a strategy that will be instrumental in maximising the value of the privileged pharmaceutical manufacturing assets that IDT owns.

After announcing in April 2022 that inflation was expected to significantly increase the capital cost of its Mardi salt & potash project, BCI finally updated the market as to the quantum of these costs. The capex required to complete the project has increased ~60% from ~\$1 billion to ~\$1.6 billion as a result of inflationary pressures and a redesign of parts of the project. Despite the significant increase in capex, the economics of the project remain attractive, with steady state earnings (EBITDA) now expected to be \$384 million annually, up from the previous estimate of \$256

million. BCI expects to execute project finance documentation in the next few months and that will be followed by an equity raising in the December quarter to fund the increased expenditure required for the construction of the project. Pleasingly, BCI is progressing offtake arrangements with potential customers and we expect these customers may also contribute towards the increased equity required to fund the project.

### **Corporate Update – Proposed Restructure of MVTHA**

SNC has executed a novation and implementation deed with its wholly owned subsidiary, Mercantile Investment Company Ltd (MVT) and Certane CT Pty Ltd, the trustee of MVT's listed unsecured 4.8% per annum notes (MVTHA or Notes). If approved by MVT Noteholders, the proposed restructure will see SNC effectively replace MVT as the issuer of the Notes.

Since 2019, when it acquired MVT (and the MVHTA obligations) SNC has been working on consolidating the investments within its group and reducing corporate costs, however this has been constrained by the Notes.

The proposed restructure will remove these constraints and will do so without changing the nature of the rights currently held by SNC's shareholders nor the risk profile of their investments. SNC shareholders are not required to vote on the proposal.

## DIVIDENDS

SNC has paid 53.5 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 24.0 cents per share and there are 7.5 cents per share of franking credits. These franking credits support the payment of 22.5 cents per share of fully franked dividends.

SNC's FY23 interim dividend of 2.75cps was paid on 2 June 2023. The Board anticipates paying a final 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

Fleetwood	14%
COG Financial Services	12%
A2B	11%
Spectra Systems Inc.	9%
BCI Minerals	5%

## INSTRUMENT EXPOSURE

Listed Australian Equities	81%
Listed International Equities	13%
Unlisted Investments	6%
Cash or Cash Equivalents	0%

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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 9.6% 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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