

## MONTHLY REPORT

# Sandon Capital Investments Limited (ASX:SNC)

JULY 2023

NTA Before Tax

NTA After Tax

\$0.7929

\$0.7929

## INVESTMENT PERFORMANCE

Gross Performance to 31 Jul 2023 <sup>1</sup>	1 month	1 year	Since inception (p.a.)
SNC	4.9%	1.0%	7.8%
All Ordinaries Accum. Index	3.0%	11.1%	8.5%
<b>Outperformance<sup>2</sup></b>	<b>1.9%</b>	<b>-10.2%</b>	<b>-0.7%</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 SNC's gross investment performance.

2. Figures may not tally due to rounding.

## SANDON CAPITAL INVESTMENTS LIMITED

ASX Code	SNC
Gross assets*	\$144.1m
Market capitalisation	\$90.4
Share price	\$0.650
Fully franked dividends	\$0.055
Dividend yield (annualised)	8.5%
Profits reserve (per share)	27.1cps
Franking (per share)	7.5cps
Loan-to-assets (incl. MVTHA)	17%

\*Includes the face value of 4.8% unsecured notes (these will shortly trade under ASX Code SNCHA)

## PORTFOLIO COMMENTARY

The Portfolio was up 4.9% 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 3.0% for the All Ordinaries Accumulation Index.

The largest contributors to performance were Nuix Ltd (NXL) (+1.5%), A2B Australia Ltd (A2B) (+1.3%) and BCI Minerals Ltd (BCI) (+0.7%). These were partially offset by Fleetwood Ltd (FWD) (-0.4%).

NXL provided a strong trading update which highlights that the operating performance of the company continues to improve despite ongoing negative headlines in the press related to historical legal and governance issues. In FY23, annualised contract value is expected to increase 14-15% and statutory revenue is expected to increase 19-20%. Due to a focus on costs, underlying FY23 EBITDA is expected to increase 51-61%. Importantly, the company was cash flow positive in both the second half and over the full year, excluding non-operational legal costs and acquisition and operating costs related to the Topos acquisition. This is an improvement on the company's previous expectation of being underlying cash flow neutral for the year.

A2B announced that it had received the second instalment of the 12% deposit for the sale of its O'Riordan Street property in Alexandria. This appears to have given the market additional confidence that the company will deliver the targeted special fully franked dividend of >\$0.70 per share by the end of the calendar year. Despite the 13% increase in the share price in July, we believe the imputed price of the taxi despatch and payments business remains well below its fair value. We look forward to an update on the company's operating performance with the FY23 result on 22nd August.

BCI announced a non-binding Memorandum of Understanding (MOU) with Indonesian Government owned company, PT Mineral Industri Indonesia (MIND ID), in relation to potential offtake of up to 1 Mtpa of salt from the Mardie Project as well as a potential equity investment at the corporate level of up to \$100m. Later in the month, the company's quarterly production report showed continued strong earnings from its Iron Valley royalty. This asset has generated ~\$25m of EBITDA in FY23 and brings the total EBITDA contribution since inception in late 2014 to >\$200m. In our opinion, there is little value ascribed to the Iron Value royalty in BCI's share price. The company has a market capitalisation of ~\$320m, significantly below the value of its assets which include \$109.5m cash (at 30 June 2023), investment to date of \$369m (at 30 June 2023) in the Mardi salt & potash project and the aforementioned Iron Valley royalty which we estimate to be worth at least another \$50m.

Whilst its share price was unmoved, COG Financial Services Ltd (COG) provided a solid trading update. The company's core segments, Finance Broking & Aggregation (FBA) and Funds Management & Lending (FML), are expected to grow NPATA attributable to shareholders by 13% in FY23. The 15% growth in the company's net assets financed highlights the continued resilience in Australia's small-to-medium enterprise (SME) sector. The outlook for FY24 is positive, with a full year's benefit from the recently acquired PayWise salary packaging & novated leasing business likely to drive continued underlying earnings growth.

The target of our latest activist campaign, Magellan Financial Group Ltd (MFG), announced the appointment of former Janus Henderson co-chief executive Andrew Formica to the Board. One of our criticisms of the board has been a lack of funds management c-suite experience. This appointment would appear to fill a significant gap in that skill set. We look forward to learning whether this appointment fosters any apparent changes in strategy.

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

The Proposed Restructure of MVTHA was approved by Noteholders on 7 August 2023. As at the date of this report, the novation process is underway. The novated notes will shortly resume trading, but under the ASX Code SNCHA. All other terms and conditions of the Notes remain the same, except there is no longer any need for the guarantee provided by SNC as SNC is now

the issuer. The Company will continue to simplify its corporate structure following this change.

## 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	13%
A2B	12%
COG Financial Services	11%
Spectra Systems Inc.	9%
BCI Minerals	6%

## INSTRUMENT EXPOSURE

Listed Australian Equities	82%
Listed International Equities	12%
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 9.7% 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.

# SANDON CAPITAL

### For enquiries about the company or its investments:

Sandon Capital Investments Limited  
+61 2 8014 1188  
[info@sandoncapital.com.au](mailto:info@sandoncapital.com.au)

### For enquiries about your shareholding:

Link Market Services  
1300 554 474 (Toll free within Australia)  
[registars@linkmarketservices.com.au](mailto:registars@linkmarketservices.com.au)