

MONTHLY REPORT

Sandon Capital Investments Limited (ASX:SNC)

FEBRUARY 2024

NTA Before Tax

NTA After Tax

\$0.8493

\$0.8421

INVESTMENT PERFORMANCE

Gross Performance to 29 Feb 2024 ¹	1 month	1 year	Since inception (p.a.)
SNC	1.6%	20.2%	8.6%
All Ords Accumulation Index	1.2%	11.3%	8.8%
Outperformance²	0.4%	8.9%	-0.2%

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*	\$148.1m
Market capitalisation	\$105.0m
Share price	\$0.75
Fully franked dividends	\$0.055
Dividend yield (annualised)	7.3%
Profits reserve (per share)	32.0cps
Franking (per share)	8.5cps
Loan-to-assets (incl. SNCHA)	14%

*Includes the face value of 4.8% unsecured notes (ASX: SNCHA)

PORTFOLIO COMMENTARY

The Portfolio was up 1.6% 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 1.2% for the All Ordinaries Accumulation Index.

The largest positive contributors were Yellow Brick Road Holdings Ltd (YBR) (+2.4%), Nuix Ltd (NXL) (+1.0%), Fleetwood Ltd (FWD) (+0.7%) and COG Financial Services Ltd (COG) (+0.6%). These were partly offset by Spectra Systems plc (SPSY) (-1.2%), Coventry Group Ltd (CYG) (-0.9%) and BCI Minerals Ltd (BCI) (-0.7%).

Overall, the operating and financial results delivered by our investments over the February reporting season were encouraging. Those that are in the turnaround phase continued to build upon the solid foundations that have been previously laid. Those that have exited their turnaround phase continued to deliver solid top and bottom line growth. There are also a number of investments that are in the harvest phase that will convert to cash over the next few months.

GDC reported a strong result with operating revenue up 36% and operating EBITDA up 136%. The solid growth was underpinned by organic growth in the European business (Etix), three months contribution from the zColo acquisition and contracted price increases. Audited statutory Net Asset Value (NAV) grew 12.6% to \$2.40 per unit. We consider this valuation is conservative and the "value realisation" proceeds received by GDC unitholders will comfortably exceed this level. We expect each of the Group's main assets – the AirTrunk stake, Etix and the Malaga data centre – to be monetised over the next 12-18 months with proceeds returned shortly thereafter.

The turnaround at FWD continued to gain traction with 1H FY24 pre-tax profit of \$5.5m a solid improvement on the \$0.5m loss reported in the prior corresponding period (pcp). The most encouraging aspect of the result was the recovery demonstrated in the Building Solutions business which saw Earnings Before Interest & Tax (EBIT) improve from a loss of \$2.3m in 1H FY23 to a profit of \$3.2m in 1H FY24. We believe the medium-term outlook for FWD is bright, with the Rio Tinto accommodation contract at Searipple underpinning earnings well above the current run rate for the next three years. When combined with a continued turnaround in Building Solutions and a cyclical improvement in RV Solutions, there is a strong outlook for earnings, cash flows and dividends into the medium term.

BCI announced a \$315m equity raising which is expected to form the final component of equity funding for the salt portion of the Mardi salt and potash project. In addition, the 2023 convertible notes issued to Wroxby, Australian Super and Ryder Capital (all major shareholders of the company) were converted to equity. The proceeds from the equity raise will supplement the \$981m debt financing announced late last year by the company. As at 31 December 2023, the Mardi project was approximately one third complete. Now that sufficient funding is in place, we look forward to project construction proceeding in earnest and the first shipment of salt in 2H 2026. The economics of the Mardi project remain very attractive with the expected annual free cash flow of \$225m expected to be generated when the project achieves steady state salt and potash production.

YBR, which was delisted in November 2023, reported its half year results. It reported a minor statutory loss of \$340,000 for the six months ending on 31 December 2023. The underlying loan book size, on which trail commissions are earned, increased 5.2% to \$63.9 billion although the net present value of those trail commissions decreased 2.8% to \$30.9 million. The decrease reflects the increase in official interest rates, which affects the discount rate, and the rate at which mortgages are repaid early, which affects the net present value of the trailing commissions. We expect the mortgage market to return to more normal conditions once official (and market) interest rates stabilise.

Now that YBR is an unlisted investment, we have applied our unlisted investment valuation policy, which is to record the investment at its net tangible asset value. This explains the ~2.4% contribution to this month's performance. This is the same methodology as we apply to other unlisted assets, in the absence of any other valuation methodology. This value will be reviewed following the release of YBR's full year results.

We have yet to meet with a number of portfolio companies following the February reporting season. We expect to provide a more fulsome update of the December half operating and financial results for our largest investments later this month.

DIVIDENDS

SNC has declared 59.0 cents per share (cps) of fully franked dividends since listing in December 2013. The profits reserve is 32.0cps and there are 8.5cps of franking credits. These franking credits support the payment of up to 25.5cps of fully franked dividends.

SNC's FY24 interim dividend of 2.75cps will be paid on 3 June 2024. The Board anticipates paying a final dividend for FY24 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	11%
Spectra Systems	11%
Fleetwood	10%
A2B	7%
Coventry	6%

INSTRUMENT EXPOSURE

Listed Australian Equities	72%
Listed International Equities	13%
Unlisted Investments	13%
Cash or Cash Equivalents	2%

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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 9.9% 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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