SANDON CAPITAL

MONTHLY REPORT

Sandon Capital Investments Limited (ASX:SNC)

MARCH 2024

NTA Before Tax	NTA After Tax
$0.8403	$0.8369

INVESTMENT PERFORMANCE

Gross Performance to 31 Mar 2024[1]	1 month	1 year	Since inception (p.a.)
SNC	-1.2%	19.3%	8.4%
All Ords Accumulation Index	3.1%	15.0%	9.0%
Outperformance[2]	**-4.3%**	**4.3%**	**-0.6%**

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 SIN's gross investment performance.
2. Figures may not tally due to rounding,

SANDON CAPITAL INVESTMENTS LIMITED

ASX Code	SNC
Gross assets*	$146.7m
Market capitalisation	$103.6m
Share price	$0.735
Fully franked dividends	$0.055
Dividend yield (annualised)	7.5%
Profits reserve (per share)	32.0cps
Franking (per share)	8.8cps
Loan-to-assets (incl. SNCHA)	15%

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

PORTFOLIO COMMENTARY

The Portfolio was down 1.2% 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 3.1% for the All Ordinaries Accumulation Index.

Despite a strong month for equity markets, the performance of the portfolio was disappointing. There was very little fundamental news flow across the portfolio to drive share prices up or down. The largest positive contributors were Magellan Financial Group Ltd (MFG) (+0.9%), an undisclosed position (+0.6%) and Coventry Group Ltd (CYG) (+0.6%). These were offset by Fleetwood Ltd (FWD) (-2.4%) and IDT Australia Ltd (IDT) (-0.4%).

The poor performance of the portfolio was at odds with the recent 1HFY24 results and outlooks delivered by core portfolio positions. As a result, we have provided more detail than usual regarding the half year results of the largest investments in the fund. We've sought to provide an overall view of each company, its prospects and our investment view. All commentary is for the six month period ended 31 December 2023 and references to the prior period are for the six months to 31 December 2022, unless otherwise stated. All share prices referred to are as at 31 March 2024.

Spectra Systems plc (LSE:SPSY)

Share price (GBP)	218.0
Shares on issue	48.8m
Market Capitalisation (USD)	$134.2m
Net debt / (cash) (USD)	($8.2m)

Sources: Company reports, LSE announcements, Bloomberg, Sandon Capital analysis

The rapid growth seen in SPSY's earnings over the past 5 years moderated somewhat in CY23, however revenues and EBITDA still increased a respectable 3.4% and 3.9% respectively. We expect growth to re-accelerate in CY24 as SPSY executes on a number of potential opportunities including the execution of a sensor manufacturing contract, optical materials sales in Asia, K-cup orders and the long-awaited commercialisation of the Fusion™ polymer banknote substrate.

We also expect the recent acquisition of Cartor Holdings Limited (Cartor), a global market leader in security printing, will positively augment earnings growth in the short and medium term. Cartor operates manufacturing sites in the UK and France producing conventional and hybrid postage stamps, tax stamps, vouchers, coupons, certificates, and security documents. The company uses state-of-the-art technology to make it difficult for counterfeiters to operate in industries with high monetary or intellectual value products and services.

In addition to its highly profitable core security printing business, Cartor has worked with SPSY for the past two years to develop Fusion™ substrates for qualification by central banks and leading polymer banknote printers. We believe this product will be highly desired by central banks in order to provide competition to the existing banknote supply duopoly of CCL Industries in Canada and De La Rue International in the U.K.

The acquisition of Cartor is highly complementary to SPSY's existing business and is also very accretive to both earnings and value.

COG Financial Services Ltd (ASX:COG)

Share price	$1.415
Market capitalisation	$272.1m
Net debt / (cash)[1]	($32.1m)
FY25E P/E multiple (ex-cash)	7.8x
Dividend yield	6.1%

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

COG's 1HFY24 result continued the solid growth trajectory seen over the past few years. Revenue growth against the prior corresponding period (pcp) of 45%, partly supported by acquisitions, was very strong and resulted in growth in earnings per share before amortisation (EPSA) of 12%. The strong results in the company's burgeoning Novated Leasing business more than offset the weaker result in the Asset Management & Lending business which is suffering some shorter-term margin compression, as interest rate increases work their way through the portfolio. This highlights the benefits of the increasingly diverse suite of products that COG brokers can offer their clients.

COG looks set to further increase its customer offering by moving into financial advisory through the acquisition of a 19.9% stake in Centrepoint Financial Ltd (ASX:CAF). The company has highlighted Financial Advisory as its next growth vertical. This will add to its existing verticals: Broking & Aggregation, Novated Leasing and Asset Management & Lending.

COG has demonstrated strong and consistent earnings growth for the past 5 years, both organically and through acquisition. Given their dominant position in the SME broking and aggregation market and the economies of scale that flow from this, we expect this attractive growth to continue for many years into the future. Given the capital light nature of the business, significant free cash flow will be generated, allowing for further organic and inorganic growth as well as continued growth in the dividend.

Fleetwood Ltd (ASX:FWD)

Share price	$1.495
Market capitalisation	$141.0m
Net debt/(cash)	($34.1m)
Enterprise value (EV)	$106.9m
Perth property value	($25.0m)
EV adjusted for property	$81.9m

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

The operating and financial improvement at FWD gathered momentum in 1HFY24. Despite revenue growth of only 3%, the company turned from a loss of $0.8 million in 1HFY23, to a solid profit of $3.9 million in 1HFY24. The turnaround in Building Solutions continues with a return to a profit of $3.2 million following a loss of $2.3 million in the pcp. With that business now focused on standardised, repeatable work and the benefits from the national procurement strategy starting to flow, we expect significantly improved results from the Building Solutions segment in FY24 and beyond.

The Community Solutions business is benefiting from a strong demand environment and rising room rates, with earnings increasing 82% to $4.7 million in 1HFY24. The medium-term outlook is very strong following the ramp up of the five-year agreement with Rio Tinto in April 2024. There are a number of significant projects planned or under construction in the Northwest of Western Australia in the oil and gas, fertiliser and green energy sectors. Given the lack of accommodation in and around Karratha, FWD's Searipple accommodation village remains well placed to satisfy likely strong demand for accommodation over the medium term.

A2B Australia Ltd (ASX:A2B)

Share price	$1.44
Market capitalisation	$175.1m
Scheme of arrangement offer price	$1.45

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

A2B Shareholders approved the scheme of arrangement to sell the company to Singapore's ComfortDelGro for $1.45 per share. The scheme consideration comes on top of a $0.60 per share fully franked special dividend that was paid in January 2024 following the sale of A2B's remaining properties.

When we first invested in A2B, its market capitalisation was approximately $110 million and the company was committed to a strategy that we believed was eroding the value of the business. Our campaign to change the Board, including the appointment of Mark Bayliss as Executive Chairman, has led to a significant change in fortunes for A2B and its shareholders. Mark and his team have executed one of the most successful corporate resurrections we have witnessed – non-core property assets have been sold, the core taxi despatch and payments businesses have been successfully turned around, and these efforts have been capped off with the announcements of the large special dividend and the scheme implementation agreement with ComfortDelGro. The company today has a market capitalisation of more than $260 million (prior to the payment of the special dividend). In less than three years, more than $150 million of shareholder value has been created.

Coventry Group Ltd (ASX:CYG)

Share price	$1.50
Market capitalisation	$143.0m
Net debt / (cash)	$37.1m
Enterprise value	$180.1m

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

CYG delivered a very strong 1HFY24 result, with the encouraging trends disclosed at the AGM in October accelerating into the end of the calendar year. 1HFY24 sales of $185.3 million was up ~5.4% on the prior corresponding period (pcp). More importantly, 1HFY24 EBITDA of $9.8 million was up ~18.1% on the pcp. The initiatives to grow EBITDA margin to 10% in the medium term that were implemented early in the financial year gained momentum in the December quarter with 2QFY24 EBITDA up almost 30% on the pcp.

The company is starting to display strong positive operating leverage, with earnings now growing significantly faster than revenues. This has been a long time coming and is a function of: (i) the improved service proposition allowing the company to raise prices (sell side), and (ii) the increased size of the company allowing it to extract better prices and working capital terms from its suppliers (buy side). We expect CYG's EBITDA margins to improve from below 5% currently towards the company's 10% target over the next 3 years, assuming end markets remain accommodative.

Demand continues to remain solid in the company's core end markets (mining and resources, infrastructure, commercial construction and industrial) and the Enterprise Resource Planning (ERP) upgrade continues to track to schedule and budget. CYG operates in large, fragmented markets and has very modest market shares. We expect the strong top line growth that has been demonstrated over the past 5-6 years to continue into the medium term, with operating leverage and margin expansion initiatives translating to significantly improved earnings growth.

BCI Minerals (ASX: BCI)

Share price	$0.235
Market capitalisation	$677.8m
Net debt / (cash)	$2.9m
Investments	($11.4m)
Enterprise Value	$669.3m
Net tangible assets	$0.287

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

Following a period of uncertainty, BCI has now completed the financing for the first component of the Mardi salt and potash project. Credit approvals for the $981 million of project finance required for the Mardie salt project were received from all key debt providers in December 2023. This was followed by a $315m equity raise which should form the final component of equity funding. In addition, the 2023 convertible notes issued to Wroxby, Australian Super and Ryder Capital (all major shareholders of the company) were converted to equity.

As at 31 December 2023, the Mardi project was approximately one third complete. Now that sufficient funding is in place, and offtake contracts are being executed, we look forward to project construction proceeding and the first shipment of salt in 2H 2026, coinciding with an expected shortage in the global salt market. The economics of the Mardi project remain very attractive with annual free cash flow of $225m expected to be generated when the project achieves steady state salt and potash production.

Magellan Financial Group (ASX:MFG)

Share price	$9.89
Market capitalisation	$1,790.4m
Net debt / (cash)	($259.5m)
Investments	($727.8m)
Enterprise value	$803.1m

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

The stabilisation that has taken place at MFG over the past 6-9 months has been encouraging, both at the corporate level and within the funds management business. The Board has been strengthened with the addition of a number of new directors with requisite funds management experience, costs have been removed from the business, a new Managing Director has been appointed to the Funds Management business and after a long period of decline, funds under management have stabilised and even grown marginally (aided by strong equity markets rather than inflows).

Furthermore, concerns related to the liability on options over closed class units in Magellan Global Fund (ASX: MGF) have now been resolved through the buyback of 750 million MGF options. This coincided with the responsible entity (RE) of MGF deciding to proceed with a conversion of the closed class units to open class units.

The new board, led by MFG Executive Chairman, Andrew Formica, has moved expeditiously to address a number of legacy issues. With most of these now in the rear-view mirror, we look forward to MFG turning its attention to the last of the low-hanging fruit, capital management. We believe it can easily deliver on both growth opportunities and capital management, or in other words, "walk and chew gum."

Global Data Centres (ASX:GDC)

Share price	$2.28
Market capitalisation	$176.2m
Net tangible assets	$2.40

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

Despite pivoting to a value realisation strategy, GDC announced that its associate investment, Etix Everywhere (Etix), acquired five data centres in France in 1HFY24. The acquisition was funded by a combination of new equity issued to Eurazeo, a current shareholder in Etix, and debt. We consider transactions like this consistent with the Etix strategy to grow, increasing its relevance to potential acquirers, which in turn will assist GDC's mandate to sell its assets over time.

There has been considerable speculation in the financial press that AirTrunk, in which GDC owns an ~1% stake, has commenced a process to sell itself for a mooted enterprise value of "$15 billion-plus". This implies a value of ~$90 million for GDC's stake and represents double the current carrying value in GDC's accounts. This gives us confidence that the realisation of GDC assets will achieve closer to $3 per unit, well above the current unit price ($2.28 per unit) and the Net Tangible Asset backing reported by GDC ($2.40 per unit). We expect GDC's value realisation strategy to gain steam in the next 6 months and take 12-18 months to complete.

Midway Ltd (ASX:MWY)

Share price	$0.715
Market capitalisation	$62.4m
Net debt / (cash)	$9.7m
Excess inventory	($20.0m)
Net (cash) due from asset sales	($32.4m)
Enterprise value	$19.8m

Sources: Company reports, ASX announcements, Bloomberg, Sandon Capital analysis

During 1HFY24, MWY finally delivered its long-awaited grain strategy, announcing that it had agreed to sell 5.15 hectares of its Geelong port site to CHS Broadbent, who will build and operate an 80,000 tonne grain storage and export terminal. The sale price of $15.5m for ~5 hectares (~25% of the total site area) compares favourably to the current book value of $16.5 million for the entire 19 hectare site. In addition to monetising excess land at well above book value, the agreement with CHS Broadbent also helps mitigate the significant cost of the take-or pay agreement for the shiploader owned by Geelong Port. Soon after the grain strategy news, MWY refinanced its banking facilities to be more focused on working capital rather than core debt, which better suits the needs of the business today post the sale of the plantation assets.

Whilst the pace of change at MWY has been slower than we would like, significant improvements have taken place at the company over the past two years. Non-core assets have been sold, loss making businesses have been closed and the grain strategy helps defray a punitive take-or-pay contract. The asset backing of the company today (net tangible assets of $1.64 per share) is largely made up of current assets such as cash, inventory and receivables. A significant amount of the inventory balance has been converted to cash in the early part of 2HFY24 due to solid demand for woodchips from customers. This places MWY in a strong position to conduct further capital management initiatives (dividends and/or buybacks) to create value for shareholders using their balance sheet. We also look forward to further updates on the company's nascent carbon management business.

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 8.8cps of franking credits. These franking credits support the payment of up to 26.4cps 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

Spectra Systems	12%
COG Financial Services	11%
Fleetwood	9%
A2B	7%
Coventry	7%

INSTRUMENT EXPOSURE

Listed Australian Equities	73%
Listed International Equities	13%
Unlisted Investments	13%
Cash or Cash Equivalents	1%

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

For enquiries about your shareholding:

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