

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 May 2018

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 May 2018 were:

NTA before tax (ex-dividend)	\$0.9651	+1.3%
Deferred tax asset	\$0.0016	
Deferred tax liability on unrealised income and gains	(\$0.0313)	
NTA after tax (ex-dividend)	\$0.9354	+1.1%

Investment Performance

Gross Performance to 31 May 2018 ¹	1 Month	Financial YTD	Since inception ²
SNC	1.7%	8.8%	9.6%
All Ordinaries Accumulation Index	1.4%	10.5%	8.8%
Outperformance³	0.3%	-1.7%	0.8%

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after incurred brokerage expenses. Dividends paid during the period are included when calculating SNC's gross investment performance.

2. Annualised.

3. Note figures may not tally due to rounding.

Dividends

The Board anticipates being able to declare a final dividend for the period ending 30 June 2018 similar to the interim dividend, subject to prudent business practices and the availability of profits and franking credits. SNC has declared and paid 22.5 cents per share of fully franked dividends since listing in December 2013.

The table below shows the SNC dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
8 May 2018	3.5 cps	100%	27.5%	Interim
23 October 2017	3.5 cps	100%	27.5%	Final
18 May 2017	3.5 cps	100%	30.0%	Interim
21 October 2016	3.0 cps	100%	30.0%	Final
18 April 2016	2.0 cps	100%	30.0%	Interim
22 October 2015	1.0 cps	100%	30.0%	Special
22 October 2015	2.0 cps	100%	30.0%	Final
1 June 2015	2.0 cps	100%	30.0%	Interim
14 October 2014	2.0 cps	100%	30.0%	Special

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets	\$47.4m
Market capitalisation	\$46.5m
NTA before tax	\$0.9651
Share price	\$0.96
Shares on issue	48,435,427
Options on issue	0
Fully franked dividends	\$0.07
Dividend yield	7.3%

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 11.9% 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.

Portfolio commentary

The Portfolio was up 1.7% in May. Gross portfolio returns since inception are the equivalent of 9.6% per annum, compared to 8.8% per annum for the All Ordinaries Accumulation Index.

The main contributors to performance for the month were Specialty Fashion Group Ltd (SFH) and Mineral Deposits Ltd (MDL), partly offset by poor performance from Fleetwood Corporation (FWD).

In May, SFH announced it would sell its “challenged” businesses to competitor Noni B Ltd (NBL) in an all-cash transaction for \$31m. Once this transaction completes, SFH will be left with its growing and profitable City Chic business. Time will tell whether NBL got the better end of the deal, however we believe this is a good result for SFH as it clears the path to focus on its future rather than continue to carry those loss-making businesses.

In the same announcement, SFH told shareholders that City Chic would deliver \$19-\$20 million of earnings before interest depreciation and amortisation (EBITDA) in FY2018, a range that is significantly higher than we had anticipated. We believe such earnings justify the Board’s decision not to sell City Chic to a private equity firm for \$100 million earlier this year. We eagerly await the release of SFH’s 2018 results.

MDL’s share price continued to climb, well above French company Eramet’s \$1.46 cash bid. Somewhat unusually for a Sandon Capital investment, we are fully supportive of the MDL Board in its resistance of the Eramet offer. Independent expert Grant Samuel opined a value of \$2.04-2.52. Supplementary disclosures by Eramet show apparent frustration that MDL and its shareholders have not simply rolled over at their “generous” offer. Recent news emanating from South Africa regarding Rio Tinto’s Richards Bay Minerals operation reinforces our view that the Tizir JV holds enormous strategic value. On 13 June 2018, Eramet increased its offer to \$1.75 on a “last and final” basis – the gun is well and truly held against the heads of shareholders!

We noted with interest the following comment by Grant Samuel in the MDL independent expert’s report: *The premium implied by the ERAMET Offer is broadly consistent with takeover premiums in the Australian market place. However, premium analysis is not indicative of value* (our emphasis). This is a challenge for many undervalued companies, where a bid materialises at a premium to the market price, but which may well be a discount to its true worth. This reinforces why investors should have a firm grasp of value.

FWD was once again the main detractor for the month. As noted in last month’s letter our patience with FWD has worn through. The continued poor share price performance suggests we are not the only shareholders dissatisfied. However, rather than sell our shares, we remain committed to change occurring at FWD.

After month end, shareholders in construction company Watpac Ltd (WTP) voted against the BESIX scheme proposal. We actively campaigned against this scheme, which we saw as opportunistic and flawed. We believe the WTP independent directors need to be held to account for recommending such a proposal to shareholders. We’ve now reverted to our original plan for our investment in WTP, which is to push for changes that lead to operational improvements.

Investment Portfolio

	May 2018	April 2018
Listed Equities	96%	98%
Cash or Cash Equivalents	4%	2%
Number of investments	28	32

Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzyski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

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