# SANDON CAPITAL

Sandon Capital Investments Limited
ACN 107 772 467

Level 5, 139 Macquarie Street, Sydney
Telephone: (02) 8014 1188
Email: info@sandoncapital.com.au

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# Monthly Report

**As at 31 March 2018**

## Net Tangible Assets (NTA)

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

| | |
|---|---|
| NTA before tax | **$0.9954** |
| Deferred tax asset | **$0.0016** |
| Deferred tax liability on unrealised income and gains | **($0.0310)** |
| NTA after tax | **$0.9659** |

## Investment Performance

| Gross Performance to 31 Mar 2018[1] | 1 Month | Financial YTD | Since inception[2] |
|---|---|---|---|
| SNC | 0.9% | 7.5% | 9.7% |
| All Ordinaries Accumulation Index | -3.5% | 5.3% | 7.9% |
| **Outperformance[3]** | 4.4% | 2.2% | 1.8% |

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 an interim 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 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 | **$48.7m** |
| Market capitalisation | **$47.2m** |
| NTA before tax | **$0.9954** |
| Share price | **$0.980** |
| Shares on issue | **48,154,837** |
| Options on issue | **40,365,575** |
| Fully franked dividends | **$0.07** |
| Dividend yield | **7.1%** |

### 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 12.0% 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 0.9% in March. Gross portfolio returns since inception are the equivalent of 9.6% per annum, compared to 7.9% per annum for the All Ordinaries Accumulation Index.

The main contributors to performance were Fleetwood Corporation Ltd (FWD), Specialty Fashion Group (SFH) and Consolidated Operations Group Ltd (COG). There was no specific news on FWD or COG, rather both seemed to have reversed some of the underperformance seen in previous months.

The SFH share price rose 51% for the month as the market continued to speculate that a bid would be made for some or all of the company's assets. Post month end, the company announced that it had received a $100m cash bid from Anchorage Capital Partners (Anchorage) for the City Chic and Autograph businesses. The proposal was expressed as binding and valid until 6 April 2018. At the time of writing, there was no update from SFH as to the status of negotiations with Anchorage.

During the month, we went public with our views on Watpac Limited (WTP). We began purchasing WTP shares over 12 months ago after concluding they were materially undervalued. Poor operational results over a number of years meant Watpac's shares have traded at a material discount to their reported net tangible asset value per share. We believe major shareholder, BESIX, has taken advantage of this underperformance to launch what we consider is a lowball proportional takeover offer. Despite a number of strategic and operational missteps, we believe the challenges facing Watpac are not insurmountable.

We see Watpac's challenges as follows:

(i) The mix of Construction with the Civil and Mining businesses is fundamentally flawed. There is little overlap in skills and the capital profiles of the businesses do not match. We consider this a strategic mismatch.

(ii) Considering this mismatch, and Watpac's record of capital management, we believe Watpac has demonstrated poor and sporadic capital management.

We believe WTP should investigate merging the Civil & Mining business with another mining contractor. A scrip-based deal would allow WTP shareholders to retain exposure to the mining services upcycle. It would also provide the benefit of a more capable and focused management team. Post month end, Watpac announced that it was conducting a review of its Mining business, including exploring sale options for the business and/or its assets, either in part or whole. Our presentation on WTP can be found at www.sandoncapital.com.au/site/images/pdfs/180327_WTP_Presentation.pdf.

The main detractor from performance in March was New Zealand retailer, Smiths City Group Ltd (SCY). SCY shares fell 17%, albeit on very light volumes (a total of 124,000 shares traded for the month). At the end of the month, SCY announced Alastair Kerr as its new Chair. He replaced Craig Boyce who stepped aside from the role immediately and will retire from the Board at the end of May. Another director, Gary Rohloff, also resigned from the Board affective at the end of April. We welcome the changes at SCY and look forward to improved performance from the company going forward.

## Investment Portfolio

| | March 2018 | February 2018 |
|---|---|---|
| Listed Equities | 98% | 98% |
| Cash or Cash Equivalents | 2% | 2% |
| Number of investments | 31 | 29 |

## Contact

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

Further information:

Sandon Capital Investments Limited
Tel: 02 8014 1188
Fax: 02 8084 9918
Website: www.sandoncapital.com.au

Share registry:
Link Market Services
Tel: 1300 554 474 (toll free within Australia)
Email: registrars@linkmarketservices.com.au
Fax: +61 2 9287 0303
Postal Address: Locked Bag A14, Sydney South NSW 1235

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