SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 January 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 January 2020 were:

NTA before tax	**$0.9549**	**-1.1%**
Deferred tax asset	**$0.0009**	
Deferred tax liability on unrealised income and gains	**($0.0137)**	
NTA after tax	**$0.9421**	**+0.4%**

Investment Performance

Gross Performance to 31 December 2019[1]	1 Month	Financial YTD	Since inception[2]
SNC	-0.4%	+7.6%	+9.7%
All Ordinaries Accumulation Index	+4.7%	+8.4%	+10.1%
Outperformance[3]	**-5.0%**	**-0.9%**	**-0.4%**

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

SNC has declared and paid 33.0 cents per share of fully franked dividends since listing in December 2013.

Following payment of the most recent 3.5 cents per share dividend, SNC has profits reserves equivalent to 3.7 cents per share and franking of approximately 12.0 cents per share.

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
21 October 2019	3.5 cps	100%	27.5%	Final
16 May 2019	3.5 cps	100%	27.5%	Interim
23 October 2018	3.5 cps	100%	27.5%	Final
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

Sandon Capital Investments Limited

ASX Code	**SNC**
Listed	**23 Dec 2013**
Gross assets*	**$127.6m**
Market capitalisation	**$88.5m**
NTA before tax	**$0.9549**
Share price	**$0.8300**
Shares on issue	**106,658,126**
Options on issue	**nil**
Fully franked dividends	**$0.07**
Dividend yield	**8.4%**
Profits reserve (per share)	**3.7 cps**
Franking (per share)	**~12.0 cps**

*includes face value of Mercantile 8% unsecured notes.

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 11.7% 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.

Portfolio commentary

The Portfolio was down 0.4% for the month, on a gross basis, before all fees and expenses. Cash levels ended the month at approximately 5%.

The main positive contributors to this month's return were City Chic Collective Ltd (CCX) and Infigen Energy Ltd (IFN). Their performance was more than offset by declines in Yellow Brick Road Holdings Ltd (YBR), Stanmore Coal Ltd (SMR) and Ingenia Communities Group (INA).

Despite having minimal impact on the portfolio's performance, developments at Consolidated Operations Group Ltd (COG) were significant (and in our view, positive). As a brief reminder, late last year COG entered into a scheme of arrangement to merge with CML Group Ltd (CGR). Seemingly a match made in heaven, one could say both parties agreed to stand at the alter and exchange vows, subject to no-one voicing an objection. That objection came in the form of CGR competitor Scottish Pacific (ScotPac) making a non-binding indicative offer to CGR at an apparent premium to the COG scheme. CGR granted ScotPac access to conduct due diligence enquiries, notwithstanding COG concerns that there would likely be competition issues arising from a ScotPac/CGR tie up. Suddenly, the COG scheme looked in jeopardy. Just before the end of January, COG announced that it had acquired a 17.4% stake in CGR for approximately 58 cents per share. The importance of this move should not be understated. In any potential control transaction, having a stake in a target, especially those between 10% and 19.9%, can determine the ultimate outcome. A 17.4% stake means COG can prevent any third party from gaining 100% control of CGR in a takeover, since compulsory acquisition can only occur when owning 90% or more of a company's shares. Even in a scheme of arrangement, the 75% majority required to pass a scheme becomes problematic given that few, if any schemes, obtain 100% shareholder turnout. It is also worth noting that funds managed by Sandon Capital, together own approximately 2.5% of CGR.

The scheme meeting has been deferred and CGR has announced that the ScotPac due diligence is progressing. It would seem CGR remains hopeful of a definitive proposal coming from ScotPac, presumably for cash. We remain in favour of the COG-CGR scheme. Exchanging our CGR shares for new COG shares will allow us to continue to reap the benefits that are expected to arise from combining the COG and CGR businesses.

Furthermore, the tax consequences would figure in our assessment of any alternative proposal. For example, the potential for rollover relief as offered by the COG scheme. We would require a substantial premium before we would consider selling our CGR shares for cash to another party. We expect other CGR shareholders would also share a similar view, especially those fortunate enough to have bought CGR shares below current market prices.

This situation may take some time to resolve, but we remain patient and supportive of COG's approach.

Markets generally remain challenging, with macro headwinds (such as bushfires and novel coronavirus) and a seemingly unconstrained appetite for growth by some investors, regardless of value. We are not of that ilk, preferring instead to focus on our value-oriented approach, despite shorter term underperformance.

Despite the aforementioned challenges, we continue to uncover single stock investment ideas whose value potential is not determined by the vagaries of the market or a slowing economy.

Investment Portfolio

	January 2020
Listed Australian Equities	71%
Listed International Equities	16%
Unlisted investments	8%
Cash or Cash Equivalents	5%

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.

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