SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 30 September 2021

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 30 September were:

NTA before tax (cum div)	**$1.1690**	**-1.9%**
Deferred tax asset	**$0.0160**	
Deferred tax liability on unrealised income and gains	**($0.0836)**	
NTA after tax (cum div)	**$1.1014**	**-1.3%**

Investment Performance

Gross Performance to 30 Sep 2021[1]	1 Month	1 year	Since inception[2]
SNC	-2.1%	56.0%	12.9%
All Ordinaries Accumulation Index	-1.6%	31.5%	9.7%
Outperformance[3]	**-0.5%**	**+24.5%**	**+3.2%**

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 SNC's gross investment performance.
2. Annualised.
3. Note figures may not tally due to rounding.

Dividends

SNC has paid 41.5 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 36.2 cents per share and there are 9.8 cents per share of franking credits.

SNC's FY21 final dividend of 2.75cps will be paid on 5 November 2021. The special dividend of 1.00cps will be paid on 20 December 2021. The Board anticipates paying an interim dividend for FY22 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
30 November 2021	**1.00 cps**	**100%**	**25.0%**	**Special**
19 October 2021	**2.75 cps**	**100%**	**25.0%**	**Final**
17 May 2021	2.50 cps	100%	26.0%	Interim
21 October 2020	2.50 cps	100%	26.0%	Final
5 May 2020	3.50 cps	100%	27.5%	Interim
21 October 2019	3.50 cps	100%	27.5%	Final
16 May 2019	3.50 cps	100%	27.5%	Interim
23 October 2018	3.50 cps	100%	27.5%	Final
8 May 2018	3.50 cps	100%	27.5%	Interim
23 October 2017	3.50 cps	100%	27.5%	Final
18 May 2017	3.50 cps	100%	30.0%	Interim
21 October 2016	3.00 cps	100%	30.0%	Final

Sandon Capital Investments Limited

ASX Code	**SNC**
Listed	**23 Dec 2013**
Gross assets*	**$166.4m**
Market capitalisation	**$114.2m**
NTA before tax	**$1.1690**
Share price	**$1.0300**
Shares on issue	**110,888,889**
Options on issue	**nil**
Fully franked dividends	**$0.055**
Dividend yield (annualised)	**5.3%**
Profits reserve (per share)	**36.2 cps**
Franking (per share)	**9.8 cps**
Loan-to-assets (incl. MVTHA)	**18%**

*includes the face value of Mercantile 4.8% 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 13.9% 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.

Corporate Update

The Company successfully completed its 1-for-4 Entitlement Offer and Shortfall Placement shortly after month's end. A total of $22.4 million was raised. Existing SNC Shareholders accounted for approximately 70% of the funds raised, including those shareholders who participated in the Shortfall Placement. Following the allotment of the New Shares, SNC has 133,064,735 shares on issue. The new capital and new shares on issue will be reflected in the October NTA report. SNC also welcomes approximately 200 new shareholders, bring the total number of shareholders to approximately 2,700. We thank all those who participated for their support.

Portfolio commentary

The Portfolio was down 2.1% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to a decline of 1.6% for the All Ordinaries Accumulation Index.

The main detractors to the portfolio this month were BCI Minerals Ltd (**BCI**) and Fleetwood Ltd (**FWD**). BCI was again impacted by a falling iron ore price. As we noted last month, BCI's Iron Valley iron ore royalty comprises a small part of the investment thesis and value of the company. We intend to discuss our BCI thesis in a more detailed report over the next few weeks. The remainder of the portfolio delivered a net positive return for the month with the key contributor being City Chic Collective Ltd (**CCX**).

FWD is the largest position in the portfolio and one of the investments we are most excited about. Whilst the market is focused on the short-term impact on the company of pandemic driven lockdowns, we believe there are a number of large and long duration opportunities that could see many years of earnings growth ahead.

The most important changes at FWD in many years occurred in the first half of 2021 when John Klepec was appointed Chairman and Bruce Nicholson joined as the new CEO. In his role as executive chairman of Wellard Ltd (WLD), John has been instrumental in transforming that company from a near-failure into a business today that has a bright future. We believe WLD is a textbook example of how good board oversight and an engaged management team can deliver a successful turnaround. We have already seen early signs of John's influence at FWD and look forward to him bringing his skills to bear over the next few years.

In the early days of Bruce's tenure as CEO, we have been encouraged by his no nonsense approach and believe his many years of experience and skills developed in the construction and manufacturing industries will be important to the future direction of FWD. In particular, we are looking forward to him delivering on the cost reductions that should flow from the integration and standardisation of FWD's national footprint in its Building Solutions business. We have been involved in a number of turnaround situations over the past decade and have a good understanding of the difficulties and time required. A good example is our long-held investment in Coventry Group Ltd (**CYG**) where the fruits of many years of hard work by Neil Cathie (Chairman), Robert Bulluss (Managing Director) and their team have only started to bear fruit over the last twelve months. At FWD, we are confident that a successful operational turnaround can be achieved.

The key driver for FWD's Accommodation Solutions business over the next 5-10 years will be construction activity in and around the Karratha region. The future there is looking increasingly positive. We expect Woodside Energy is only months away from sanctioning the development of its Scarborough gas field and the associated expansion of its Pluto LNG plant. The recent strength in energy prices, in particular that of LNG, is undoubtedly a positive for the economics of Scarborough/Pluto 2, should it continue for the longer term.

The sanctioning of Scarborough is also likely to improve the approval prospects of the nearby Perdaman urea plant. During the month, the Perdaman project received approval from the Western Australian Environment Protection Authority (EPA) and we believe that financing and final certainty around gas supply are the final hurdles to clear before construction of the project is approved. If both Perdaman and Scarborough/Pluto 2 proceed, and we think they will, we expect demand for accommodation in Karratha to exceed 5,000 rooms, well above the current and planned capacity of the market of 4,000 rooms. Under this scenario, we believe FWD's Accommodation Solutions business is set for a multi-year period of prosperity.

During the month, FWD announced that it had secured a $32m contract to supply modular buildings to the Centre for National Resilience (CNR) in Melbourne (previously known as a quarantine facility for incoming and returned travellers). Given FWD's national footprint and its partnership with Multiplex at the Melbourne facility, we believe the company is well placed to win further contracts for the rollout of the two remaining CNRs in Queensland and Western Australia. In its announcement of the Melbourne contract, FWD stated that *"We are … confident that this contract will bode well for opportunities to take part in subsequent expansions and new facility builds that are being proposed."*

The CNRs are good examples of the increasing acceptance and acknowledgement of modular buildings as a design-, cost- and time-effective solution for the construction of major projects. We have seen this acceptance increase in FWD's core education, custodial, mining and affordable housing sectors and expect these markets to continue to increase the adoption and penetration of modular buildings. Furthermore, we believe the benefits that modular construction bring can also be applied to other construction sectors. These markets provide large and long duration growth opportunities for FWD's Building Solutions business. As the largest modular construction company in Australia, and the only one with a national footprint, FWD is well placed to take advantage of these opportunities and drive the national uptake of modular buildings. FWD's scale also gives it the opportunity to improve manufacturing techniques and methods. Although requiring investment, such improvements should help FWD improve its margins and allow it to become more competitive than smaller, less automated peers.

Whilst lockdowns in NSW and Victoria are having a short-term negative impact on the operations of FWD, we believe the medium to longer term is looking increasingly positive. With a refreshed and well-regarded leadership team in place, a balance sheet with net cash of >$55m and a plethora of internal and external opportunities, we expect significant earnings and cash flow growth at FWD over the next 3-5 years.

Last year, FWD generated Net Profit After Tax and before Amortisation (NPATA) of $17.3m. Based on the growth opportunities the company has ahead of it, we believe the company can generate annual NPATA in excess of $40m within the next 3 years. Should it achieve this level of earnings, and the market starts to value the long duration growth embedded in the company, we believe the share price should rise above $6, or almost triple where it is trading today.

FWD is one of a number of investments in the portfolio for which we have high expectations over the medium term. We also continue to uncover attractively priced (that is, cheap) opportunities that are being completely overlooked by the market. We look forward to updating you on existing and new investments over the remainder of 2021 and into 2022.

Investment Portfolio

	September 2021
Listed Australian Equities	83%
Listed International Equities	10%
Unlisted investments	6%
Cash or Cash Equivalents	1%

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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