

NGE Capital Limited

(ASX:NGE)

AGM investor presentation

28 May 2020



NGE Capital Limited

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Company snapshot



- ▶ NGE Capital Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which allows investors to invest in a concentrated, high conviction, actively managed portfolio of financial assets.
- ▶ Focus primarily on listed ASX and international equities.
- ▶ Aim to generate strong risk-adjusted returns over the medium to long term.
- ▶ Internally managed by Chief Investment Officer David Lamm and Portfolio Manager Adam Saunders.
- ▶ Significant Board shareholding in the Company: backing our investment decisions, and aligned with shareholders.

Board of directors

David Lamm	Chief Investment Officer
Adam Saunders	Portfolio Manager
Ilan Rimer	Non-Executive Director

Summary

Ticker		ASX:NGE
Share price (27 May 2020)	\$	0.495
Shares outstanding	m	37.16
Market cap (27 May 2020)	\$m	18.4
NTA per share before tax	\$	0.604
NTA per share after tax	\$	0.659
NTA before tax	\$m	22.5
NTA after tax	\$m	24.5

Note: NTA presented as at 30 April 2020.

Top shareholders

David Lamm	8.9%
Raphael Lamm	8.5%
Noontide Investments Ltd	5.7%
Wallbay Pty Ltd	5.7%
Kuridale Nominees Pty Ltd	5.0%

Performance

Growth in NTA per share

2017	2018	2019	2020	Since inception ⁽²⁾	
			YTD ⁽¹⁾	(p.a.)	(cum.)
26.8%	21.4%	11.2%	-28.9%	5.1%	18.5%

Note: Returns are before tax and net of all operating expenses.

(1) To 30 April 2020.

(2) From 30 November 2016, the date on which NGE became a LIC, to 30 April 2020.

Tax efficient investment vehicle

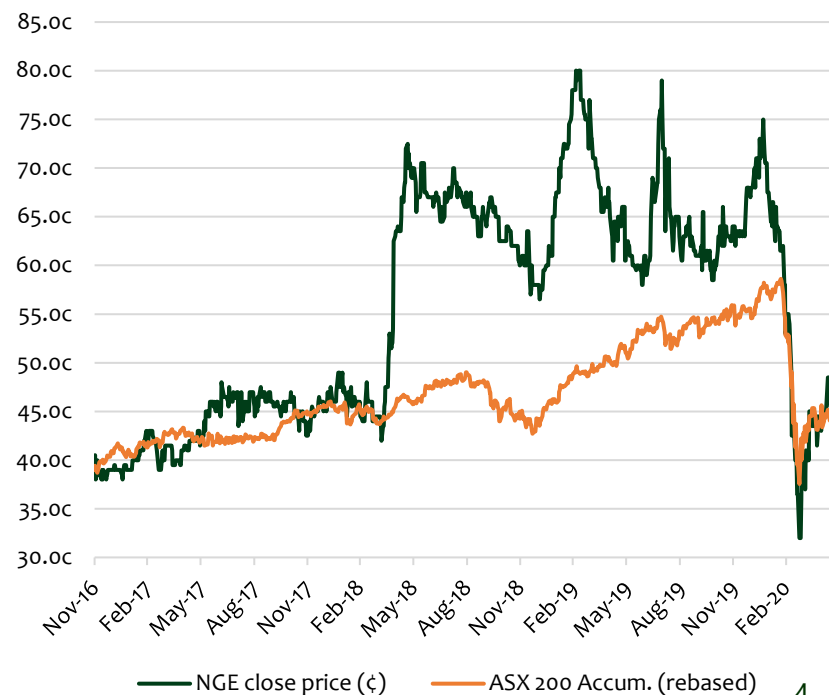
- ▶ NGE has ~\$50m of Australian unused and unrealised losses available as at 30 April 2020.
- ▶ In the aggregate these losses equate to a potential future tax benefit of ~\$14m or ~\$0.37 per share (of which only \$2m or \$0.054 per share is recognised in our after tax NTA).

Share price performance

	2017	2018	2019	2020	Since inception ⁽²⁾	
				YTD ⁽¹⁾	(p.a.)	(cum.)
NGE	16.7%	27.5%	17.2%	-27.2%	7.1%	26.9%
ASX 200 Accum.	11.8%	-2.8%	23.4%	-12.4%	6.0%	22.5%

(1) To 27 May 2020.

(2) From 30 November 2016, the date on which NGE became a LIC, to 27 May 2020.



Target investments that can generate strong returns with an adequate margin of safety

- Individual securities can and do significantly deviate away from their fair value.
- Potential to generate strong risk-adjusted returns by investing in select securities at opportune times.

Aim to hold a high conviction, concentrated portfolio

- Only invest in a compelling opportunity, otherwise hold cash.
- Prefer to invest heavily in a small number of high conviction opportunities, than invest small amounts in a large number of less compelling investments.

Invest based on fundamental analysis

- Bottom up stock selection, focusing on the fundamentals of individual companies rather than market trends.
- Conduct extensive proprietary research with a focus on:
 - **Board and management** – track record, skin in the game.
 - **Credit risk** – gearing, debt profile, interest coverage.
 - **Earnings** – free cash flows including timing and likelihood, margins, payout ratio, growth potential.
 - **Valuation** – multiples, discounted cash flow analysis, break-up value.
 - **Competition** – market share, industry position, market dynamics.

Investment process

Idea generation

- Screening
- Identify mispricing
- Leverage network of contacts



Proprietary research

- Fundamental analysis
- Company meetings / site visits
- Speak to experts



Investment decision

- Buy, hold, sell, wait, do nothing
- Investment committee approval as required
- Sizing and structure based on risk-reward payoff



Assessment

- Qualify against investment philosophy
- Stress test valuation and assumptions
- Refine hypothesis



Monitor and exit

- Update assessment for new information
- Stay on top of the story

Portfolio positioning during pandemic

1 De-risked portfolio

- ▶ Sold out of United Company RUSAL plc (HKE:0486) due to the company's significant leverage, the depressed aluminium price (which may remain so for some time as excess inventories are worked through) and uncertainty around the future economy, despite the stock remaining very attractive under a 'normal' economic outlook.
- ▶ Sold out of Horizon Oil Limited (ASX:HZN) during April/May, whilst retaining significant exposure to any eventual recovery in oil prices via our remaining stake in Karoon Energy Ltd (ASX:KAR).
- ▶ Cash now ~47% of NAV (as at 26 May 2020).

2 Remain cautious

- ▶ With slowing GDP growth despite historically low central bank rates, high debt-to-GDP ratios, and nonfinancial corporate leverage reaching unprecedented levels, the global economy is certainly not well placed to withstand a major economic shock, let alone one of this magnitude.
- ▶ The fastest collapse in equity markets in the last 100 years (major stock market indices fell ~30% in less than 5 weeks) has been followed by a miraculous recovery, despite the highly uncertain global economic outlook.
- ▶ Risk of a further downturn in equity markets remains high.

3 Take advantage of select opportunities

- ▶ Materially increased our holding in Karoon in March using proceeds from RUSAL sale when Karoon was trading at less than half its cash backing. Reduced exposure to Karoon back to prior levels during April after ~30% rise.
- ▶ We will only invest if the opportunity is compelling, otherwise we would rather hold cash and be patient.

NGE portfolio

Top holdings – 30 April 2020

Karoon Energy	ASX:KAR	25.9%
Yellow Cake plc	LSE:YCA	21.1%
Base Resources	ASX:BSE	4.3%
Horizon Oil ⁽¹⁾	ASX:HZN	1.8%
Uranium Participation Corp	TSX:U	0.7%
Net cash and other		46.2%

(1) Sold out of remaining HZN position during May.

Portfolio holding: Karoon Energy



Karoon Energy Ltd (ASX:KAR)

Description	<ul style="list-style-type: none"> ▶ Oil and gas explorer with operations in Australia, Brazil and Peru. ▶ Key asset is its cash balance of ~A\$480m, of which ~93% is held in USD. ▶ Retains deferred milestone payments of up to US\$200m following asset sale in August 2014.
Situation	<ul style="list-style-type: none"> ▶ KAR sits on a large cash balance, made up of ~A\$284m raised at 93c in Oct/Nov 2019 and the remnants of the US\$600m asset sale from 2014. ▶ Prior to the oil market rout, Karoon was poised to close the Bauna acquisition from Petrobras.
Assessment	<ul style="list-style-type: none"> ▶ Share price has declined to 63c in the dollar of cash, as the low oil price makes the previous transaction terms unworkable. ▶ If Bauna is to close, the transaction terms will need to be renegotiated. Petrobras remains committed to its divestment program, aimed at reducing its considerable debt burden, and so may agree to a recut knockdown fire sale price. ▶ Acquiring Bauna would make KAR a unique prospect on the ASX offering oil exposure as a small- to mid-cap producer via a large, high quality production asset with low costs of production. ▶ Downside reasonably protected by discount to cash.

Snapshot

Ticker		ASX:KAR
Price (30 Apr 2020)	\$	0.55
Shares outstanding	m	552.98
Market cap	\$m	304
Cash (30 Apr 2020) ⁽¹⁾	\$m	480
Cash per share	\$	0.87
Discount to cash	%	-37%
NGE position size	%	25.9%

(1) Cash balance as at 31 March, adjusted for AUDUSD FX rate as at 30 April; 93% of cash was held as USD as at 31 March.

Bauna – possible scenarios

- 1 Transaction terms renegotiated**
 - ▶ Effective price could be reduced via a renegotiated deal.
 - ▶ Ideally, price is reduced to a level that requires no debt funding and allows Karoon enough headroom to fund its low risk rejuvenation capex program. This would avoid the need to lock in current low oil prices through an onerous hedging program, which lenders require.
- 2 Deal abandoned**
 - ▶ Board is undertaking a strategic review to assess options if Bauna fails to close.
 - ▶ Potential options would include a partial/full capital return, and assessment of other oil production assets.

Portfolio holding: Yellow Cake

Yellow Cake plc (LSE:YCA)

Description	<ul style="list-style-type: none"> ▶ Listed investment company whose strategy is to buy and hold physical uranium for the long-term. ▶ Currently holds 9.6mmlbs of “natural uranium” in the form of U_3O_8, also known as yellow cake.
Situation	<ul style="list-style-type: none"> ▶ Company offers exposure to the uranium price without the risks typically borne by companies which explore for, develop and mine uranium. ▶ Uranium price has risen ~30% YTD, benefitting from Covid-19 induced supply curtailments and less demand destruction than the overall electricity market.
Assessment	<ul style="list-style-type: none"> ▶ Sustainability of recent rally will depend on utilities’ fear of securing future supply. Inventories are likely to be less mobile, at least for the near-term. In addition, uranium often becomes scarcer as the spot price rises, on sellers’ expectations of further price rises. ▶ The release of the US Nuclear Fuel Working Group’s report in April also potentially improves the outlook for uranium and at least has ended considerable market uncertainty. ▶ YCA has been buying back shares in order to narrow the discount to NAV. ▶ Thesis may take longer to play out than hoped, but we continue to believe the stock offers significant further upside potential with relatively limited downside.

NAV as at 30 Apr 2020

Uranium holdings	mmlb	9.62
Spot price	US\$/lb	32.75
Fair value of uranium	US\$m	314.9
Cash and other net assets ⁽¹⁾	US\$m	3.3
Net Asset Value	US\$m	318.3
FX rate	GBP:USD	0.7942
Net Asset Value	£m	252.8
Shares outstanding ⁽¹⁾	m	87.8
NAV per share	£	2.87
Share price	£	2.20
Discount to NAV	%	-23.3%
NGE position size	%	21.1%

(1) Share count and cash balance adjusted for share buyback.

Longer term investment thesis

- ▶ Nuclear power net demand expected to grow, led by China and India;
- ▶ Higher priced LT contracts expected to continue rolling off in next few years;
- ▶ Most producers have total costs above spot;
- ▶ Even pre-pandemic, major producers had significantly curtailed production; and
- ▶ Supply deficit (demand ~180mmlbs vs primary production ~140mmlbs) forecast to grow

Portfolio holding: Base Resources



Base Resources Limited (ASX:BSE)

Description	<ul style="list-style-type: none"> Owns and operates the Kwale Mineral Sands Project in Kenya, which produces rutile, ilmenite and zircon. Owns 85% (with option to purchase remaining stake) of the Toliara development project, Madagascar.
Situation	<ul style="list-style-type: none"> Stock has sagged on delays to start of construction of Toliara Project and a potential equity raise of up to US\$110m to fund equity portion of construction and operational start up costs (total of US\$595m).
Assessment	<ul style="list-style-type: none"> Base is cheap on a sum-of-the-parts valuation: we value Kwale at ~\$0.32 per share (incl net cash). Toliara valued at an additional ~\$0.19 per share (net of capex) on a risked basis (~\$0.78 per share unrisks). Toliara is a world class project: DFS values the project at US\$652m (10% WACC, post-tax) with upfront capex requirement of US\$442m. Stock likely to continue trading below intrinsic value until resolution reached with Madagascar government and funding secured.

Snapshot

Ticker		ASX:BSE
Price (30 Apr 2020)	\$	0.130
Market cap ⁽¹⁾	\$m	161
EV	\$m	93
EV / EBITDA (FY20E)	x	0.8
EV / FCF (FY20E) ⁽²⁾	x	1.3
NGE position size	%	4.3%

(1) Diluted for performance rights.

(2) Includes ~US\$22m capex spend on Toliara.

Sum-of-the-parts valuation

	Per share	Valuation	
	A\$	A\$m	US\$m
DCF - Kwale Project (10% WACC)	\$0.27	329.7	214.7
Net cash	\$0.05	68.2	44.4
Current operations equity valuation	\$0.32	397.9	259.1
Upside	147%		
Toliara upfront (15% stake, prep)	-\$0.03	-38.4	-25.0
Toliara NPV	\$1.35	1,680.2	1,094.0
Toliara capex	-\$0.55	-678.9	-442.0
Toliara equity valuation (unrisks)	\$0.78	963.0	627.0
Risk factor	25%	25%	25%
Toliara equity valuation (risked)	\$0.19	240.7	156.8
Total equity valuation	\$0.51	638.7	415.8
Upside	296%		

Board and management



David Lamm

*Executive Chairman &
Chief Investment Officer*

- ▶ Responsible for the origination of investment ideas, management of NGE's portfolio and overall performance of the LIC.
- ▶ Over 15 years' experience in business and financial markets including roles at Credit Suisse, Bain and the Alter Family Office.
- ▶ Founder and MD of Kentgrove Capital.
- ▶ Fellow of the Institute of Actuaries of Australia.
- ▶ Bachelor in Commerce from the University of Melbourne with First Class Honours.



Adam Saunders

*Executive Director &
Portfolio Manager*

- ▶ Responsible for the origination, analysis and execution of investment ideas and management of NGE's portfolio.
- ▶ Portfolio Manager at Kentgrove Capital, and previously held corporate advisory roles at GBS Finanzas in Madrid and Credit Suisse in Melbourne.
- ▶ Bachelor in Commerce from the University of Melbourne with Honours in Finance.
- ▶ Graduate of the Australian Institute of Company Directors.



Ilan Rimer

Non-Executive Director

- ▶ Extensive experience in management consulting, corporate strategy and new business development.
- ▶ Founder of two Australian technology businesses.
- ▶ Previously held roles at Bain, PwC, Australia Post, Visy and Stellar Asia-Pacific.
- ▶ MBA from Oxford University and a Bachelor in Commerce (Hons) from Monash University.
- ▶ Graduate of the Australian Institute of Company Directors.



Leslie Smith

*Chief Financial Officer &
Company Secretary*

- ▶ Senior financial and company secretarial experience in various private, public and listed entities in the resources, manufacturing, IT and not-for-profit sectors in a career spanning 30+ years.
- ▶ Bachelor of Business from Massey University and a MBA at the University of Melbourne.
- ▶ Graduate Diploma in Applied Corporate Governance.
- ▶ Chartered Accountant and Member of the CPA and Governance Institute of Australia.

Contact details



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Executive Chairman &
Chief Investment Officer

Adam Saunders

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Investment proposals

Submit an investment opportunity for us to consider to:



investments@ngecapital.com.au



NGE Capital Limited