NGE Capital Limited

ASX : NGE

AGM Presentation

26 May 2022

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Company snapshot

- NGE Capital Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which offers investors exposure to an actively managed, concentrated portfolio of high conviction investments.
- Broad investment mandate, not restricted by geography, asset class, or security type.
- Focus primarily on listed ASX and international equities.
- Employ a bottom-up, fundamental approach to investment selection.
- Aim to generate strong risk-adjusted returns over the medium to long term.

Actively managed

Fundamental analysis

Concentrated, high conviction portfolio

Broad investment mandate

Target strong risk-adjusted returns

Heavily aligned management

Company snapshot (cont.)

Summary as at 30 April 2022

Ticker	NGE
Share price	$0.890
Shares outstanding	36.0m
Market cap	$32.0m
NTA per share before tax	$1.087
NTA per share after tax	$1.152
NTA before tax	$39.1m
NTA after tax	$41.5m

Top shareholders[1]

David Lamm	11.11%
Raphael Lamm	8.81%
Kuridale Nominees Pty Ltd	5.20%
Adam Saunders	4.38%

1 Shareholders above 5% and Directors.

Board of directors

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

Significant management shareholding in the Company: backing our investment decisions, and aligned with shareholders.

Investment philosophy

1 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.
- Event-driven special situations can provide strong risk-reward opportunities (e.g. M&A, asset sales, strategic reviews, corporate actions such as spinoffs/demergers, changes in leadership, changes in strategy, and capital management announcements such as buybacks/return of capital/increased dividends/special dividends).

2 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.

3 Invest based on fundamental analysis

- Bottom up stock selection, focusing on the fundamentals of individual companies whilst keeping abreast of macroeconomic indicators and conditions that may directly impact those fundamentals.
- 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

- Rigorous fundamental analysis
- Company meetings & site visits
- Speak to experts

Assessment

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

Investment decision

- Buy, hold, sell, wait, do nothing
- Sizing and structure based on risk-reward payoff

Monitor & exit

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

A top performing LIC

Growth in NTA per share

2017	2018	2019	2020	2021	2022 YTD[1]	Since inception[2] (p.a.)	Since inception[2] (cum.)
26.8%	21.4%	11.2%	-8.0%	25.1%	11.1%	15.0%	113.2%

Note: Returns are pre-tax and net of all expenses.
1 YTD to 30 April 2022.
2 From 30 November 2016, the date on which NGE became a LIC, to 30 April 2022.

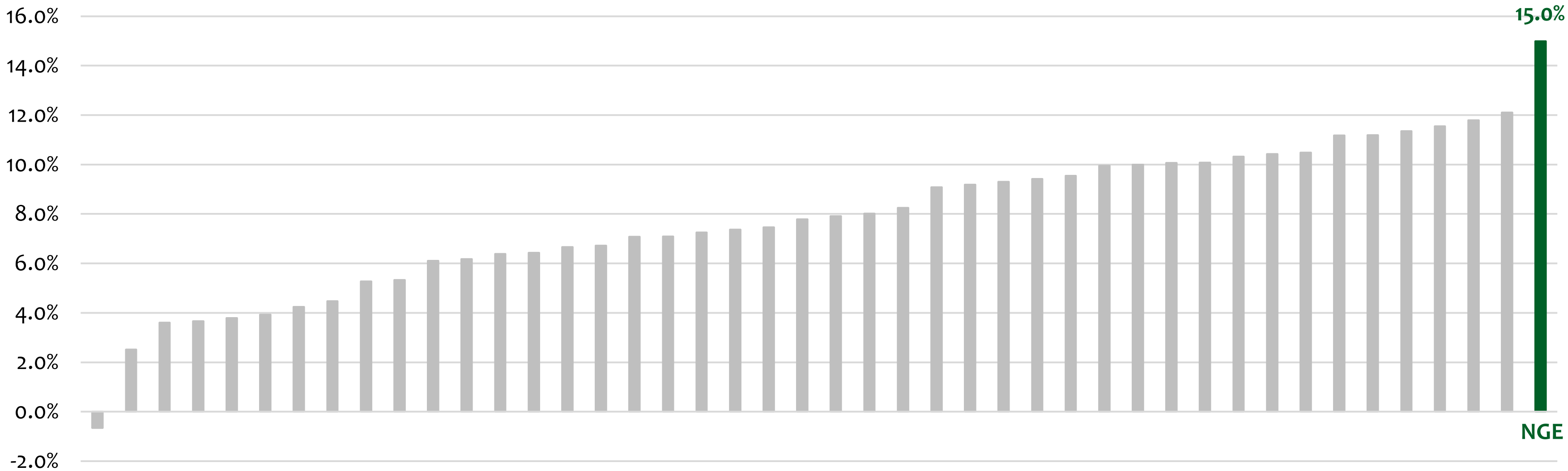
Tax efficient investment vehicle

- NGE has recognised a ~\$2.3m (~\$0.064 per share) deferred tax asset as at 30 April 2022.
- However, in the aggregate NGE's potential future tax benefit equates to ~\$9.5m or ~\$0.27 per share.

Net returns

NGE reports its returns after all fees and expenses.

Annualised portfolio return since NGE inception – all ASX LICs[1]

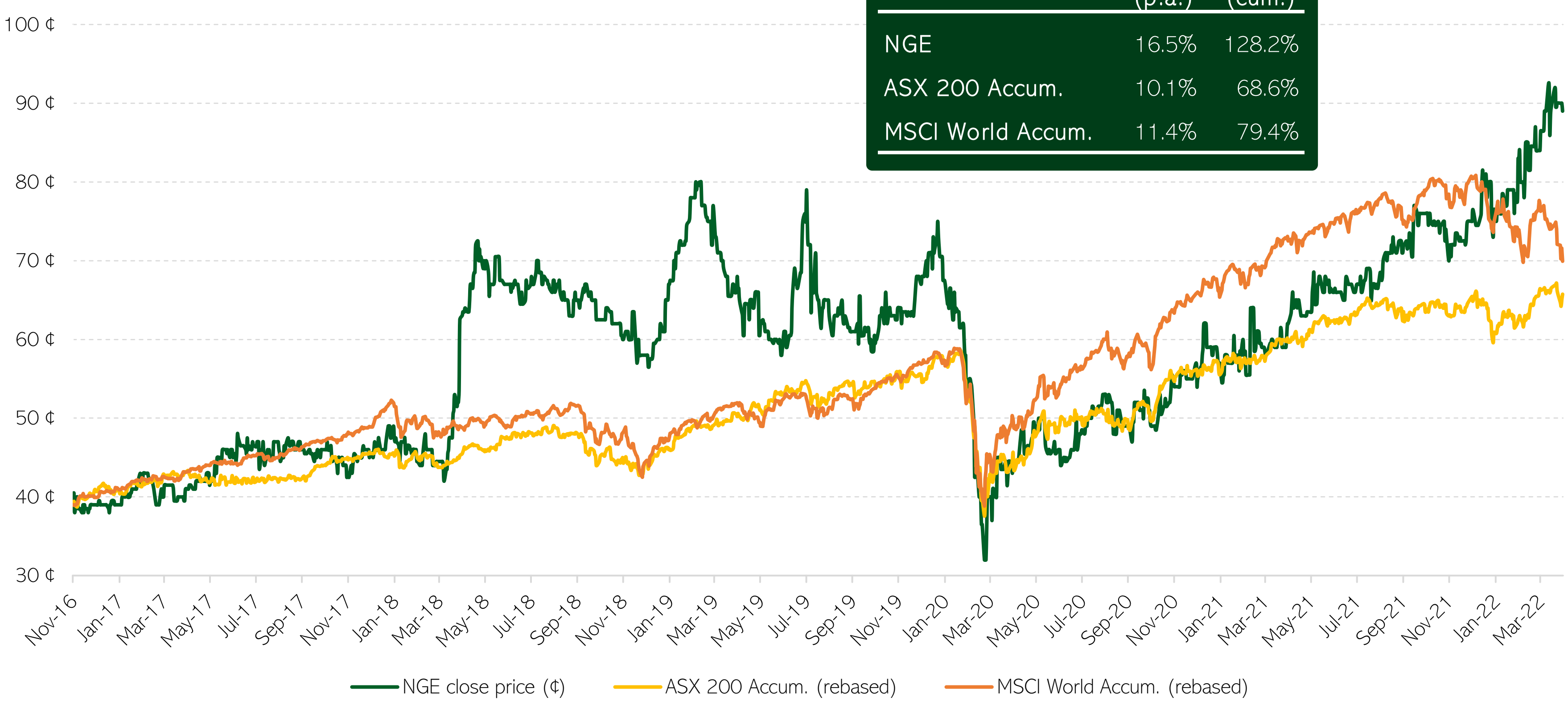


Note: Each bar represents the annualised return of an ASX-listed LIC between 30 November 2016, the date on which NGE became a LIC, and 30 April 2022. Returns comprise growth in NTA per share (pre-tax, after fees and expenses) and dividends grossed up for franking credits.
1 Peer comparison data comprises all ASX-listed equities-focused LICs with FUM of at least A\$10m that were listed as at 30 November 2016.

Performance

Share price performance since inception[1]

	Since inception (p.a.)	Since inception (cum.)
NGE	16.5%	128.2%
ASX 200 Accum.	10.1%	68.6%
MSCI World Accum.	11.4%	79.4%



1 From 30 November 2016, the date on which NGE became a LIC, to 30 April 2022.

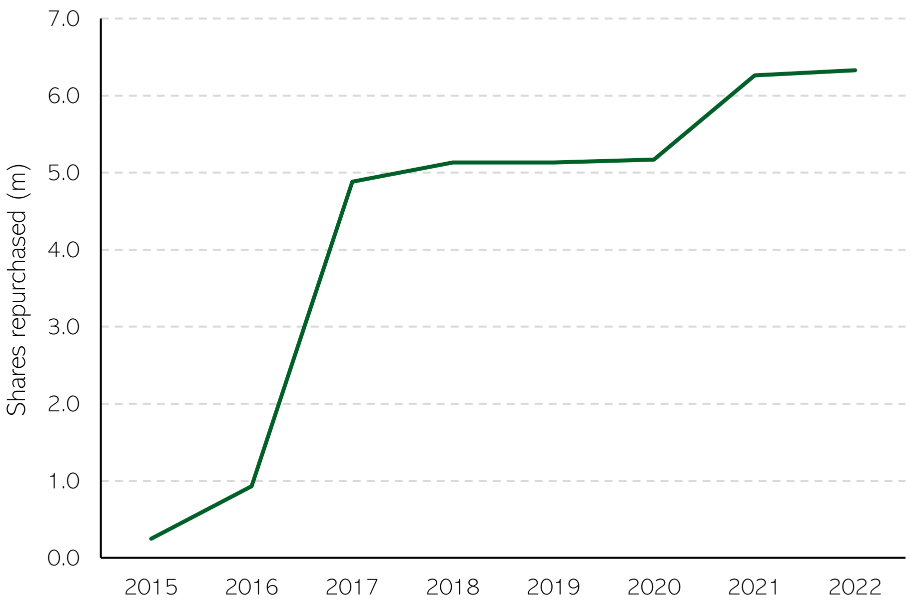
Share buybacks

- NGE has bought back and cancelled ~6.33m shares at an average price per share of ~$0.456 since 2015.
- This equates to ~14.9% of the shares outstanding since the start of our buyback initiative.
- We estimate that the average buyback discount would be ~30% of the prevailing NTA per share at the time of purchase.
- The average buyback price represents a ~58% discount to the NTA per share of $1.087 as at 30 April 2022.
- NGE will continue to opportunistically buy back shares in the future.

NGE buybacks since 2015

~$0.456	~6.33m	~14.9%
Average price per share	Number of shares	of shares outstanding at commencement in Jul-15

Cumulative buyback



Note: Numbers presented take into account of the 20:1 share consolidation in November 2016.

Portfolio summary

Portfolio composition as at 30 April 2022

Company	Ticker	% NTA	Investment thesis in brief
Yellow Cake plc	LSE : YCA	16.5%	U_3O_8 price too low to incentivise new primary production, supply deficit forecast
Metals X	ASX : MLX	12.3%	Sale of troublesome copper assets resulted in pure play tin producer
John Wood Group plc	LSE : WG.	10.1%	Strategic review of BE consulting business to unlock value, sale imminent
Capricorn Energy plc	LSE : CNE	7.4%	Arbitration cash windfall leading to significant capital return initiatives
Jupiter Mines	ASX : JMS	5.6%	Board spill, updated corporate and capital management strategy imminent
Evolve Education Group	ASX : EVO	5.3%	Pandemic stymied NZ business turnaround, potential takeover target
Embecta Corp.	NAS : EMBC	5.0%	Spinoff from much larger parent company leading to initial uneconomic selling
Sprott Physical Uranium Trust	TSX : U.UN	4.8%	See YCA above
Allegiance Coal	ASX : AHQ	4.4%	Strong cashflow potential if hits target production rates whilst coal prices high
International Petroleum	TSX,STO : IPCO	3.2%	Oil & gas producer generating strong FCFs, actively buying back shares
Undisclosed	Listed	2.6%	Undertaking strategic review; market cap >US$1bn
Ten Sixty Four[1]	ASX : X64	2.1%	Gold producer with strong balance sheet, potential exploration upside
Austin Engineering	ASX : ANG	1.7%	Turnaround due to cost-out program and manufacturing productivity gains
Consorcio ARA	MEX : ARA	0.8%	Homebuilder trades at big discount to NAV, structural housing deficit in Mexico
Net cash & other	-	18%	

1 Formerly Medusa Mining (ASX:MML).

Portfolio holding – Uranium

Description

- **Yellow Cake plc (LSE:YCA)** and **Sprott Physical Uranium Trust (TSX:U.UN)** are listed investment entities whose strategy is to buy physical uranium in the form of U_3O_8 and hold long-term.

Situation

- YCA and SPUT offer direct exposure to the uranium spot price without exploration, mining and processing risks.
- Past 12 months has seen increased investor interest in uranium due to changing industry dynamics, partly driven by actions of SPUT.
- SPUT has aggressively accumulated ~36.5mmlbs pounds since Jul-21, funding its purchases by selling new units on-market via an "At-The-Market" facility.
- Spot price has increased ~70% from ~US$32/lb to ~US$54/lb over the same period.
- Energy independence and security of supply have become increasingly important due to the energy crisis in Europe and recent events in Kazakhstan, Ukraine and Russia.
- Governments around the world are reversing plans to phase out their nuclear fleets.
- Growing acceptance that nuclear power will likely play a bigger role in the global energy mix as countries push towards net-zero carbon emissions targets.

Valuation

		Yellow Cake	SPUT	SPUT
Ticker		LSE:YCA	TSX:U.UN	TSX:U.U
Local FX		GBP	CAD	USD
FX rate	USD:local	0.7953	1.2846	1.0000
U_3O_8 holding	lb	18,805,601	55,619,000	55,619,000
Spot U_3O_8	US$/lb	$53.88	$53.88	$53.88
U_3O_8 holding	**US$m**	**1,013**	**2,996**	**2,996**
Cash & other net assets	US$m	16.6	23.2	23.2
NAV	**US$m**	**1,030**	**3,020**	**3,020**
NAV	local FX	819	3,879	3,020
Shares out.	m	183.1	222.5	222.5
NAV per share	**local FX**	**4.47**	**17.43**	**13.57**
Share price (30 Apr 2022)	local FX	3.97	16.90	13.18
Discount to NAV	**%**	**-11.3%**	**-3.1%**	**-2.9%**
NGE position size	%	16.5%	4.8%	

Note: Share price, spot price and FX as at 30 April 2022.
Uranium holding, cash and shares/units outstanding as at 20 May 2022.

Portfolio holding – Uranium (cont.)

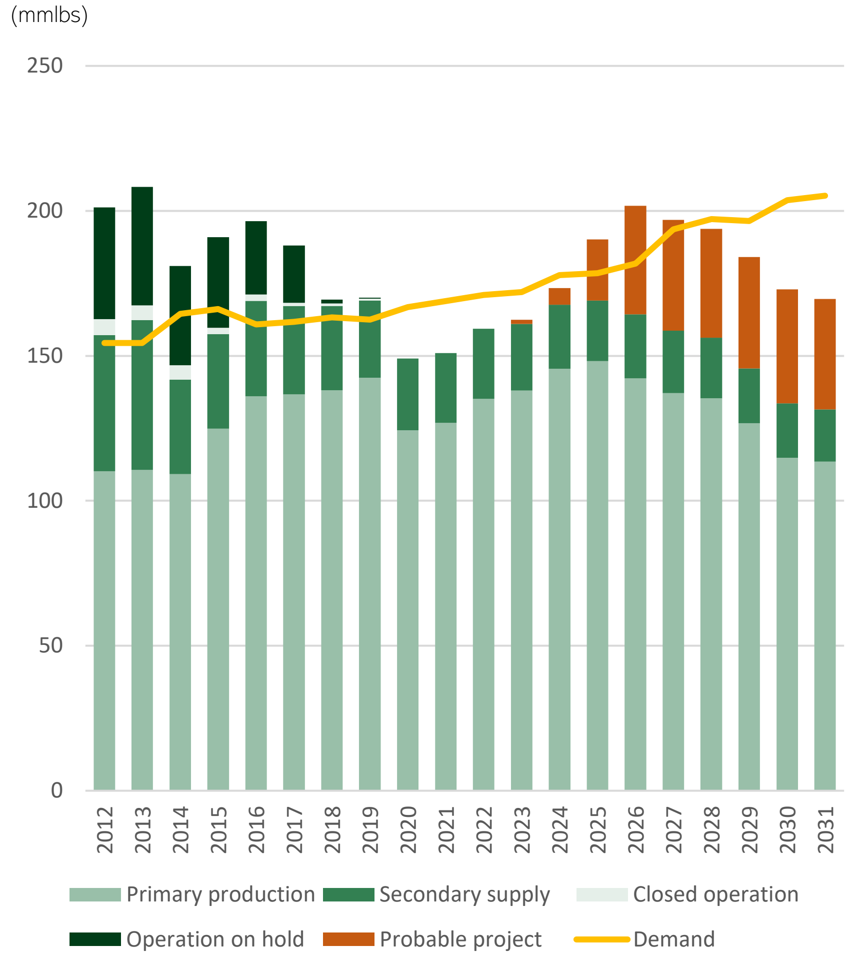
Assessment

- Spot price is still below the price necessary to incentivise increased primary production: some market commentators estimate a price of US$80/lb or higher may be required.
- Supply deficit (demand ~175-180mmlbs vs primary production ~125mmlbs) forecast to grow due to growing demand, underinvestment in new primary supply and long lead times to bring on new production.
- Nuclear power net demand growth underpinned by new reactor builds in China and India.
- We initiated our position in Yellow Cake plc at ~GBP2.26 per share in July 2018.

U_3O_8 spot price

Source: Cameco, FRED.

U_3O_8 supply-demand balance



Source: MineSpans (Dec-21) as cited by Yellow Cake investor pres April 2022.

Portfolio holding – Metals X

Description

- Tin producer with a 50% interest in the Renison Tin Operation, Tasmania.
- Renison FY22E production guidance of ~8,500-9,000t of tin in concentrate (100% basis).

Situation

- Divested troubled copper assets to Cyprium Metals (ASX:CYM) in Mar 2021, becoming one of only two Western-listed pure-play tin producers globally, alongside Alphamin Resources (TSXV:AFM).
- Tin price up over 60% since our initial purchase to ~US$40,700/t (~A$58,100/t) as at 30 Apr 2022, against MLX's AISC of ~A$23,000/t.
- Area 5 expansion extends mine-life to 10 years, will enable increased production, grades and reduced AISC from FY25.

Assessment

- MLX continues to look cheap against a range of assumed long-term tin prices.
- Potential for further mine-life extensions via conversion of existing resources to reserves, exploration upside, or by tying-in other nearby tin deposits
- Supply deficit forecast to increase from 2025 as tin demand grows, supporting long term price uplift.

Snapshot

Ticker		ASX : MLX
Price (30 Apr 22)	$	0.740
Market cap	$m	671
EV[1]	$m	534
EV/EBITDA (FY23E)[2]	x	4.6
EV/FCF (FY23E)[2]	x	5.9
NGE position size	%	12.3%

1 Adjusted for Cyprium convertible, Nico Resources share sales and retained shareholding, and provision for environmental rehabilitation.
2 Assumed tin price of US$35,000/t, AUD:USD FX rate of 0.70.

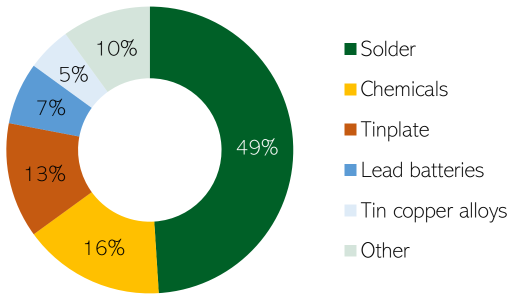
Valuation

	LT tin price (US$/t)			
	$25k	$30k	$35k	$40k
DCF per share (A$)	$0.55	$0.77	$0.99	$1.21

Note: DCF based on detailed LOM plan published in Jun-20, adjusted for NGE estimate of expected cost inflation.

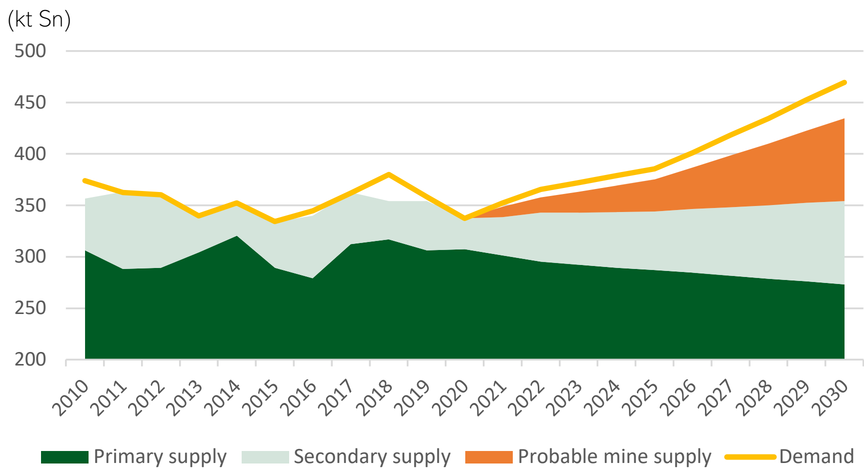
Portfolio holding – Metals X (cont.)

Tin uses



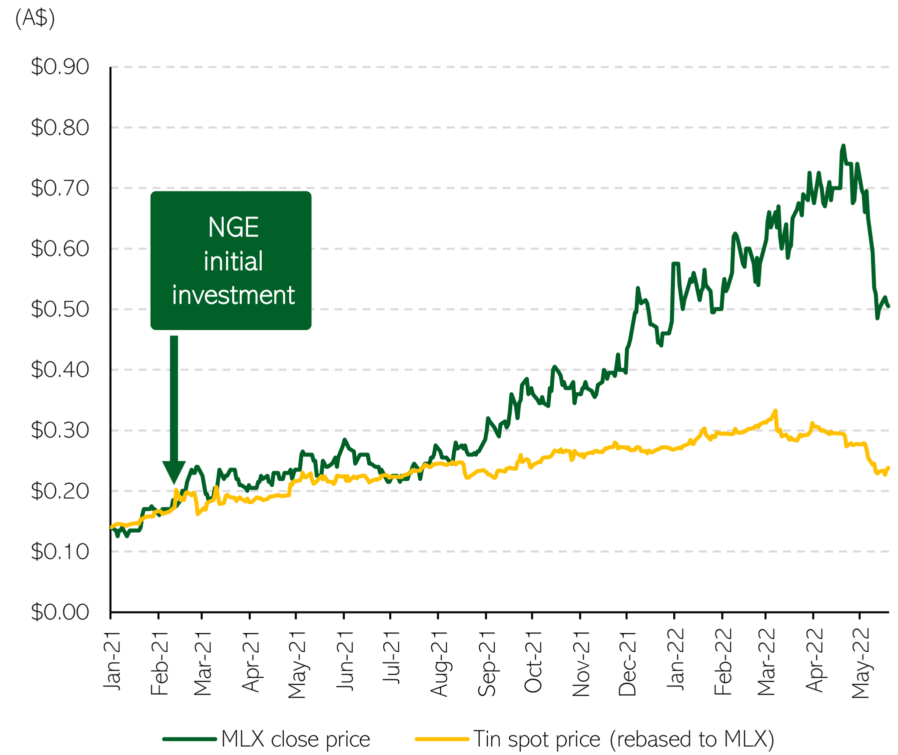
- Annual tin demand in 2021 of ~350kt forecast to grow to ~470kt in 2030.

Tin forecast supply-demand balance



Source: Wood Mackenzie (Apr-21) citing ITA, USGS, and Metallum Commodity Consulting.

Share price performance vs tin price



Source: IRESS.

Portfolio holding – Wood Group

Description

- Provider of engineering, consulting, project management and asset optimisation services.
- Serves two broad end markets: Energy (oil & gas, process & chemicals, renewables) and Built Environment (sustainable infrastructure).

Situation

- Share price has been depressed from high leverage, financial impact of legacy non-performing fixed price contracts, a costly bribery investigation, and high exposure to conventional oil and gas where capex budgets have been restrained.
- Announced a strategic review of its Built Environment consulting business in Nov 2021 in an effort to unlock value not currently recognised by the market.

Assessment

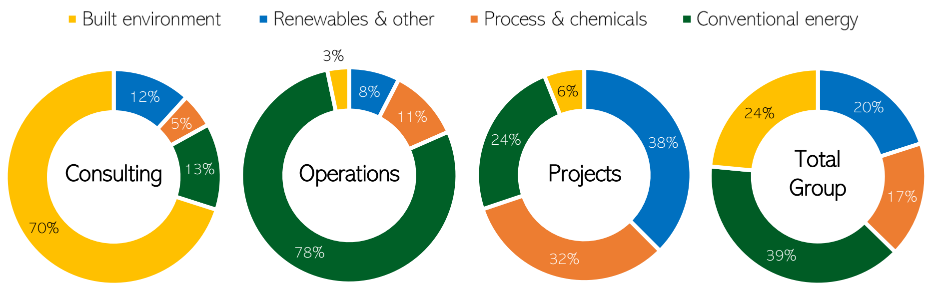
- BE is the jewel in Wood Group's crown, a high growth, high margin business focused on sustainable infrastructure, water and waste, and environmental risks.
- A sale of BE could deliver WG with net proceeds of ~US$1.3-1.9bn (against an EV of ~US$4.0bn), solving WG's debt problem and leaving the company with net cash.
- Sale announcement expected in June.
- RemainCo likely to outperform market expectations, given discipline in tendering for new contracts, and exposure to attractive end markets (not just oil and gas).

Snapshot

		GBP	USD
Ticker	LSE : WG.		
FX rate	USD:GBP		0.7953
Price (30 Apr 22)	$	2.234	
Market cap	$m	1,546	1,943
Adj EV[1]	$m	3,231	4,062
EV/EBITDA (FY22E)[2]	x		8.3
EV/FCF (FY22E)[2]	x		15.0
NGE position size	%		10.1%

1 EV adjusted for unfunded pension deficit and provisions for asbestos, insurance & property, project and litigation liabilities.
2 Pre exceptionals.

Segmental earnings split (FY21 revenue)



Consulting	Operations	Projects	Total Group
Revenue	Revenue	Revenue	Revenue
$1.79bn	$2.10bn	$2.34bn	$6.43bn[1]
Adj. EBITDA	Adj. EBITDA	Adj. EBITDA	Adj. EBITDA
$227m | 12.7%	$225m | 10.7%	$168m | 7.2%	$554m[2] | 8.6%

Note: Adjusted EBITDA presented on a post IFRS-16 basis.
1 Includes $201m of Investment Services revenue.
2 Includes $11m Investment Services EBITDA and $77m of corporate overhead expenses.

Portfolio holding – Wood Group (cont.)

Built Environment valuation

(FYE 31 December)		Low	Base	High
FY21 Revenue	US$m	1,188	1,188	1,188
Growth[1]	%	15%	15%	15%
FY22E Revenue	US$m	1,366	1,366	1,366
EBITDA margin[2]	%	13.0%	13.0%	13.0%
EBITDA (post IFRS 16)	US$m	178	178	178
Lease expense	US$m	-28	-28	-28
EBITDA (pre IFRS 16)	US$m	150	150	150
EV/EBITDA[3]	x	10.0x	12.5x	15.0x
Gross proceeds	US$m	1,496	1,870	2,244
Cost base (estimate)	US$m	562	562	562
Tax rate	%	20%	20%	20%
Net proceeds	US$m	1,309	1,608	1,908

1 "[S]ignificant growth expected in 2022"; BE order book up ~28% in FY21.
2 Margin has been improving (FY21: 12.5%; FY20: 11.9%).
3 Recent comparable transactions done at ~13.6x-19.6x EV/EBITDA.

- Based on recent comparable transactions including KKR's (NYSE:KKR) purchase of a majority stake in Environmental Resources Management and Jacobs Engineering's (NYSE:J) acquisition of a 65% stake in PA Consulting, we think BE could achieve a sale price of 10-15x FY22E EBITDA, with potential upside risk to that range.
- A high multiple is justifiable given BE's strong industry tailwinds as demand for sustainable infrastructure increases.

RemainCo[1]

(FYE 31 December)		Low	Base	High
FY21 Revenue	US$m	5,238	5,238	5,238
Growth[2]	%	6%	6%	6%
FY22E Revenue	US$m	5,552	5,552	5,552
EBITDA margin[3]	%	8.0%	8.0%	8.0%
EBITDA (post IFRS 16)	US$m	444	444	444
Lease expense	US$m	-107	-107	-107
EBITDA (pre IFRS 16)	US$m	337	337	337
EV/EBITDA[4]	x	8.0x	8.0x	8.0x
PF valuation	US$m	2,697	2,697	2,697
Add: BE sale proceeds	US$m	1,309	1,608	1,908
Less: Net financial debt	US$m	-1,406	-1,406	-1,406
Less: Provisions and other	US$m	-713	-713	-713
Pro forma equity val	US$m	1,888	2,187	2,486
FX rate	USD:GBP	0.7953	0.7953	0.7953
Pro forma equity val	£m	1,502	1,739	1,977
Shares out.	m	691.8	691.8	691.8
Equity value per share	£	2.17	2.51	2.86
WG share price	£	2.23	2.23	2.23
Upside	*%*	*-3%*	*13%*	*28%*

1 Consulting, Projects, and Operations across Conventional Energy, Process & Chemicals, and Renewables & other energy.
2 Potentially conservative given strong outlook.
3 RemainCo FY21 margin was 7.7% - likely to improve.
4 Comparable listed company Worley Limited (ASX:WOR) trades on a FY22E EV/EBITDA multiple of ~11.9x (calendarised to 31 December 2022).

Re-rating of RemainCo to 8x EV/EBITDA – likely conservative given retained exposure to attractive end markets – would result in upside of ~15–30% to the month end share price.

Portfolio holding – Capricorn Energy

Description

- Oil and gas producer and explorer that is perhaps better known by its former name Cairn Energy.
- Key assets are its significant cash balance, onshore producing assets in Egypt, contingent earn-outs from prior asset sales that are currently deep in-the-money, and some exploration assets.

Situation

- Large tax refund of US$1.06bn recently received from the Indian Government after 7 years of legal action and arbitration has left Capricorn with a very strong balance sheet.
- US$500m has been put towards an off-market tender offer, with Capricorn buying back ~171m of its own shares (~34.5% of shares out.) at GBP2.23 per share.
- Heavy selling followed tender offer which was well oversubscribed (~289m shares tendered in total) and therefore subject to significant scale back.
- Further US$200m is being put towards on-market buyback (up to ~16% of pre-tender offer shares out. at assumed ~GBP2.00 average buyback price).
- Egypt assets are forecast to produce 37-43kboepd in FY22E, with oil comprising 35-40% of production. Capricorn is focusing on increasing its liquids production in order to capitalise on high Brent oil price.

Capital structure

		GBP	USD
Ticker	LSE : CNE		
FX rate	USD:GBP		0.7953
Share price (30 Apr 22)	$	2.06	
Market cap[1]	**$m**	**661**	**831**
Cash (31 Dec 21)	$m		314
India tax refund	$m		1,060
North Sea 2021 earn-out	$m		76
Egypt 2021 earn-out	$m		-21
Share buyback (tender offer)	$m		-500
Share buyback (on-market)[1]	$m		-16
Pro forma cash	**$m**		**913**
Drawn debt	$m		181
Pro forma net cash	**$m**		**-732**
EV	**$m**		**99**
NGE position size	%		7.4%

1 Pro forma for on-market buybacks to 20 May 2022.

FCF analysis (FY22E)

		Low	High
Brent oil price	**US$/bbl**	**85**	**105**
Production	boebpd	37,000	43,000
Liquids production	%	35%	40%
Egypt operating cash flow	US$m	141	256
Egypt development capex	US$m	-90	-110
Exploration capex	US$m	-100	-110
North Sea 2022 earn-out[1]	US$m	70	115
Egypt 2022 earn-out[1]	US$m	-25	-25
Corporate overhead	US$m	-20	-20
FCF	**US$m**	**-24**	**106**
EV/FCF	x	n.m.	0.9

1 Earned in FY22E, however likely to be paid in 2QFY23.

Portfolio holding – Capricorn (cont.)

Assessment

- Capricorn looks cheap on a sum-of-the-parts basis: by our assessment of Capricorn's "hard asset" value, we believe the market is ascribing zero value to the Egypt production assets.
- Egypt assets do not provide perfect oil and gas exposure given gas production (~2/3) is predominantly sold at a fixed price to government entity EGPC, EGPC has a preferential right to purchase part of Capricorn's liquids production, payments by EGPC are typically made several months in arrears, and profits (over and above "cost petroleum") are taxed heavily.
- 2022 is a heavy capex and exploration year with a program to spend ~US$200m, though drilling commitments beyond 2022 appear to be much lower.
- Potential upside to our assessment of value if exploration activities yield success (Diadem well to be drilled in 2Q22 and Saqr & Seman wells to be drilled in 2H22).
- Board appears to have got the message that shareholders expect fiscal discipline and sensible capital management.

Sum-of-the-parts

		Low	High
Producing assets			
Egypt assets	US$m	300	400
Less: BV Egypt earnout	US$m	-49	-49
PV North Sea earn-outs (2023-2025)[1]	US$m	85	130
PV Senegal earn-outs[2]	US$m	42	84
Total producing assets	US$m	378	565
Other assets/liabilities			
Pro forma net cash[3]	US$m	732	732
Egypt receivables	US$m	63	63
Exploration assets	US$m	0	98
2022E exploration capex	US$m	-110	-100
Corporate overhead (2 yrs)	US$m	-40	-40
Total other assets	US$m	645	753
SOTP valuation	US$m	1,023	1,318
FX rate	USD:GBP	0.7953	0.7953
SOTP valuation	£m	813	1,048
PF shares outstanding[3]	m	320.4	320.4
SOTP valuation	£/sh	2.54	3.27
Share price	£/sh	2.06	2.06
Upside	*%*	*23%*	*59%*

1 Assumes minimum production volumes achieved under US$70-100/bbl scenarios.
2 Assumes First Oil occurs prior to 31 Dec 2023 under US$55-60/bbl and US$60+/bbl scenarios per SPA with Woodside.
3 Pro forma for on-market buybacks to 20 May 2022.

Portfolio holding – Jupiter Mines

Description

- Manganese ore producer whose sole asset is a 49.9% interest in the Tshipi Borwa mine in South Africa.
- Manganese is a critical element in carbon steel production with no substitutes, with one tonne of steel requiring ~7kg pure Mn. Over 90% of Mn produced is consumed in steel production.

Situation

- Oct-21 board spill and subsequent uncertainty around the company's leadership, future strategy and capital management plans led to a significant decline in the share price, to what we believe to be an attractive entry point for our investment.
- Strategic advisor appointed in Feb-22 by new board, refreshed strategy expected to be released once CEO appointment formalised.
- Ample inventories currently held by Chinese steel producers suggests ongoing near-term price weakness for JMS' medium grade ore (37% Mn).
- Longer-term potential for a structural shift in demand for manganese ores as manganese sulphate is increasingly being used in dry cell batteries. Tshipi's semi-carbonate ore is likely to be conducive to battery-grade manganese sulphate chemistries.

Snapshot

(FYE 28 February)

Ticker		ASX : JMS
Price (30 Apr 22)	A$	0.245
Market cap	A$m	480
EV[1]	A$m	405
EV/EBITDA (FY23E)[2]	x	4.5
EV/FCF (FY23E)[2]	x	6.5
NGE position size	%	5.6%

1 Includes Jupiter's 49.9% share of Tshipi cash balance.
2 Based on Jupiter's share of Tshipi earnings, less JMS' corporate overhead.

Portfolio holding – Jupiter Mines

Assessment

- Under a long-term Mn price of US$4.00/dmtu we value JMS at ~A$0.45 per share at an assumed production rate of ~3.40Mtpa (FY22A: ~3.68Mt).
- ~25-year mine life on 2P reserve basis at 3.40Mtpa production rate.
- Potential to expand production to ~4.5Mtpa at relatively low capex cost.
- A sensible combination of growth initiatives (such as consolidating the 50.1% of Tshipi not owned) and dividends is likely to be well received by the market.
- Opportunity to consolidate other manganese mines or enter into strategic alliances and eliminate inefficiencies (e.g. share infrastructure, operational costs, logistics) in the Kalahari, in near vicinity to Tshipi.
- Tshipi is an average-cost producer when factoring in the grade of ore mined, with a FOB cost of ~US$2.25/dmtu. ~65% of the FOB cost is related to transportation (road and rail but excluding shipping). Rail network capacity and reliability are ongoing issues.

Valuation

		LT Mn Benchmark Price (US$/dmtu)				
		$3.00	$3.50	$4.00	$4.50	$5.00
DCF per share (A$)	3.4Mtpa	0.18	0.31	0.45	0.59	0.73
	4.5Mtpa[1]	0.16	0.31	0.47	0.62	0.77

Note: LT benchmark price from FY25+ (FY23E: US$3.40/dmtu; FY24E: US$3.80/dmtu).
1 From FY26; assumes development capex of ~US$70m split evenly across FY24-25.

Mn Ore (37% Mn, FOB Port Elizabeth) historical price

Source: Jupiter Mines website.

Portfolio holding – Evolve Education

Description

- Provider of Early Childhood Education, operating 109 childcare centres in New Zealand and 23 in Australia

Situation

- Covid-19 lockdowns slowed Evolve's efforts to turn around its NZ operations that began in FY19, and its ambitions to grow via acquisition in Australia.
- Australian centres are performing very well, with high occupancy (80%) and solid EBITDA margins (~24%).
- NZ has some poor-performing centres that have been a drag on earnings: some of these will be sold or closed, whilst centres in North Auckland have been slow to recover from lockdowns with parents reticent to put their children at perceived risk of catching Covid.
- Recent comparable transactions in Australia and NZ suggest Evolve is very undervalued and a potential takeover target. They have also priced Evolve out of buying new centres in Australia for the time-being.

Snapshot

		NZD	AUD
Ticker	ASX : EVO		
FX rate	AUD:NZD	1.0937	1.0000
Price (30 Apr 22)	$	0.710	0.650
Market cap	$m	113	104
EV	$m	102	93
EV/EBITDA (FY22E)	x		4.3
MD shareholding[1]	%		16.4%
NGE position size	%		5.3%

1 Managing Director Chris Scott holds ~26.2m shares.

Portfolio holding – Evolve (cont.)

Assessment

- Assuming no Covid impacts, Evolve trades at an undemanding ~4.3x EV/FY22E EBITDA.
- Main catalyst to a re-rating would be a sale of Evolve's NZ operations, which would provide valuable capital to grow the Australian business, the more attractive part of Evolve.
- The market would likely reward a sensible, profitable growth story with an attractive valuation re-rating.
- Bright Horizons Family Solutions (NYSE:BFAM) recently acquired Only About Children (OAC) for A$450m, at what we estimate to be a FY22E EV/EBITDA multiple of ~11.5-15.0x (likely at the upper end of the range).
- High acquisition multiples can make sense to an acquirer if they consolidate additional childcare centres and rationalise overheads: indeed BFAM mentioned the word "beachhead" several times in relation to the OAC transaction on its recent earnings call.

Valuation

		Low	High
FY22E EBITDA	A$m	21	23
Comparable transaction multiples			
Think Childcare[1]	x	9.7	10.9
Provincial Education[2]	x	9.1	10.0
Only About Children[3]	x	11.5	15.0
Mean	x	10.1	12.0
Selected range	x	9.0	10.0
Implied EV	A$m	189	229
Implied market cap	A$m	200	239
Shares outstanding	m	159.5	159.5
Value per share	A$	1.25	1.50
Upside	*%*	*93%*	*130%*

1 Think Childcare acquired by Busy Bees in Oct 2021 for A$196m.
2 Provincial Education acquired by Busy Bees in Oct 2021 for NZ$160m.
3 Only About Children acquired by BFAM in May 2022 for A$450m.

Portfolio holding – Embecta

Description

- Number one producer globally of diabetes injection devices.
- Manufactures and sells insulin syringes, pen needles and other products related to the treatment and management of diabetes.
- Produces over 7.6bn units annually from three manufacturing facilities in Ireland, the US and China.
- Serves an estimated ~30m customers in over 100 countries.

Situation

- Spun-off on 1 April via an in-specie distribution to shareholders of Becton, Dickinson and Company (NYSE:BDX), with shareholders receiving 1 EMBC share for every 5 BDX shares held.
- EMBC was the subject of uneconomic selling by BDX shareholders immediately post-spin due to its small size relative to BDX: BDX is in the S&P 500 index whilst Embecta has been “demoted” to the S&P SmallCap 600 index.
- Recent share price weakness following 2Q22 quarterly (31-Mar-22) due to soft earnings guidance for 2H22 impacted by FX headwinds on foreign sales and a deliberate effort by management to exit unattractive business.

Capital structure

Share price (30-Apr-22)	$	$30.43
Shares out.	m	57.8
Market cap	**$m**	**1,759**
5.000% Senior Secured Notes (Feb-30)	$m	500
6.750% Senior Secured Notes (Feb-30)	$m	200
Term Loan B (Mar-28)	$m	950
Revolver (5 yr)	$m	0
Total debt	**$m**	**1,650**
Cash	$m	264
Net debt	**$m**	**1,386**
EV	**$m**	**3,144**

Summary P&L

(FYE 30 September)		2019A	2020A	2021A	2021PF	2022E	2023E	2024E
Revenue	$m	1,109	1,086	1,165	1,188	1,119	1,130	1,141
Growth	*%*		*-2.1%*	*7.3%*	*9.4%*	*-5.8%*	*1.0%*	*1.0%*
Gross Profit	$m	786	763	800	778	712	699	685
Margin	*%*	*70.9%*	*70.3%*	*68.7%*	*65.5%*	*63.7%*	*61.8%*	*60.0%*
EBITDA[1]	**$m**	**536**	**524**	**533**	**475**	**357**	**390**	**367**
Margin	*%*	*48.3%*	*48.3%*	*45.8%*	*40.0%*	*31.9%*	*34.5%*	*32.2%*
EBIT	$m	500	486	495	438	320	353	330
Margin	*%*	*45.1%*	*44.8%*	*42.5%*	*36.9%*	*28.6%*	*31.3%*	*28.9%*
NPAT	**$m**	**432**	**428**	**415**	**306**	**205**	**233**	**214**
NPAT adj[2]	$m	432	428	415	306	253	233	214
EPS adj[2]	$	$7.47	$7.41	$7.18	$5.30	$4.37	$4.04	$3.70

1 2022E EBITDA includes one-off distribution expense of $56m.
2 Excludes impact of one-off distribution expense in 2022E.

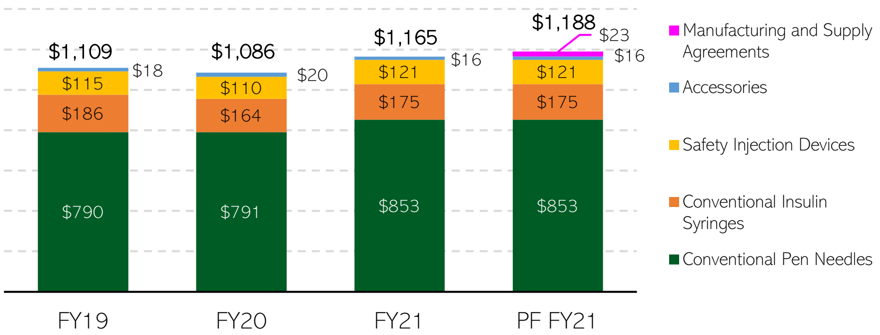
Portfolio holding – Embecta (cont.)

Assessment

- Historically has been a low growth, high margin cash cow.
- Looks cheap even accounting for management guidance of margin compression out to 2024, trading on a FY22E EV/EBITDA of ~7.6x and a P/E of ~7.0x.
- Needs to demonstrate that it can stabilise revenues: emerging markets growth (where injection devices are expected to remain the standard of care for decades) to offset decline in developed markets where insulin pump take-up is growing.
- As a subsidiary of BDX, EMBC failed to capitalise on the shift to insulin pumps, losing out to market leader Insulet (NAS:PODD). Company is now free to pursue more aggressive R&D (e.g. patch pump), partnerships and M&A.
- Significant optionality provided by global distribution channels built up over a 100 year history: for example, management has highlighted the potential to distribute non-diabetes products via its extensive retail pharmacy relationships.
- LT industry tailwinds due to increasing incidence of diabetes, particularly in emerging markets.
- Cost of EMBC products relatively low compared to overall cost of insulin care, so management believes substitution to competitor products not a significant issue.
- Management very motivated to reposition and reinvigorate the company.

Historical revenue – by product

(FYE 30 September; US$m)



Source: Embecta investor presentation March 2022.

Valuation

		Low	High
FY24E NPAT	$m	200	230
P/E multiple	x	10.0	14.0
Implied market cap	$m	2,000	3,220
Shares outstanding	m	57.8	57.8
Value per share	$	$34.60	$55.71
Upside	*%*	*14%*	*83%*

- Societe BIC SA (PAR:BB), the manufacturer of ball point pens, lighters and razors, might be a reasonable comparable for EMBC given its similar complexity product range to EMBC, and similar growth and margin profile.
- BIC trades at a FY22E P/E of ~11.5x.

Portfolio holding – Allegiance Coal

Description

- Coking coal producer whose key assets are the 100% owned and operated New Elk mine in Colorado and the Black Warrior Mine in Alabama.
- Also owns a 90% interest in the promising but unpermitted Tenas Project in British Columbia, and a binding agreement to acquire 100% of the Short Creek development project in Alabama[1].

Situation

- Teething issues associated with restart of the New Elk mine – difficulty attracting and retaining experienced workers, insufficient suitable accommodation, Covid-19 interruptions, and insufficient operational oversight – have delayed ramp-up of volumes and stretched the balance sheet.
- Pre-sold significant cargoes at below-market rates prior to explosion in met coal prices.
- New Chairman and CEO now in place, following management hires at the operational level.

Assessment

- Operations appear to have stabilised, with ROM production close to ~800ktpa run-rate at New Elk and ~600ktpa at Black Warrior.
- Delivery of sustained run-rate production rates sold at benchmark coal prices (whilst they remain elevated) will result in a cash windfall, and see the stock rerate to multiples of its current depressed level.
- Convertible note negates risk of equity raise at depressed price.

1 Acquisition expected to settle prior to 30 Jun 2022, once permits have been transferred.

Snapshot

Ticker		ASX : AHQ
Price (30 Apr 22)	A$	0.560
Market cap[1]	A$m	223
EV[2]	A$m	316
EV/EBITDA (FY23E)	x	2.2
EV/FCF (FY23E)	x	3.8
NGE position size	%	4.4%

1 Adj for dilutive securities.
2 Adj for 2.5% establishment fee on first tranche (A$30.7m) of convertible and cash on exercise of dilutive securities.

Met coal pricing (PLV HCC FOB Aus)

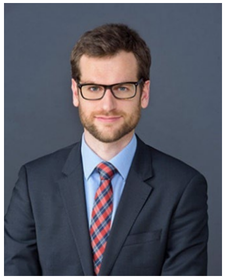
Source: Coronado Global Resources investor presentations (Feb-22 & May-22).
Note: AHQ coal benchmarks to High Vol A and High Vol B, which closely track PLV HCC price.

Board & management

David Lamm

Executive Chairman & Chief Investment Officer

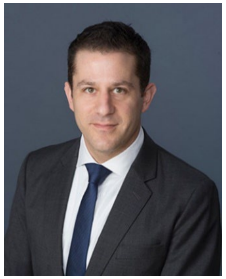
- Responsible for the origination of investment ideas, management of NGE's portfolio and overall performance of the LIC.
- Over 15 years' experience in business and financial markets including roles at Credit Suisse, Bain and the Alter Family Office.
- Founder and MD of Kentgrove Capital.
- Qualified as a 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 an MBA at the University of Melbourne.
- Graduate Diploma in Applied Corporate Governance.
- Chartered Accountant and Member of the CPA and Governance Institute of Australia.

Investment proposals

Submit an investment opportunity for us to consider to:
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