

# **New Guinea Energy Limited**

(to be renamed “NGE Capital Limited”)

## **Annual General Meeting 2017**

30 May 2017

### **Chairman’s Presentation**



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References to dollars, cents or \$ in this presentation are to Australian currency, unless otherwise stated.

# Company snapshot



- ▶ New Guinea Energy Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which allows investors to invest in a concentrated, high conviction, professionally managed portfolio of financial assets.
- ▶ Focus primarily on ASX listed equities.
- ▶ Aim to generate strong risk-adjusted returns over the medium to long term.
- ▶ Internally managed by portfolio manager David Lamm.
- ▶ Company to be renamed **NGE Capital Limited**.
- ▶ Significant Board shareholding in the Company: backing our investment decisions and ability, with interests aligned with shareholders.

## Board of directors

|               |                               |
|---------------|-------------------------------|
| David Lamm    | <b>Executive Chairman</b>     |
| Adam Saunders | <b>Non-Executive Director</b> |
| Grant Worner  | <b>Non-Executive Director</b> |

## Summary

|   |     |                |
|---|-----|----------------|
| ASX ticker  |     | <b>NGE</b>     |
| NTA per share post tax (30 Apr 2017)                  | \$  | <b>\$0.570</b> |
| NTA attributable to cash (30 Apr 2017) <sup>(1)</sup> | \$  | <b>\$0.295</b> |
| Net asset value (30 Apr 2017)                         | \$m | <b>\$21.59</b> |
| Share price (26 May 2017)                             | \$  | <b>\$0.430</b> |
| Discount to NTA                                       | %   | <b>-24.6%</b>  |
| Shares outstanding <sup>(2)</sup>                     | m   | <b>37.87</b>   |
| Market cap  | \$m | <b>\$16.28</b> |

(1) Cash held in the following currencies: A\$11.2M, PGK0.7M and US\$0.04M.

(2) Excludes shares bought back to 26 May 2017 and 172,500 unquoted treasury shares.

## Top shareholders

|  |              |
|--|--------------|
| Kentgrove Capital Pty Ltd <sup>(1)</sup> | <b>23.9%</b> |
| Asia Image Limited                       | <b>7.2%</b>  |
| Noontide Investments Ltd                 | <b>6.9%</b>  |

(1) Entity controlled by David Lamm.

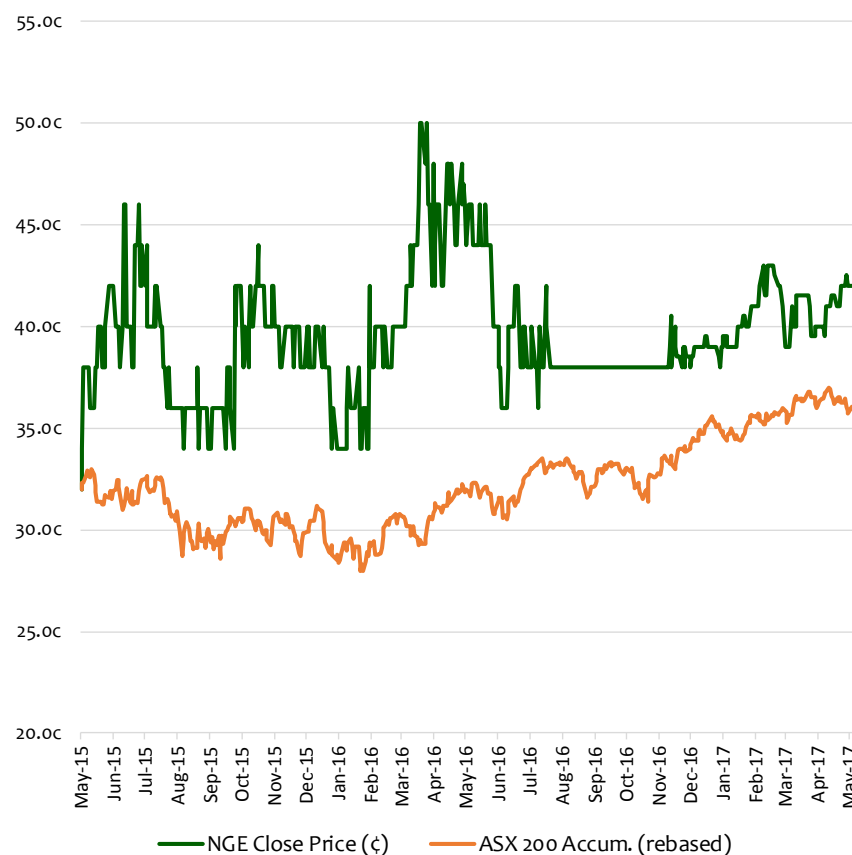
# Review of operations



- ▶ Net Profit After Tax of \$691k achieved in FY2016, with Company's Net Tangible Assets growing \$413k, despite one-off costs of \$770k in transforming the business.
- ▶ Change in nature and scale of Company's activities to those of a LIC.
- ▶ Voluntary delisting from PoMSOX.
- ▶ Completion of unmarketable share sale facility.
- ▶ On-market buyback of approximately 4.2 million shares at an average price of \$0.407 (a price of 71.4% of NTA per share) for a total consideration of approximately \$1.7 million.
- ▶ Maximisation of Australian dollar cash balance by continued conversion of foreign currency.
- ▶ Early investment successes with a \$2.7M gain from a \$3.55M investment in Karoon Gas Australia Limited, and a \$1.7M gain from a \$5.0M investment in Metals X Limited prior to Westgold Resources demerger.

## NGE share price performance

| Total return   | NGE   | ASX 200 Accum. |
|----------------|-------|----------------|
| Since May 2015 | 34.4% | 12.2%          |



# Investment philosophy



## 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, sensible market operating.

# 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

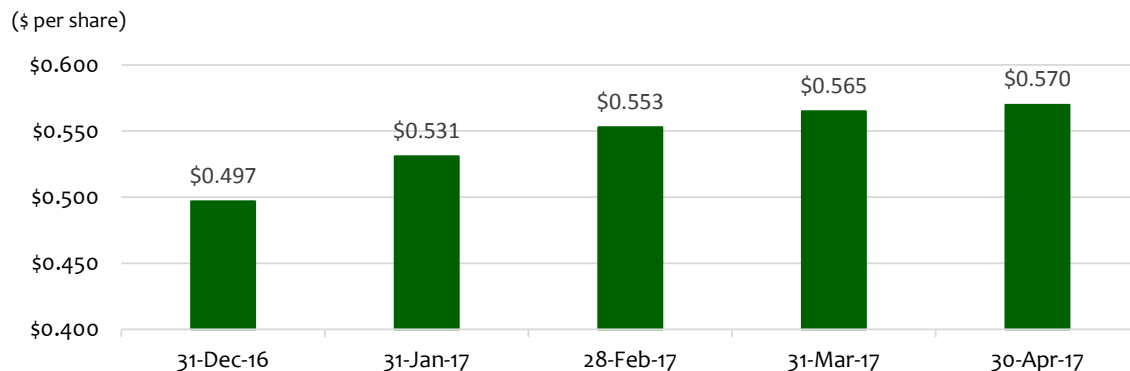
- Update assessment for new information
- Stay on top of the story

# ASX's best performing LIC in 2017 YTD



▶ NGE has been the best performing LIC on the ASX since the beginning of the year.

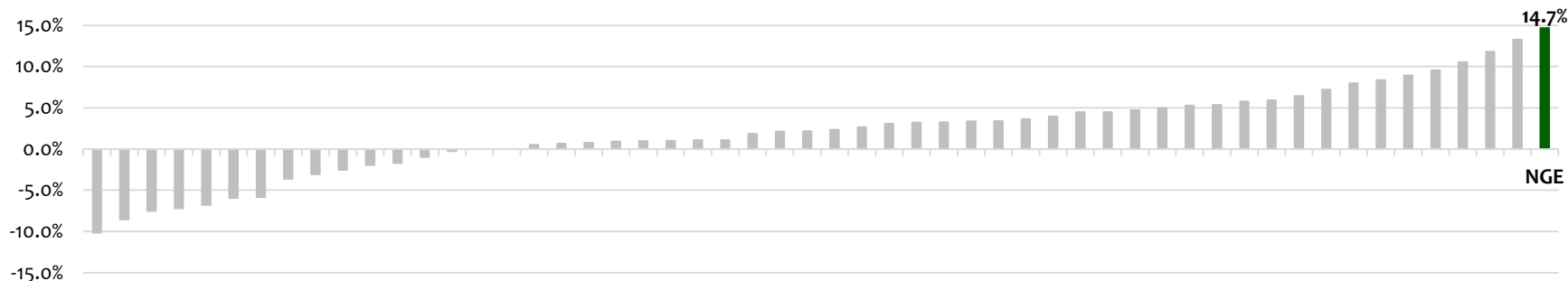
## NTA per share (year to date)



| Total portfolio return  | Since 1-Jan-17 |
|-------------------------|----------------|
| <b>NGE</b>              | <b>14.7%</b>   |
| ASX 200 Accumulation    | 5.9%           |
| LICs - large cap focus  | 5.8%           |
| LICs - mid cap focus    | 2.4%           |
| LICs - small cap focus  | -1.5%          |
| LICs - specialist focus | 0.4%           |

Note: Australian-focused LICs. LIC returns include dividend payments.

## Growth in NTA per share (year to date) – Australian-focused LICs



Note: Each bar represents the total NTA return (including payment of dividends) of an Australian-focused LIC from 1 January 2017 to 30 April 2017.

**Our aim is to generate strong risk-adjusted returns for shareholders over the medium to long term**

# NGE portfolio



## Key characteristics – 30 April 2017

|                   |     |
|-------------------|-----|
| Listed equities   | 43% |
| Convertible notes | 3%  |
| Unlisted equities | 1%  |
| Other             | 1%  |
| Cash balance      | 52% |

## Top holdings – 30 Apr 2017

|                       |     |
|-----------------------|-----|
| Mineral Deposits      | 19% |
| Eureka Group Holdings | 13% |
| Godfreys Group        | 6%  |
| Peet                  | 5%  |



# Recent wins – Karoon Gas Australia



## Karoon Gas Australia Limited (ASX:KAR)

|                    |   |
|--------------------|---|
| <b>Description</b> | <ul style="list-style-type: none"> <li>▶ Oil and gas explorer with operations in Australia, Brazil and Peru.</li> <li>▶ Stated ambition to transition from explorer to producer.</li> </ul>   |
| <b>Situation</b>   | <ul style="list-style-type: none"> <li>▶ Trading at a share price of ~\$1.30, well below the cash per share of \$1.94 and net assets (book value basis) per share of \$3.42.</li> <li>▶ Shareholders not confident that the company would be able to grow value from its substantial cash balance.</li> </ul> |
| <b>Assessment</b>  | <ul style="list-style-type: none"> <li>▶ No value attributed to exploration assets or Poseidon contingent payments.</li> <li>▶ Sufficient margin of safety, with downside risk already baked into share price.</li> </ul>   |
| <b>Outcome</b>     | <ul style="list-style-type: none"> <li>▶ Exited following market excitement about potential company transforming transaction.</li> <li>▶ Risk to transaction success no longer justified the premium valuation.</li> <li>▶ \$2.7M gain on \$3.55M investment.</li> </ul>                                      |

## Share price performance



# Recent wins – Metals X / Westgold



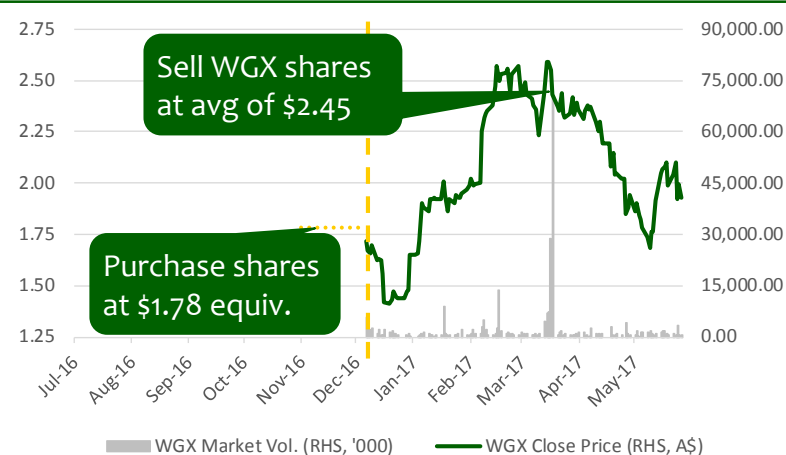
## Metals X (ASX:MLX) and Westgold Resources (ASX:WGX)

|                    |   |
|--------------------|---|
| <b>Description</b> | <ul style="list-style-type: none"> <li>▶ Gold and base metals (Copper and Tin) exploration, development and production company.</li> </ul>  |
| <b>Situation</b>   | <ul style="list-style-type: none"> <li>▶ Demerger to spin-off the gold division into a separate company (Westgold Resources), leaving the base metals operations within Metals X.</li> <li>▶ Catalyst for re-rating as pure-play gold investors now able to invest in Westgold.</li> <li>▶ Gold companies currently attracting a premium.</li> </ul>  |
| <b>Assessment</b>  | <ul style="list-style-type: none"> <li>▶ MetalsX management are sensible operators and consider themselves to be “Project Renovators”.</li> <li>▶ Market cap at the time of investment of ~\$960m against our estimated valuation post demerger:                             <ul style="list-style-type: none"> <li>▶ <b>Gold business</b> ~\$800m-1.1bn;</li> <li>▶ <b>Base metals business</b> ~\$300-400m;</li> <li>▶ <b>Cash</b> on balance sheet \$170m;</li> <li>▶ <b>Total value</b> ~\$1.3bn+.</li> </ul> </li> <li>▶ 30%+ upside initially.</li> </ul> |
| <b>Outcome</b>     | <ul style="list-style-type: none"> <li>▶ Short-term trade able to take advantage of value arbitrage, resulting in a \$1.7M gain from a \$5.0M investment.</li> </ul>  |

## Share price performance – Metals X



## Share price performance – Westgold Resources



# Portfolio holding: Eureka Group



## Eureka Group Holdings (ASX:EGH)

|                    |  |
|--------------------|--|
| <b>Description</b> | <ul style="list-style-type: none"> <li>▶ Provider of low cost rental accommodation to independent retirees who are reliant on the Government pension and Rent Assistance.</li> <li>▶ The company owns and manages 26 villages comprising 1,388 units, and manages a further 9 villages comprising 681 units.</li> </ul>  |
| <b>Situation</b>   | <ul style="list-style-type: none"> <li>▶ Market cap fell from \$173m (\$0.75 per share) to as low as \$74m (\$0.32 per share) after posting a disappointing 1H17 result.</li> <li>▶ Business model has been to steadily acquire villages based on disciplined criteria, however a failure to continue historical pace of acquisitions, a few poorly executed deals, and a lack of management oversight led to the sell-off.</li> </ul>   |
| <b>Assessment</b>  | <ul style="list-style-type: none"> <li>▶ We believe the sell-off has been overblown, with the problem areas (South Australia, Couran Cove, falling occupancy) being dealt with appropriately.</li> <li>▶ New CEO hire should put in place better procedures around future acquisitions.</li> <li>▶ Thematics remain strong: ageing population, housing affordability at all-time lows.</li> <li>▶ High operating leverage: higher occupancy will fall to the bottom line.</li> <li>▶ Few large competitors in the affordable rental retirement space (e.g. not a focus of Ingenia).</li> </ul> |

## Snapshot

|                     |     |             |
|---------------------|-----|-------------|
| ASX ticker          |     | <b>EGH</b>  |
| Price (26 May 2017) | \$  | <b>0.40</b> |
| Market cap          | \$m | <b>92</b>   |
| EV                  | \$m | <b>134</b>  |
| EV / EBITDA (FY18E) | x   | <b>12.2</b> |
| P/E (FY18E)         | x   | <b>11.5</b> |
| NGE position size   | %   | <b>13%</b>  |

## Share price performance



# Portfolio holding: Godfreys



## Godfreys Group (ASX:GFY)

|                    |   |
|--------------------|---|
| <b>Description</b> | <ul style="list-style-type: none"> <li>▶ Specialty retailer of vacuum cleaners and cleaning products for domestic use in Australia and NZ.</li> </ul>   |
| <b>Situation</b>   | <ul style="list-style-type: none"> <li>▶ Share price has taken a battering after a series of poor financial results.</li> <li>▶ The market is jittery over:                     <ul style="list-style-type: none"> <li>▶ a high level of debt (gross \$23.0m, net \$18.3m);</li> <li>▶ a high level of inventory (\$35.5m) which actually crept up in the last half by \$0.5m;</li> <li>▶ poor comparable store sales;</li> <li>▶ scepticism about the ability of the company to stick to its timetable of converting 60 company-owned stores to franchises in the next 3 years; and</li> <li>▶ a highly competitive retail environment, with Amazon on the horizon.</li> </ul> </li> </ul> |
| <b>Assessment</b>  | <ul style="list-style-type: none"> <li>▶ Trading on cheap multiples for a business that we believe is being fixed by retail expert John Hardy.</li> <li>▶ Company is invigorating its product range.</li> <li>▶ Conversion of poor-performing company owned stores to franchises should free up cash.</li> <li>▶ Mr Hardy has acquired \$984k worth of shares on-market at an average of ~\$0.90 per share since his appointment – serious skin in the game.</li> </ul>   |

## Snapshot

|                     |     |              |
|---------------------|-----|--------------|
| ASX ticker          |     | <b>GFY</b>   |
| Price (26 May 2017) | \$  | <b>0.625</b> |
| Market cap          | \$m | <b>26</b>    |
| EV                  | \$m | <b>44</b>    |
| EV / EBITDA (FY18E) | x   | <b>2.9</b>   |
| P/E (FY18E)         | x   | <b>3.2</b>   |
| NGE position size   | %   | <b>6%</b>    |

## Share price performance



# Portfolio holding: Mineral Deposits



## Mineral Deposits (ASX:MDL)

|                    |   |
|--------------------|---|
| <b>Description</b> | <ul style="list-style-type: none"> <li>▶ MDL owns a 50% stake in the TiZir joint venture, which owns the Grande Cote (<b>GCO</b>) mineral sands operation in Senegal and the TiZir Titanium &amp; Iron ilmenite upgrading facility (<b>TTI</b>) in Norway.</li> </ul>   |
| <b>Situation</b>   | <ul style="list-style-type: none"> <li>▶ Company has been trading at depressed levels due a heavy debt burden carried by its joint venture company, TiZir.</li> <li>▶ The company was stretched to the brink following a large decline in the market prices of its core commodities of ilmenite, zircon, titanium slag and high purity pig iron.</li> </ul>   |
| <b>Assessment</b>  | <ul style="list-style-type: none"> <li>▶ Bottom of the cycle of commodity prices – MDL is highly leveraged to a recovery in commodity prices, with signs of improvement in recent months.</li> <li>▶ Operational performance of the GCO mineral sands operation has been improved.</li> <li>▶ TiZir should be able to refinance its debt on reasonable terms.</li> <li>▶ Stable and supportive JV partner in ERAMET.</li> </ul> |

## Snapshot – Mineral Deposits

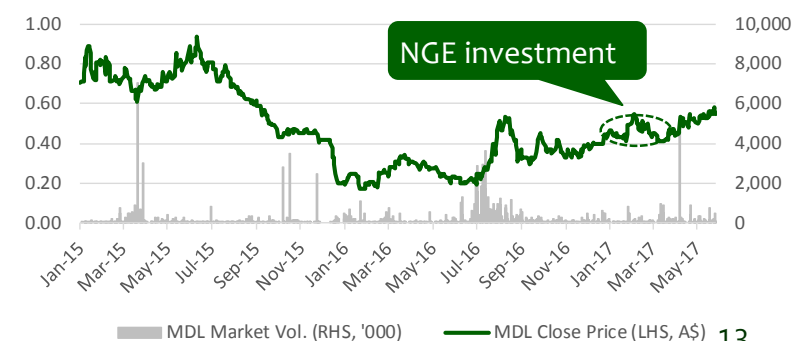
|                     |     |             |
|---------------------|-----|-------------|
| ASX ticker          |     | <b>MDL</b>  |
| Price (26 May 2017) | \$  | <b>0.55</b> |
| Market cap          | \$m | <b>108</b>  |
| EV                  | \$m | <b>89</b>   |
| NGE position size   | %   | <b>19%</b>  |

## Snapshot – TiZir joint venture (50%)

|                                  |       |            |
|----------------------------------|-------|------------|
| Net assets                       | US\$m | <b>451</b> |
| Corporate net debt               | US\$m | <b>312</b> |
| Sub debt - ERAMET <sup>(1)</sup> | US\$m | <b>131</b> |
| Sub debt - MDL <sup>(1)</sup>    | US\$m | <b>79</b>  |

(1) ERAMET has provided excess loans of ~US\$52m to TiZir in the form of subordinated debt.

## Share price performance



# Company meetings



- ▶ We believe there is no substitute for meeting with company management.
- ▶ We meet with a lot of companies as part of our research process.
- ▶ To give a sense of the areas of the market we are covering here is a selection of companies we held meetings with, visited or attended their presentations since January:

|                       |            |
|-----------------------|------------|
| 3P Learning           | <b>3PL</b> |
| AJ Lucas              | <b>AJL</b> |
| Anatara Lifesciences  | <b>ANR</b> |
| Battery Minerals      | <b>BAT</b> |
| Dixon Hospitality     |            |
| Dreamscape Networks   | <b>DN8</b> |
| Eureka Group Holdings | <b>EGH</b> |
| Godfreys Group        | <b>GFY</b> |

|                     |            |
|---------------------|------------|
| JustKapital         | <b>JKL</b> |
| Metro Mining        | <b>MMI</b> |
| Mineral Deposits    | <b>MDL</b> |
| Namoi Cotton        | <b>NAM</b> |
| Red River Resources | <b>RVR</b> |
| Sheffield Resources | <b>SFX</b> |
| Silver Chef         | <b>SIV</b> |
| Yowie Group         | <b>YOW</b> |

# Outlook



Funds investing in industrials and profiting from PE expansion at a time of loose global monetary policies will have a tough time with such a strategy from this point on.

We expect that it will become more of a stockpicker's market in the near-term, which will suit us just fine.

Currently seeing more value opportunities in the market.

Continue to build up NGE's portfolio and grow NTA based on sound investment principles.

Continue to build track-record, as has been the case over the past 6 months.

Continue sensible capital management programs, with the continuation of an on-market buy-back at attractive prices.

Improved marketing and promotion to improve liquidity of the Company's shares.

We expect the discount to NTA to narrow over time, better reflecting the Company's intrinsic value in the share price.

# Contact details



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