

NGE Capital Limited

(ASX:NGE)

AGM investor presentation

31 May 2019



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.

Summary as at 30 April 2019

Ticker		ASX:NGE
Share price	\$	0.680
Shares outstanding	m	37.19
Market cap	\$m	25.3
NTA per share before tax	\$	0.766
NTA per share after tax	\$	0.821
NTA before tax	\$m	28.5
NTA after tax	\$m	30.5

Board of directors

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

Top shareholders

Kentgrove Capital Pty Ltd ⁽¹⁾	27.2%
Noontide Investments Ltd	5.7%
Wallbay Pty Ltd	5.7%

(1) Entity controlled by David Lamm.

Performance

Growth in NTA per share

2017	2018	2019 YTD ⁽¹⁾	Since inception ⁽²⁾	
			(p.a.)	(cum.)
26.8%	21.4%	0.2%	18.4%	50.3%

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

(1) To 30 April 2019.

(2) From 30 November 2016, the date on which NGE became a LIC, to 30 April 2019.

Tax efficient investment vehicle

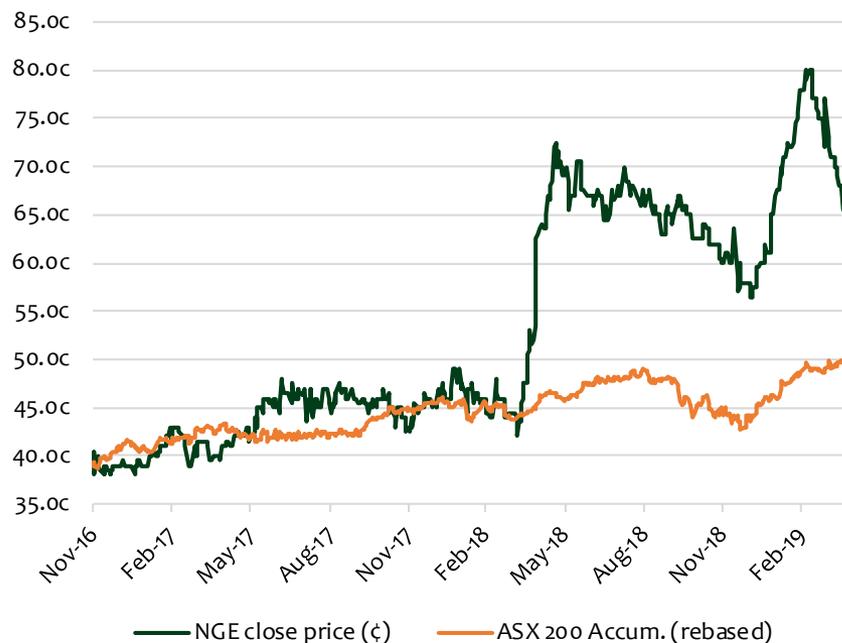
- ▶ NGE has ~\$44m of Australian unused and unrealised losses available as at 30 April 2019.
- ▶ In the aggregate these losses equate to a potential future tax benefit of ~\$12m or ~\$0.33 per share (of which only \$2m or \$0.054 per share is recognised in our after tax NTA).

Share price performance

	2017	2018	2019 YTD ⁽¹⁾	Since inception ⁽²⁾	
				(p.a.)	(cum.)
NGE	16.7%	27.5%	17.2%	25.9%	74.4%
ASX 200 Accum.	11.8%	-2.8%	13.5%	11.0%	28.7%

(1) To 30 April 2019.

(2) From 30 November 2016, the date on which NGE became a LIC, to 30 April 2019.

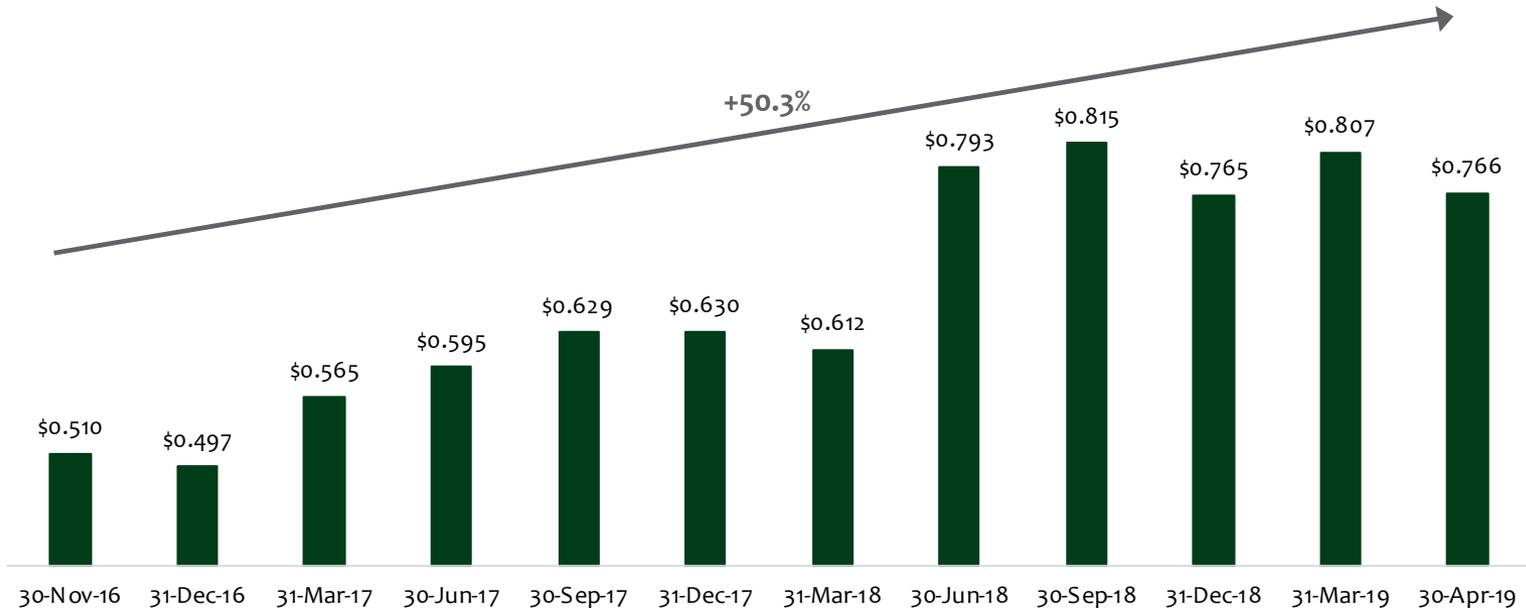


A top performing LIC

- ▶ NGE has been one of the best performing LICs on the ASX since inception (30 November 2016).

Total portfolio return since inception – NGE

(NTA per share before tax, net of all operating expenses)



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

NGE portfolio

Top holdings – 30 April 2019

United Company RUSAL	HKE:0486	24.9%
Karoon Energy	ASX:KAR	15.4%
Yellow Cake plc	LSE:YCA	14.7%
Horizon Oil	ASX:HZN	8.8%
Warrior Met Coal	NYS:HCC	7.2%
Base Resources	ASX:BSE	6.9%
Powerwrap	ASX:PWL ⁽¹⁾	6.1% ⁽²⁾
Eureka Group Holdings	ASX:EGH	2.9%
Millennium Services Group	ASX:MIL	1.7%
Net cash and other		11.4% ⁽²⁾

(1) Powerwrap listed on 23 May 2019.

(2) Pro forma for sell down under the Powerwrap IPO Share Sale facility.

Portfolio holding: RUSAL

United Company RUSAL plc (HKE:0486)

Description	<ul style="list-style-type: none"> ▶ Vertically integrated aluminium producer, responsible for ~6% of global aluminium supply. ▶ Operates 12 aluminium smelters (4mtpa capacity), 10 alumina refineries (10.5mtpa capacity) and 8 bauxite mines (17.5mtpa capacity). ▶ Also has a strategic 27.8% stake in listed nickel producer MMC Norilsk Nickel PJSC (Nornickel).
Situation	<ul style="list-style-type: none"> ▶ NGE invested after the OFAC slapped sanctions on RUSAL, its major shareholder En+ and En+ major shareholder Oleg Deripaska, with the expectation that the sanctions would be lifted.
Assessment	<ul style="list-style-type: none"> ▶ Early on, the US Dept of Treasury softened its stance, inviting the possibility of lifting the sanctions if Deripaska relinquished control. ▶ OFAC extended the deadline on many occasions for trading in the company's securities and winding up dealings with the company. ▶ RUSAL's importance to global aluminium supply, the US' position as the world's largest aluminium importer (~7mtpa), and the 28% increase in the cash price in response to the sanctions suggested that there would be an appetite to find a solution. ▶ Sanctions were lifted on 28 January after the company agreed to significant restructuring and governance changes.

Snapshot

Ticker		HKE:0486
Price (30 Apr 2019)	HKD	3.360
Market cap	US\$m	6,508
Net debt	US\$m	7,555
EV	US\$m	14,063
Nornickel stake	US\$m	9,864
EV adj	US\$m	4,199
EV adj / EBITDA (FY19E)	x	2.0
P/E (FY19E)	x	3.4
NGE position size	%	24.9%

Cheap even prior to sanctions

- ▶ Even at a share price of HK\$4.64 prior to the sanctions RUSAL looked cheap back then, trading on an EV/FY18E EBITDA multiple (adjusted for Nornickel) of ~3.7x versus Alcoa at ~4.2x, aluminium peers at ~6.8x, and global diversified miners at ~5.3x.
- ▶ NGE invested at around half that price averaging in initially at ~HK\$2.26. We increased our stake slightly in December at ~HK\$2.60.

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\$322m (~\$1.31 per share), of which ~95% is held in USD. ▶ Retains deferred milestone payments of up to US\$200m following asset sale in August 2014.
Situation	▶ NGE invested in a large line of stock at \$0.88 per share, equating to ~67c in the dollar of cash held by the company.
Assessment	<p>▶ Karoon's current strategy is to:</p> <ul style="list-style-type: none"> ▶ Acquire a tier 1 producing asset to put the company on a sustainable financial footing, preferably offshore Brazil; ▶ Develop its Brazilian offshore oil discoveries in the Santos Basin, in conjunction with a farm-in partner; and ▶ Conduct "high impact" exploration, with a current focus on its permit in the Tumbes Basin, offshore Peru. <p>▶ Market appears sceptical of management's ability to execute on its strategy.</p> <p>▶ By purchasing at a significant discount to cash and asset backing, we believe we have an adequate margin of safety.</p>

Snapshot

Ticker		ASX:KAR
Price (30 Apr 2019)	\$	0.955
Market cap	\$m	235
EV	\$m	-86
NGE position size	%	15.4%

Sum-of-the-parts valuation

	Book value	Valuation	
	A\$m	A\$m	A\$ per share
Cash balance	\$322	\$322	\$1.31
Neon (Echidna) development	\$109	?	?
Peru exploration	\$69	?	?
Australian exploration	\$29	?	?
Other net assets and liabilities	\$14	?	?
PV Poseidon contingent payments	\$0	\$0-\$175	\$0-\$0.71
Total	\$543	\$322-\$497+	\$1.31-\$2.02+
NGE entry price			\$0.88
Upside			49%+

Note: Book value as at 31 December 2018, except cash balance which is as at 31 March 2019.

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 yet to recover from prolonged bear market.
Assessment	<ul style="list-style-type: none"> ▶ Uranium price recovery forecast for following reasons: <ul style="list-style-type: none"> ▶ Uranium price near historic lows, despite solid run in 2018 – prices peaked at US\$143/lb in May 2007, suggesting significant potential upside from spot; ▶ Nuclear power demand expected to grow, led by China and India; ▶ Higher priced LT contracts which have shielded producers from low spot prices are expected to roll off over 2019-2022; ▶ Up to 60% of global production has total costs above spot price, an unsustainable situation; ▶ Major producers have significantly curtailed production in response to low price environment; and ▶ Current supply deficit forecast to grow due to production cuts, underinvestment in new mine development and growing demand.

NAV as at 30 Apr 2019

Uranium holdings	mmlb	9.62
Spot price	US\$/lb	25.25
Fair value of uranium	US\$m	242.8
Cash ⁽¹⁾	US\$m	10.2
Other net assets / (liabilities)	US\$m	-3.0
Net Asset Value	US\$m	250.0
FX rate	GBP:USD	0.7673
Net Asset Value	£m	191.9
Shares out.	m	88.2
NAV per share	£	2.17
Share price	£	2.15
Discount to NAV	%	-0.9%
NGE position size	%	14.7%

(1) NGE estimate.

The big unknown: inventories

- ▶ There are widely varying estimates of the global level of inventories, which represent many years’ consumption, however the counter-argument is that the “saleable” inventory is much lower.
- ▶ Theory yet to be tested.

Portfolio holding: Horizon Oil



Horizon Oil Limited (ASX:HZN)

Description	<ul style="list-style-type: none"> Oil and gas producer, with a 26.95% interest in producing assets in the Beibu Gulf, offshore China, a 26% interest in the producing Maari/Manaia fields in offshore New Zealand, and a strategic interest in a PNG LNG development project.
Situation	<ul style="list-style-type: none"> Market values the producing assets conservatively and ascribes no value to the PNG LNG project.
Assessment	<ul style="list-style-type: none"> Cheap on a sum-of-the-parts valuation: we value Horizon's producing assets at ~21c (~25c less net debt of ~4c) based on spot oil price of ~US\$70. Highly leveraged to oil price: a 14% increase in the spot price to US\$80 leads to a 26% increase in valuation (of course this works in reverse too!) PNG LNG Project a potential value kicker: potential for partial sell-down of stake, as well as cash payment due on FID which combined could be worth ~10c on a present value basis. In June 2018 the PNG Petroleum Minister gave the JV partners a notice of intention to cancel PDL 10, one of the key gas fields that underpins the PNG LNG project, frustrated at a perceived lack of progress. We think it is possible that Repsol is allowed to proceed with its stake sale, on condition that the acquirer commits to a more aggressive development schedule.

Snapshot

Ticker		ASX:HZN
Price (30 Apr 2019)	\$	0.120
Market cap ⁽¹⁾	\$m	206
EV ⁽¹⁾	\$m	279
EV / EBITDAX (FY19E) ⁽²⁾	x	2.5
NGE position size	%	8.8%

(1) Diluted and adjusted for IMC options and in-the-money SARS.

(2) Based on assumed average achieved Brent oil price of ~US\$65/bbl for FY2019E.

DCF valuation of production assets (WACC 10%)

		Brent oil price (US\$/bbl)				
		Spot				
		\$50.00	\$60.00	\$70.00	\$80.00	\$90.00
<u>Possible</u>	\$0.00	\$0.100	\$0.153	\$0.206	\$0.259	\$0.312
<u>values of</u>	\$0.10	\$0.200	\$0.253	\$0.306	\$0.359	\$0.412
<u>PNG LNG</u>	\$0.20	\$0.300	\$0.353	\$0.406	\$0.459	\$0.512

At the current share price of \$0.12, we are getting the PNG LNG stake for free

Portfolio holding: Warrior Met Coal



Warrior Met Coal (NYS:HCC)

Description	<ul style="list-style-type: none"> ▶ Producer and exporter of metallurgical coal from two underground mines located in Alabama. ▶ Operational capacity to mine ~8 million short tons (~7.25m Mt) per year from reserves of ~101m St. ▶ Also has 103m St of undeveloped reserves at the Company's Blue Creek Energy Mine.
Situation	<ul style="list-style-type: none"> ▶ Strong focus on returning capital to shareholders, having paid out gross dividends of US\$22.51 since we acquired our initial stake at US\$27.50. ▶ In the past 6 months Warrior has paid a special dividend of US\$4.41, bought back 1.13m shares for ~US\$26m, repurchased US\$132m of Senior Debt, and announced a further US\$70m buyback.
Assessment	<ul style="list-style-type: none"> ▶ HCC typically receives a slim ~2% discount to benchmark due to its high quality coal product. ▶ Simple, pure-play met coal business that is highly cash generative. ▶ At spot met coal prices of ~US\$200/t, Warrior should generate EBITDA of ~US\$635m and FCF of ~US\$495m. ▶ Assuming a FY19E coal price of US\$185/t, and LT (2020E+) price of US\$160/t, we value Warrior's operations at ~US\$34 per share (net of net debt). Management believes Blue Creek could be worth ~US\$16-34 per share; we currently ascribe a value of ~US\$4 per share.

Snapshot

Ticker		NYS:HCC
Price (30 Apr 2019) ⁽¹⁾	US\$	26.84
Market cap	US\$m	1,384
EV ⁽²⁾	US\$m	1,807
EV / EBITDA (FY19E) ⁽³⁾	x	3.5
P / E (FY19E) ⁽³⁾	x	3.7
NGE position size	%	7.2%

(1) Share price adjusted for special dividend of US\$4.41 paid on 14 May 2019.

(2) Adjusted for payment of special dividend and repurchase of Senior Debt.

(3) Based on assumed FY19E met coal price of US\$185/t (vs spot price ~US\$200/t).

Sum-of-the-parts valuation

	Valuation US\$m	Per share US\$
DCF - operating mines (10% WACC) ⁽¹⁾	\$2,153	\$41.77
Blue Creek (undeveloped)	\$200	\$3.88
Net debt	-\$423	-\$8.20
Total equity valuation	\$1,931	\$37.45
Upside		40%

(1) Assumes FY19E met coal price of US\$185/t; LT price US\$160/t.

Warrior continues to return capital to shareholders

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 zircon, ilmenite and rutile. Owns 85% (with option to purchase remaining stake) of the Toliara development project, Madagascar.
Situation	Market is ascribing no value to the Toliara Project.
Assessment	<ul style="list-style-type: none"> Cheap on sum-of-the-parts valuation: we value Kwale at ~\$0.38 per share (net of net debt). Toliara valued at an additional ~\$0.19 per share (net of capex) on a risked basis (~\$0.76 per share unrisked). Strong cash flow generation: at spot prices, Kwale should generate ~US\$89m of free cash in FY19E. Toliara is a world class project: PFS values the project at US\$671m (10% WACC, post-tax) with upfront capex requirement of US\$439m. Kwale upside from North Dune: recently completed drill program resulted in estimated mineral resource of 171Mt at average HM grade of 1.5%. Despite some recent softening in zircon market, demand for high quality rutile feedstock from pigment producers remains strong. Medium term outlook for zircon market looks tight.

Snapshot

Ticker		ASX:BSE
Price (30 Apr 2019)	\$	0.270
Market cap ⁽¹⁾	\$m	328
EV	\$m	326
EV / EBITDA (FY19E)	x	2.1
EV / FCF (FY19E)	x	2.6
NGE position size	%	6.9%

(1) Diluted for performance rights.

Sum-of-the-parts valuation

	Per share	Valuation	
	A\$	A\$m	US\$m
DCF - Kwale Project (10% WACC)	\$0.38	461.1	325.1
Net cash	\$0.00	2.6	1.8
Current operations equity valuation	\$0.38	463.6	326.9
Upside	41%		
Toliara upfront (DFS, 15% stake)	-\$0.02	-22.7	-16.0
Toliara NPV	\$1.30	1,574.2	1,110.0
Toliara capex	-\$0.51	-622.6	-439.0
Toliara equity valuation (unrisked)	\$0.76	928.9	655.0
Risk factor	25%	25%	25%
Toliara equity valuation (risked)	\$0.19	232.2	163.7
Total equity valuation	\$0.57	695.9	490.7
Upside	112%		

Currently no value ascribed to Toliara Project

Portfolio holding: Powerwrap

Powerwrap Limited (ASX:PWL)

Description	<ul style="list-style-type: none"> ▶ Powerwrap provides investment portfolio administration services. ▶ Powerwrap has ~\$7.6bn in funds under administration (FUA).
Situation	<ul style="list-style-type: none"> ▶ NGE invested in June 2017 at a price of \$0.30 per share in a pre-IPO raise. ▶ Company listed on ASX via IPO on 23 May 2019, at an offer price of \$0.35 per share.
Assessment	<ul style="list-style-type: none"> ▶ Powerwrap operates in a very attractive market supporting independent financial advisors in managing their clients' wealth. ▶ Company is not yet profitable, but growing rapidly. ▶ Industry fundamentals look strong with increasing number of advisors leaving large financial institutions (e.g. big banks, AMP, IOOF) to set up independently or join smaller groups. ▶ Peers include listed companies Netwealth (ASX:NWL), Hub24 (ASX:HUB), and Praemium (ASX:PPS) which trade on high earnings multiples. ▶ We sold ~60% of our holding via the Share Sale facility as part of the IPO in order to derisk our investment.

Snapshot

Ticker		ASX:PWL
Price (30 Apr 2019) ⁽¹⁾	\$	0.350
Market cap	\$m	72
EV	\$m	49
EV / Revenue (FY19E)	x	3.1
FUA	\$bn	7.6
NGE position size ⁽²⁾	%	6.1%

(1) Represents IPO offer price.

(2) Pro forma for sell down under the Powerwrap IPO Share Sale facility.

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 a decade of 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 and CEO of Property Trail.
- ▶ 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



David Lamm

Executive Chairman &
Chief Investment Officer

Adam Saunders

Executive Director &
Portfolio Manager

NGE Capital Limited

P: +61 3 9648 2290

E: office@ngecapital.com.au

www.ngecapital.com.au

ACN: 112 618 238

Investment proposals

Submit an investment opportunity for us to consider to:



investments@ngecapital.com.au



NGE Capital Limited