NGE Capital Limited

Investment and NTA update | As at 30 April 2019

NGE CAPITAL LIMITED SUMMARY

ASX ticker	NGE
Share price (30-Apr-19)	$0.680
Shares outstanding	37,194,774
Market cap	$25.3m
NTA per share before tax	$0.766
NTA per share after tax	$0.821
NTA before tax	$28.5m
NTA after tax	$30.5m

OVERVIEW

NGE Capital Limited is an internally managed Listed Investment Company which allows investors to gain exposure to a concentrated, high conviction, actively managed portfolio of financial assets. NGE primarily focuses on listed ASX and international equities, with the aim of generating strong risk-adjusted returns over the medium to long term.

INVESTMENT STRATEGY

NGE has a flexible investment mandate and invests according to a defined set of investment principles, summarised as follows:

- Only invest in a compelling opportunity, otherwise hold cash;
- Invest based on fundamental analysis;
- Target investments that can generate strong returns with an adequate margin of safety; and
- Aim to hold a concentrated portfolio of high conviction investments.

BOARD & MANAGEMENT

David Lamm	Executive Chairman & Chief Investment Officer
Adam Saunders	Executive Director & Portfolio Manager
Ilan Rimer	Non-Executive Director
Les Smith	Company Secretary & Chief Financial Officer

CONTACT DETAILS

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NET TANGIBLE ASSETS (NTA) PER SHARE

	30 Apr 2019	31 Mar 2019
NTA per share before tax	$0.766	$0.807
NTA per share after tax	$0.821	$0.849

NTA PER SHARE PERFORMANCE SUMMARY

			Since inception (1)	
1 month	Year-to-date	Last 12 months	(p.a.)	(cum.)
-5.0%	0.2%	2.6%	18.4%	50.3%

Note: Returns are before tax and net of all operating expenses. As an internally managed LIC NGE does not incur external management and performance fees.

(1) From 30 November 2016, the date on which NGE became a LIC.

TOP HOLDINGS (% OF NTA)

Company	Ticker	%
United Company RUSAL	HKE:0486	24.9%
Karoon Energy	ASX:KAR	15.4%
Yellow Cake plc	LSE:YCA	14.7%
Powerwrap	Unlisted	14.7%
Horizon Oil	ASX:HZN	8.8%
Warrior Met Coal Inc	NYS:HCC	7.2%
Base Resources	ASX:BSE	6.9%

PORTFOLIO COMPOSITION

	30 Apr 2019
Listed equities	83%
Unlisted equities	15%
Net cash and other	2%
Total	**100%**

UNRECOGNISED TAX LOSSES

The Company has ~$44 million 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 a small portion is recognised in our after tax NTA). The Company has received tax advice that these losses are available to be offset against future tax liabilities so long as NGE continues to satisfy the continuity of ownership test as set out in Divisions 165 and 166 of the *Income Tax Assessment Act 1997* (Cth).

MONTHLY COMMENTARY

NGE's portfolio produced a return of -5.0% for the month of April. On a rolling 12-month basis, the portfolio is up 2.6%.

During the month we fully impaired NGE's investment in unlisted public company Cody Live Limited (**Cody Live**), after Cody Live's directors, Pierce Cody and Richard Ochojski, placed the business into voluntary administration. Cody Live's main business is to provide digital boards to real estate agents for the sale of residential properties, and earns revenues from a flat fee-for-service and advertising. Cody Live's digital boards are able to display more content than static boards, and the content can be altered remotely. Most importantly, the digital boards display advertising by companies wanting to target homebuyers. We were attracted to the potential of the digital boards becoming the "gold standard" for selling property. Unfortunately, the business struggled to gain traction, both during the housing boom and the recent downturn.

NGE made a relatively small investment of $750k by way of an unsecured convertible note in 2017, drawn in two tranches, and $270k in equity. The small allocation was appropriate given the inherent risk of investing in an unlisted, early stage company. We also attempted to mitigate some of the downside risk by investing primarily via convertible debt, which affords protection against future dilutive equity raisings whilst retaining upside potential (by being able to convert into equity at a fixed price) if the business performed as we had initially expected. At a minimum, we expected to receive interest over the term and redeem our debt at par at maturity. Of course, we were not protected against the business failing altogether.

We continue to refine our investment strategy, as we have done over the past 2½ years; in the Chairman's Letter in our Annual Report 2018 we wrote about some of the lessons we have learnt and will be applying when assessing future investment opportunities. Whilst we believe it is sensible to maintain a broad investment mandate, we think it increasingly unlikely that we will pursue unlisted and pre-IPO investments. This view takes into account the risk-reward payoff, time and effort required for due diligence, documentation, and subsequent valuation/audit of portfolio positions at balance date. Following the expected IPO of Powerwrap in May we will no longer have any unlisted investments in our portfolio (with the exception of our legacy 50% share in a drill rig still sitting in PNG).

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Warrior Met Coal (NYS:HCC) recently declared a special cash dividend of ~US$4.41 per share (US$230m total), continuing its strong track record of returning capital to shareholders. In addition, during the past six months Warrior has bought back 1.13m shares for ~US$26m, repurchased US$132m of its Senior Debt, and announced a further US$70m share buyback program. With the coal price still hovering at ~US$200/t, and unrecognised upside potential of the world-class, undeveloped Blue Creek Project (valued by Warrior management at US$16-34 per share based on a US$150-200/t range of coal prices), we remain happy holders.

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SUGGESTED READING

We recently read *Breaking Rockefeller: The incredible story of the ambitious rivals who toppled an oil empire* by **Peter B. Doran**. The book covers the history of Standard Oil, the oil monopoly led by one of the wealthiest people in history: **John D. Rockefeller**. Taking in other famous names including Nobel, Rothschild, Benz, Daimler, Peugeot and Mellon, we learn of the battle for supremacy over global crude markets at the turn of the 19th century – initially for refining into kerosene, and then gasoline as petrol engines began to take over coal-fired steamers. Standard had crushed all competition in its path, until it came up against the steely resolve of Marcus Samuel's Shell group and Henri Deterding's Royal Dutch, which later combined to form Royal Dutch Shell.

Standard, Shell and Royal Dutch were all pioneering oil companies in their own ways. Rockefeller figured out early on that the best way to corner the market was to control the supply chain, and the most efficient way to do that was to control the refining industry. In working out how to corner the market, we noted parallels in Rockefeller's approach to **Bill Browder's** curiosity to understand the unknown in *Red Notice* which we wrote about in our Annual Report 2018. As Doran writes of Rockefeller:

> *"During his multiple forays, he asked so many questions of the oilmen that he acquired a local nickname: "Sponge". It was an appropriate moniker. Rockefeller was absorbing the collected knowledge of the entire petroleum business."*

Samuel used his merchant trading experience to expand export crude markets into Asia. He succeeded by drastically cutting the transport time and cost to the East, after commissioning the first bulk-oil tanker deemed safe enough to pass through the Suez Canal. The safety features used on the *Murex* oil tanker are still in use on modern tankers today. Royal Dutch, out of desperation for upstream crude supplies, was the first company to apply geology and science to oil exploration. Now geology is a widely used practice in exploration, but back then the oilmen "*clung to the belief that the best place to find petroleum was either where it occurred on the surface or in the vicinity of a producing well*".