NGE Capital Limited

Investment and NTA update | As at 30 April 2020

NGE CAPITAL LIMITED SUMMARY

ASX ticker	NGE
Share price (30-Apr-20)	$0.445
Shares outstanding	37,159,784
Market cap	$16.5m
NTA per share before tax	$0.604
NTA per share after tax	$0.659
NTA before tax	$22.5m
NTA after tax	$24.5m

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 2020	31 Mar 2020
NTA per share before tax	$0.604	$0.544
NTA per share after tax	$0.659	$0.598

NTA PER SHARE PERFORMANCE SUMMARY

			Since inception [(1)]	
1 month	Year-to-date	Last 12 months	(p.a.)	(cum.)
11.1%	-28.9%	-21.1%	5.1%	18.5%

Note: Returns are before tax and net of all expenses.
(1) From 30 November 2016, the date on which NGE became a LIC.

TOP HOLDINGS (% OF NTA)

Company	Ticker	%
Karoon Energy	ASX:KAR	25.9%
Yellow Cake plc	LSE:YCA	21.1%
Base Resources	ASX:BSE	4.3%
Horizon Oil	ASX:HZN	1.8%

PORTFOLIO COMPOSITION

	30 Apr 2020
Listed equities	54%
Net cash and other	46%
Total	**100%**

UNRECOGNISED TAX LOSSES

The Company has ~$50 million 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 $2.0m or $0.054 per share 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).

COMMENTARY

NGE's portfolio produced a return of 11.1% for the month of April.

In response to the uncertainty around the duration of the coronavirus pandemic and shape of the subsequent economic recovery, during the month we began cashing up, trimming positions in Karoon Energy Ltd (ASX:KAR), Horizon Oil Limited (ASX:HZN), and selling completely out of United Company RUSAL plc (HKE:0486).

We sold our remaining holding of **United Company RUSAL plc (HKE:0486)** for an average price of ~HKD2.66. In aggregate we made a 38% profit on a ~A$4.5m investment, but we consider this a disappointing result given the stock was trading well above HK$4 prior to COVID-19. However we thought it prudent to sell given the company's significant leverage, the depressed aluminium price (which may remain so for some time as excess inventories are worked through), uncertainty around the future economy, and the near-term overreliance on Nornickel's dividend to service its debt.

We also sold down around half of our holding in **Karoon Energy Ltd (ASX:KAR)** at an average price of ~$0.51 per share, after picking up those shares at ~$0.395 in March. We still retain significant exposure to a stock that has good upside potential should oil prices recover, and reasonable downside protection given the cash in the business.

The pandemic could potentially end up working in Karoon's favour if it is able to renegotiate its Bauna deal with Petrobras for a more favourable price. Petrobras remains heavily indebted with net debt (excl operating leases) of US$55bn as at 31 December, or ~3x FY19 FCF. It continues to undertake an aggressive asset sale process to bring its debt down to more conservative levels, and may well prefer to agree to a recut knockdown fire sale price and move on.

Yellow Cake plc (LSE:YCA), our second largest holding, is up 9.5% year-to-date, and 62% from its nadir on 16 March. Yellow Cake is a listed investment company whose strategy is to buy and hold physical uranium for the long-term. The company currently holds 9.62mmlbs of "natural uranium" in the form of U_3O_8, also known as yellow cake. YCA offers exposure to the uranium price without the risks typically borne by companies which explore for, develop and mine uranium.

YELLOW CAKE NAV AS AT 30 APRIL 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 / (liabilities)	US$m	5.9
Kazatomprom repurchase option	US$m	-2.6
Net Asset Value	**US$m**	**318.3**
FX rate	GBP:USD	0.7942
Net Asset Value	**£m**	**252.8**
Shares out.	m	87.8
NAV per share	**£**	**2.87**
Share price	£	2.20
Discount to NAV	%	-23.3%

Source: YCA company filings, IRESS.
Note: Share count and cash balance adjusted for share buyback.

Yellow Cake's share price has risen in response to the appreciation in the value of its uranium holding, with spot U_3O_8 up 31% to US$32.75/lb from US$25/lb at the start of the year. In fact, uranium has been the best performing commodity this year.

Uranium has benefitted from production curtailments and suspensions at mines around the world brought on by the coronavirus, whilst demand from nuclear power plants has not decreased as drastically as overall demand for electricity demand. This is partly due to coal- and gas-powered plants being easier to turn on/off than nuclear facilities.

Notable production reductions have come from Cameco's Cigar Lake (~16mmlbs p.a. run-rate at the time of suspension on 23 March) and Kazatomprom's Kazakh operations (up to ~10mmlbs less production than previously forecast for 2020).

The release of the US Nuclear Fuel Working Group's (NFWG) report in April also potentially improves the outlook for uranium and at the very least has ended considerable uncertainty in the market. The NFWG was set up in 2019 to examine the state of nuclear fuel production in the US. The report outlines a strategy to revive the capabilities of the front end of the US' nuclear fuel cycle, including direct purchases of uranium for the strategic Uranium Reserve.

Uranium market participants expect the release of the report to improve market conditions as US nuclear utilities in particular re-enter the market and engage in long term contracting.

The sustainability of the recent rally in the uranium price will depend on utilities' fear of securing future supply. Utilities typically hold 18 months to 5 years of inventory to ensure their plants do not run out of fuel. Whilst the market has been awash with excess inventories for some time, 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.

Longer term, the investment thesis for a sustained uranium price recovery is predicated on the following arguments:

- Nuclear power demand is expected to grow, with new reactor builds (led by China and India) expected to more than offset shutdowns of older plants;
- Higher priced long-term contracts which have (partly) shielded producers from low spot prices are expected to continue to roll off in the next few years;
- Most producers have total costs above the spot price, an unsustainable situation;
- Even pre-pandemic, major producers had already significantly curtailed production in response to the low price environment; and
- The current supply deficit (global demand of ~180mmlbs vs primary production of perhaps ~140mmlbs) is forecast to grow due to production cuts, underinvestment in new mine development and growing demand.

We were a bit early with our investment in Yellow Cake, and the thesis may take longer to play out than we had hoped, but we continue to believe the stock offers significant further upside potential with relatively limited downside.

This announcement was released to the market with the authorisation of:

David Lamm
Chief Investment Officer

Adam Saunders
Portfolio Manager