NGE Capital Limited

Investment and NTA update | As at 28 February 2021

NGE CAPITAL LIMITED SUMMARY

ASX ticker	NGE
Share price (28-Feb-21)	$0.580
Shares outstanding	37,159,784
Market cap	$21.6m
NTA per share before tax	$0.810
NTA per share after tax	$0.862
NTA before tax	$30.1m
NTA after tax	$32.0m

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

	28 Feb 2021	31 Jan 2021
NTA per share before tax	$0.810	$0.753
NTA per share after tax	$0.862	$0.805

NTA PER SHARE PERFORMANCE SUMMARY

			Since inception [1]	
1 month	Year-to-date	Last 12 months	(p.a.)	(cum.)
7.6%	3.6%	10.0%	11.5%	58.9%

Note: Returns are 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	18.8%
Yellow Cake plc	LSE:YCA	14.8%
Metals X	ASX:MLX	8.2%
Base Resources	ASX:BSE	7.8%
Vita Group	ASX:VTG	3.3%
Silver ETFs	SILJ,SLV,SIL	1.2%
Undisclosed	Listed	0.9%
Uranium Participation	TSX:U	0.5%

PORTFOLIO COMPOSITION

	28 Feb 2021
Listed equities	56%
Net cash and other	44%
Total	**100%**

UNRECOGNISED TAX LOSSES

The Company has ~$48 million of Australian unused and unrealised losses available as at 28 February 2021. In the aggregate these losses equate to a potential future tax benefit of ~$12.5m or ~$0.34 per share (of which only ~$1.9m or $0.052 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 7.6% for the month of February.

In January we began to trim our overweight position in **Karoon Energy Ltd (ASX:KAR)**, with our selling gathering momentum in February. Year-to-date we have sold down ~53% of our position held as at 31 December at an average price of ~$1.15 per share. We think it makes sense to retain some exposure to oil as the global economy starts to re-open, however we will continue to scale back Karoon to a more measured portfolio weighting. We are being patient in selling down, however, as the stock has lagged the recent run in Brent crude.

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We are pleased with our progress so far this year in reconstituting the portfolio to one that is more balanced, with the addition during the month of a sizeable position in tin producer **Metals X Limited (ASX:MLX)**. We acquired ~10.3m shares at an average price of ~19.5c following the announcement of a deal to divest its copper assets to acquirer **Cyprium Metals Limited (ASX:CYM)**. The deal is expected to close in late March/early April and will result in MLX becoming a pure play tin producer. MLX will retain some upside to copper via a convertible and options in Cyprium. MLX will join **Alphamin Resources (TSXV:AFM)** as the only Western-listed pure play tin producers globally.

At our purchase price of ~19.5c MLX has an implied market cap of $177m and a pro forma EV of $138m – pro forma for the Cyprium deal and Mt Gordon sale contingent payments. At a tin price of ~US$24,000/t, MLX's 50% share of Renison FCF (pre growth capex) is ~$45m. We estimate pro forma corporate overheads should drop to ~A$4m, leaving MLX producing ~$40m of free cash, or ~3.5x on an EV/FCF basis. To us this seems cheap, also taking into account the 10-year mine life, expected ramp-up in grades and production rate over the next few years, optionality provided by existing infrastructure to tie in nearby tin deposits, and the positive medium-term outlook for tin. In the next 12 months cash flow will still remain tight though as the company pays for the Area 5 expansion project (perhaps ~$20-22m capex remaining, MLX's share) and remaining spend on the Metallurgical Improvement Program and Thermal Upgrade Project.

Tin is essential for the high-tech, low carbon economy, and is projected to be the metal most impacted by growth of new technologies such as batteries, robotics, solar power, power storage and electric vehicles. Tin prices are expected to increase as growth in tin demand outweighs new supply, leading to a significant deficit from 2025 according to the International Tin Association. Recent moves in the LME tin cash price show what is possible during an acute metal shortage: the price ran from ~US$24,000/t to ~US$30,000/t in 5 days during February due to low inventories impacted by supply disruptions.

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We also took a position in **Vita Group Limited (ASX:VTG)** during the month, following the announcement that Telstra intends to transition to full corporate ownership of its Telstra-branded retail stores across Australia, including 104 stores operated by Vita Group. We think there is a good chance that VTG does a deal with Telstra in the next 12 months that will leave VTG with net cash proceeds – after our estimate of tax and restructuring costs and including cash already on balance sheet – of $1.10+. We expect that VTG will return capital to shareholders at a level that at least covers our purchase price of ~86c, leaving us with a free option on the roll-out of the promising Artisan Skin Health and Wellness clinic network.

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Additionally, we have taken a small starter position in three silver ETFs: **iShares Silver Trust (ARCA:SLV)**, **ETFMG Prime Junior Silver Miners ETF (ARCA:SILJ),** and **Global X Silver Miners ETF (ARCA:SIL)**.

We are in the process of building a position in small homebuilder that trades at ~0.35x P/B, has a net cash position and large land bank, and a strong history of generating free cash flow and paying out generous dividends.

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As we noted in our Annual Report released on 26 February, our portfolio is now heavily weighted towards commodities (oil, uranium, mineral sands, tin, copper indirectly, and silver) that should benefit from more fiscal stimulus from governments around the world, the roll-out of a vaccine and the return to a more normalised economic environment. Uranium, tin and silver should all benefit from the shift towards a greener economy. Like tin, silver is forecast to be one of the commodities most positively impacted by the introduction of emerging technologies.

The main risk to our portfolio, aside from a virus mutation, is rising interest rates, with the key question being: how quickly will the US Fed react to rein in inflation via rate hikes? In last year's Annual Report, we mentioned the precarious state of the global economy due to high leverage even pre-Covid. We think rate rises are unlikely in the near-term due to the risk of mass corporate insolvencies, and the fact that the US economy has only recovered around half of the jobs lost since the pandemic began. The Fed also tinkered with its Monetary Policy Strategy in August, now seeking to "achieve inflation that averages 2 percent over time", suggesting that they will keep rates lower for longer, even if inflation continues to run up.

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

David Lamm	Adam Saunders
Chief Investment Officer	Portfolio Manager