Investment & NTA Update

31 July 2021

NGE Capital Summary

ASX ticker	NGE
Share price (31 Jul 21)	$0.670
Shares outstanding	36,202,342
Market cap	$24.3m
NTA per share before tax	$0.882
NTA per share after tax	$0.937
NTA before tax	$31.9m
NTA after tax	$33.9m

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.

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 Per Share

	31 Jul 2021	30 Jun 2021
NTA per share before tax	$0.882	$0.858
NTA per share after tax	$0.937	$0.913

NTA Per Share Performance Summary

			Since inception[1]	
1 month	Year-to-date	Last 12 months	(p.a.)	(cum.)
2.7%	12.7%	34.9%	12.4%	72.9%

Note: Returns are net of all expenses.
1 From 30 Nov 2016, the date on which NGE became a LIC.

Portfolio Composition

Company	Ticker	% of NTA
Yellow Cake plc	LSE : YCA	18.7%
Metals X	ASX : MLX	8.8%
Vita Group	ASX : VTG	7.6%
Base Resources	ASX : BSE	6.6%
Allegiance Coal	ASX : AHQ	4.9%
Consorcio ARA	MEX : ARA	1.9%
Silver ETFs	SILJ, SLV, SIL	1.8%
Undisclosed – 3 positions	Listed	1.7%
Sprott Physical Uranium Trust	TSX : U.UN	0.6%
Net cash and other		47%
Total		100%

Unrecognised Tax Losses

The Company has ~$46 million of Australian unused and unrealised losses available as at 31 July 2021. In the aggregate these losses equate to a potential future tax benefit of ~$11.5m or ~$0.32 per share (of which only $2.0m or $0.055 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).

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Commentary

Allegiance Coal (ASX:AHQ)

During July we initiated a new portfolio position, buying 2.25m shares of **Allegiance Coal Limited (ASX:AHQ)** at an average of ~71c. We further participated in the $30m placement that was announced on 30 July and settled on 5 August, which was done at $0.67 per share. We currently hold ~3.07m shares acquired at an average of ~70c.

Allegiance is a coking coal producer whose key asset is the 100% owned and operated New Elk mine in Colorado. Allegiance recently purchased the Black Warrior Minerals (BWM) operating mine in Alabama using proceeds from the placement. The company also has a 90% stake in the promising but unpermitted Tenas Project in British Columbia.

New Elk commenced production in May 2021 and is on track to produce ~1.8Mtpa from FY24. The mine contains 45.1Mt 2P saleable reserves of High Vol B spec coking coal, allowing for a ~27 year mine life. Allegiance will achieve High Vol A spec by blending with BWM and 3rd party NPA coal. The blend commands a significantly improved market price, arbitraging the value of these three otherwise lower-ranked coals.

Allegiance will also market unblended coal as China's unofficial ban on Australian HCC has increased Asian steel mills' appetite for US HVB. Although unclear how long this dynamic will last, management has shown it is flexible in its blending and marketing strategies amid changing market conditions.

We like New Elk's low position on the seaborne cost curve, providing a wide margin of safety to much lower PLV forecasts than spot. At an assumed long-term PLV of US$150/t – ~US$70 below spot and US$9 below the historical average since 2007 – we value Allegiance at A$2.40/share, suggesting 243% upside to the month-end price of A$0.70 per share.

DCF sensitivity (A$/share):

		LT PLV Price (US$/t)				
		$130	$140	$150	$160	$170
Discount Rate	10%	1.49	1.94	2.40	2.85	3.31

Under our base case LT PLV price of US$150/t, we forecast New Elk will be highly cash-generative, producing FCF in excess of A$100m p.a. against an EV of A$250m.

Capital structure		
Share price (31-Jul-21)	A$	0.70
Shares outstanding (diluted) [1]	m	339.1
Market cap	**A$m**	**237.4**
Cash [2]	A$m	24.6
Debt	A$m	35.3
Net debt	**A$m**	**10.7**
Minority interest	A$m	1.2
EV	**A$m**	**249.3**

1 Pro forma for ITM options, Mercer convertibles and performance shares.

2 Pro forma for dilutive securities, assumes $13m uncommitted cash from $30m placement following BWM acquisition.

While our valuation attributes no value to Tenas, if the project receives the necessary permits it is expected to be one of the lowest cost seaborne coking coal producers in the world. Tenas provides further upside to an already undervalued play.

Wood Mackenzie (March 2021) forecasts an ~8% seaborne supply deficit by 2030. Significant demand is expected from continued urbanisation and ramp-up of India's steelmaking capacity. Supply is forecast to tighten due to low investment, permitting challenges and natural decline in existing capacity. Despite environmental regulation and carbon abatement on the horizon, the scale of existing blast-furnace (BF) capacity, the cost of competing tech and the relatively lower production cost of seaborne coking coal (vs Chinese domestic production) means BF steelmaking will not be replaced at scale medium-term, with seaborne HCC demand forecast to remain resilient this half-century.

In summary, we like Allegiance because New Elk has a long life, options to increase the rate of production, and should be highly cash generative under reasonable long-term coking coal price assumptions. Management has shown it is willing and able to adapt to market conditions by changing its coal blending and marketing strategy to maximise value. In the medium term, strong industry fundamentals are forecast with an expected coking coal supply deficit. Environmental regulation and competing steelmaking technologies that use less coking coal are not an immediate concern.

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Announcement released to the market with the authorisation of:

David Lamm
Chief Investment Officer

Adam Saunders
Portfolio Manager