

NGE CAPITAL LIMITED SUMMARY

ASX ticker	NGE
Share price (31-Mar-20)	\$0.400
Shares outstanding	37,159,784
Market cap	\$14.9m
NTA per share before tax	\$0.544
NTA per share after tax	\$0.598
NTA before tax	\$20.2m
NTA after tax	\$22.2m

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

	31 Mar 2020	29 Feb 2020
NTA per share before tax	\$0.544	\$0.737
NTA per share after tax	\$0.598	\$0.791

NTA PER SHARE PERFORMANCE SUMMARY

1 month	Year-to-date	Last 12 months	Since inception ⁽¹⁾	
			(p.a.)	(cum.)
-26.2%	-36.1%	-32.6%	1.9%	6.6%

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	48.4%
Yellow Cake plc	LSE:YCA	21.0%
United Company RUSAL	HKE:0486	7.5%
Base Resources	ASX:BSE	5.3%
Horizon Oil	ASX:HZN	4.8%

PORTFOLIO COMPOSITION

	31 Mar 2020
Listed equities	88%
Net cash and other	12%
Total	100%

UNRECOGNISED TAX LOSSES

The Company has ~\$52 million of Australian unused and unrealised losses available as at 31 March 2020. In the aggregate these losses equate to a potential future tax benefit of ~\$14.5m or ~\$0.39 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 -26.2% for the month of March.

This month we extract some excerpts from the Chairman's Letter published in NGE's Annual Report that was lodged with ASX on 30 March:

"Our concentrated investment style has delivered solid results since NGE converted to a LIC in November 2016, with annual returns (pre-tax, net of expenses) of 26.8% in 2017, 21.4% in 2018, and 11.2% in 2019. Whilst a concentrated portfolio such as ours will have more volatile returns than a highly diversified portfolio we believe our strategy is more capable of delivering stronger returns over the medium- to long-term.

Unfortunately NGE's portfolio has been substantially negatively impacted since 31 December 2019 from the triple impact of the coronavirus pandemic, the collapse of OPEC+ in March resulting in a Saudi Arabia/Russia oil price war, and a bribery probe into Horizon Oil's PNG dealings close to a decade ago.

Coronavirus has caused the fastest collapse in equity markets in the last 100 years. Major stock market indices have fallen ~30% in less than 5 weeks. Any recovery will depend on the effectiveness of healthcare, fiscal and monetary policy measures. Governments, central banks and regulatory agencies around the world have implemented significant independent and coordinated measures to try and mitigate the negative impacts to economies and markets. Nevertheless, we remain cautious on the effectiveness of these measures.

Based on data published by the National Bureau of Economic Research the average duration of recessions since 1900 has been ~14.6 months, though at the extreme it was as long as 43 months during the Great Depression. Nobody can predict with certainty how long this global recession will last, though past experience indicates economies and markets should eventually recover.

Markets have already priced in a significant economic impact to companies, although significant risk remains in the credit markets due to the ~US\$75 trillion global debt burden of nonfinancial corporates, equal to ~85% of global GDP. As profits fall, leverage ratios will blow out and companies are likely to breach debt covenants or struggle to refinance their debts. This is likely to put credit markets under significant stress, negatively impacting credit spreads and the ability of other indebted companies from accessing the market.

We have seen debt relief measures for small businesses implemented by the US Small Business Administration and the Australian Banking Association, and the US Federal Reserve has now established a Secondary Market Corporate Credit Facility to purchase corporate debt down to the lowest level of investment grade. We expect further debt relief measures to be implemented by governments, central banks, lenders and regulators in an attempt to avoid a credit crunch which would otherwise further exacerbate a global recession and lengthen the time to an eventual recovery.

To better position our portfolio to weather the current market conditions, in the past few weeks we sold down ~75% of our RUSAL holding at an average price of ~HKD\$2.63 and increased our holding in Karoon at an average price of ~A\$0.395. Karoon's Bauna transaction looks increasingly unlikely to go ahead, particularly as the benchmark Brent oil price has now dropped below Bauna's all-in costs of production of ~US\$30/bbl. Saudi Arabia and Russia look unlikely to return to the negotiating table any time soon, which coupled with the demand destruction caused by coronavirus means oil prices may remain depressed for some time.

Following the sharp decline in Karoon's share price, together with the recent depreciation in the AUD/USD FX rate and Karoon's cash being held in USD, Karoon is now trading at ~47c in the dollar of cash (~40c in the dollar if the Bauna deposit is recoverable). At that kind of discount to cash, we believe the downside is reasonably protected. If the shock to the oil price proves to be temporary and the Bauna deal closes as anticipated, then we expect Karoon's share price to rebound strongly; if the oil price remains depressed or falls further, Karoon will likely continue to trade in reference to its cash balance."

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

David Lamm
Chief Investment Officer

Adam Saunders
Portfolio Manager

IMPORTANT INFORMATION:

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