

NGE CAPITAL LIMITED SUMMARY

ASX ticker	NGE
Share price (31-May-21)	\$0.635
Shares outstanding	36,202,342
Market cap	\$23.0m
NTA per share before tax	\$0.872
NTA per share after tax	\$0.925
NTA before tax	\$31.6m
NTA after tax	\$33.5m

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

	31 May 2021	30 Apr 2021
NTA per share before tax	\$0.872	\$0.843
NTA per share after tax	\$0.925	\$0.896

NTA PER SHARE PERFORMANCE SUMMARY

1 month	Year-to-date	Last 12 months	Since inception ⁽¹⁾	
			(p.a.)	(cum.)
3.4%	11.4%	42.3%	12.7%	71.0%

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	%
Yellow Cake plc	LSE:YCA	17.4%
Metals X	ASX:MLX	8.9%
Vita Group	ASX:VTG	7.2%
Base Resources	ASX:BSE	7.0%
Karoon Energy	ASX:KAR	4.6%
Silver ETFs	SILJ,SLV,SIL	2.0%
Consortio ARA	MEX:ARA	1.9%
Uranium Participation	TSX:U	0.6%

PORTFOLIO COMPOSITION

	31 May 2021
Listed equities	50%
Net cash and other	50%
Total	100%

UNRECOGNISED TAX LOSSES

The Company has ~\$46 million of Australian unused and unrealised losses available as at 31 May 2021. In the aggregate these losses equate to a potential future tax benefit of ~\$11.5m or ~\$0.32 per share (of which only ~\$1.9m or \$0.053 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 3.4% for the month of May.

We further sold down our position in **Karoon Energy Ltd (ASX:KAR)** towards the end of the month, and have since completely exited our holding, selling ~3.14m shares at an average price of ~\$1.24 per share. We missed out on some of the recent strength in Karoon's share price since the announcement that the Patola tie-in is going ahead. However, whilst we like oil exposure in general, Karoon's upside is capped by the contingent payments of up to US\$285m owing to Petrobras that kick in if the Brent oil price averages between US\$50/bbl and US\$70/bbl from 2022 to 2026.

In addition, the Patola tie-in is far more costly at US\$175-195m than initially forecast (~US\$130m) and communicated by the company. We were concerned about the potential for a cost blow-out ahead of the Patola FID announcement. We rigorously stress-tested our Karoon DCF valuation model during the month – which at the time assumed a slightly higher capex cost of US\$150m for Patola than had been announced to market – and based on our analysis feel that the shares are rather fully valued at these levels.

We also revealed our investment in Consorcio ARA (MEX:ARA) at our AGM held on 26 May. ARA is one of the largest homebuilders in Mexico, building 10-12k homes p.a., 60% of which are flats/apartments. During its 44-year history ARA has sold a total of 372,000 homes. ARA went public on the Mexican stock exchange in 1996.

ARA offers three segmented product offerings: Affordable Entry Level (~A\$25-40k per unit), Middle Income (A\$40-85k) and Residential (A\$85k+). It also operates 7 shopping centres (5 fully owned, 2 within 50% owned JVs).

ARA's shares trade at a significant discount to Book Value, which has increased in recent years and blew out in 2020 with ARA trading at 0.2x P/B in June. NGE acquired its stake at an average ~P\$3.98 per share, equivalent to ~0.36x P/B.

We think the true discount is likely even larger: ARA has a significant land bank booked at acquisition cost, which could be materially undervalued. Additionally, its shopping centres are also booked at historical cost (and JVs via equity method), and contribute EBIT at a 20%+ yield. A note buried at the back of the company's Annual Report suggests these are worth at least double their book value.

We understand there are likely to be strong tailwinds to the Mexican property market, with high population growth and a housing shortage predicted. ARA's management has proven itself able to navigate the property cycle – no small feat in the boom and subsequent bust of the Mexican property market in recent years – and has significant skin in the game with a ~49% stake.

Snapshot

Ticker		MEX : ARA	
		MXN	AUD
Price (31 May 21)	\$	5.09	
Market cap	\$m	6,419	416
EV	\$m	5,374	348
BV per share	\$	11.07	
P/B	x	0.46	
EV/FCF (LTM)	x	4.4	

Strong FCF generation, a conservative balance sheet, a propensity to pay out solid dividends and a large land bank (inflation hedge) make ARA an attractive investment opportunity in our view.

During the month we increased our holding in **Vita Group Limited (ASX:VTG)**. NGE currently holds ~2.41m shares, acquired at an average price of ~82c (adjusted for the 5.6c dividend received on our initial shareholding in April).

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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