Investment & NTA Update

30 June 2022

NGE Capital Summary

ASX ticker	NGE
Share price (30 Jun 22)	$0.715
Shares outstanding	36,000,000
Market cap	$25.7m
NTA per share before tax	$0.933
NTA per share after tax	$0.996
NTA before tax	$33.6m
NTA after tax	$35.9m

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

	30 Jun 2022	31 May 2022
NTA per share before tax	$0.933	$1.025
NTA per share after tax	$0.996	$1.089

NTA Per Share Performance Summary

			Since inception[1]	
1 month	Year-to -date	Last 12 months	(p.a.)	(cum.)
-9.0%	-4.7%	8.7%	11.4%	82.8%

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	15.6%
John Wood Group plc	LSE:WG.	7.0%
Metals X	ASX:MLX	6.5%
Capricorn Energy plc	LSE:CNE	6.5%
Evolve Education Group	ASX:EVO	6.4%
Jupiter Mines	ASX:JMS	4.8%
Sprott Physical Uranium Trust	TSX:U.UN	4.7%
Allegiance Coal	ASX:AHQ	4.4%
Undisclosed	Listed	3.2%
Ten Sixty Four	ASX:X64	1.6%
International Petroleum	TSX:IPCO	1.3%
Embecta Corp.	NAS:EMBC	1.2%
Austin Engineering	ASX:ANG	1.1%
Net cash and other		36%
Total		100%

Unrecognised Tax Losses

The Company has ~$44 million of Australian unused and unrealised losses available as at 30 June 2022. In the aggregate these losses equate to a potential future tax benefit of ~$11m or ~$0.31 per share (of which only ~$2.3m or ~$0.064 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

30 June 2022

In June we sold down several portfolio positions, increasing our cash balance to ~36% of NTA at month end. We think it makes sense to cash up and de-risk the portfolio in a difficult investing environment, with a view to deploying the cash at opportune times as they present.

Specifically, we made the following portfolio changes:

- We sold ~35.2k shares of **Embecta Corp. (NAS:EMBC)** at an average price per share of ~US$29.18, and held ~10.8k shares at month end.
- We sold ~202k shares of **Capricorn Energy plc (LSE:CNE)** at an average price per share of ~GBP2.04, and held ~566k shares at month end.
- We sold ~145k shares of **John Wood Group plc (LSE:WG.)** at an average price per share of ~GBP2.38, and held ~855k shares at month end.
- We exited our holding in Stockholm-listed shares of **International Petroleum (STO:IPCO)** for a ~A$450k profit on a ~A$300k investment. We also trimmed our holding in IPCO's TSX-listed shares.
- We trimmed positions in **Jupiter Mines (ASX:JMS)**, **Ten Sixty Four (ASX:X64)** and **Austin Engineering (ASX:ANG)**.

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On 1 June **Wood Group** announced the sale of its Built Environment consulting business to **WSP Global Inc. (TSX:WSP)** for ~US$1.62bn in net cash proceeds, in line with the base case valuation that we set out in our AGM presentation of 26 May. The deal is slated to close in 4Q 2022, and is subject to Wood Group shareholder approval and certain regulatory approvals.

WSP, a ~C$17.3bn market cap engineering and consulting firm, is debt-funding the acquisition with a new fully committed US$1.81bn term credit facility. WSP is a credible, lowly geared counterparty, has funding in place to close, and is buying an attractive business at a fair price. We therefore believe the risk of the deal falling over is low.

Nevertheless, the share price sold off heavily through June after the deal had been announced, ending down ~30% month-on-month. We would expect Wood Group's share price to recover once the deal closes and the proceeds are received.

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Also on 1 June **Capricorn Energy** announced a scrip-based merger agreement with **Tullow Oil plc (LSE:TLW)**, whereby Capricorn shareholders are to receive 3.8068 Tullow shares for every Capricorn share held.

As at the date of the announcement, the deal valued Capricorn shares at ~GBP2.08 per share, a paltry ~4.7% premium to the last traded price. We sold down some shares upon the announcement, which we view as one of the worst proposed transactions we have ever had an interest in for the following reasons:

- The deal grossly undervalues the value of Capricorn's assets: we assessed Capricorn's value to be ~GBP2.50-3.30 per share in our AGM presentation of 26 May. That valuation range arguably gave a conservative valuation of Egypt production assets (~US$250-350m), given those assets could produce up to ~US$150m of FCF in 2022 alone. We also assumed no further on-market buybacks at accretive prices in our analysis.

- Capricorn's Board saw fit to buy back ~35% of the company's shares outstanding at GBP2.23 per share via an off-market tender offer less than two months ago. If it made sense to buy back a third of the company at GBP2.23 per share, how does it make sense to sell the remaining two thirds for GBP2.08 per share?

- The merger with Tullow will significantly increase Capricorn's financial risk profile. Tullow has negative equity with some dubious assets on its balance sheet. Its net debt is ~US$2.1bn, but this fails to take account of:

  - a ~US$1bn FPSO lease liability for the TEN field that has suffered deteriorating performance;
  - an additional ~US$1bn in contingent tax liabilities that have not been provided for on the balance sheet; and
  - ~US$160m to be spent on decommissioning in 2022-2023.

  ~US$440m of the contingent liabilities relate to a tax dispute with the Ghanian government. **Occidental Petroleum (NYS:OXY)** settled a separate tax dispute in October 2021 with Ghana for US$170m as part of the sale of its interests in the Jubilee and TEN fields, the same fields from which Tullow's dispute arises. This suggests this significant liability is very much a "real" one.

Commentary

30 June 2022

- The merger with Tullow will significantly increase Capricorn's operational risk profile. Tullow's TEN field 2022E production rate is *~50-60% below* what the company was forecasting at its Capital Markets Day presentation in November 2018. TEN, and to a lesser extent Jubilee, have suffered declining performance and increasing gas production. There is no current export route for the gas, and the Ghana domestic market is already awash with cheap gas. TEN's high fixed FPSO lease cost (~US$100m p.a. net to TLW) means that the cost per boe increases significantly as production falls.

- In its 2021 Annual Report Tullow's auditor questioned the carrying values of its ~US$2.9bn PP&E balance – citing the TEN field's poor performance – and its Kenya development asset that is still on the books for ~US$255m after a US$430m impairment in 2020.

- Tullow cut their decommissioning liability by ~30% or ~US$200m in FY21, thanks to the stroke of a pen and some changes in assumptions. Some material amounts of the ~US$500m remaining estimate are near-term, with ~US$101m to be spent in 2022 and ~US$60m in 2023.

- Capricorn's Board has a ~0.2% aggregate shareholding in the Company, and therefore the financial impact of the proposed merger will be of little consequence to the directors that have agreed to it.

We paused our selling as it became clear that the market has made a similar assessment. At month end Capricorn was trading at GBP2.18 per share against Tullow at GBP0.4686 per share (~GBP1.78 implied value for CNE). Such a large spread of ~20% suggests the deal is unlikely to be approved by Capricorn shareholders.

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Announcement released to the market with the authorisation of:

David Lamm	Adam Saunders
Chief Investment Officer	Portfolio Manager