Investment & NTA Update

31 May 2023

NGE Capital Summary

ASX ticker	NGE
Share price (31 May 23)	$0.760
Shares outstanding	36,000,000
Market cap	$27.4m
NTA per share before tax	$0.963
NTA per share after tax	$1.026
NTA before tax	$34.7m
NTA after tax	$36.9m

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

Level 4
100 Albert Road
South Melbourne VIC 3205

+61 3 9648 2290
admin@ngecapital.com.au
www.ngecapital.com.au

Net Tangible Assets Per Share

	31 May 2023	30 Apr 2023
NTA per share before tax	$0.963	$1.020
NTA per share after tax	$1.026	$1.084

NTA Per Share Performance Summary

1 month	Year-to -date	Last 12 months	Since inception[1] (p.a.)	Since inception[1] (cum.)
-5.6%	3.7%	-6.1%	10.3%	88.7%

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
Danakali	ASX:DNK	23.7%
Yellow Cake plc	LSE:YCA	14.6%
John Wood Group plc	LSE:WG.	7.8%
Sprott Physical Uranium Trust	TSX:U.UN	5.8%
Embark Education	ASX:EVO	5.4%
OCI N.V.	AMS:OCI	5.2%
Metals X	ASX:MLX	5.2%
Jupiter Mines	ASX:JMS	5.0%
Geo Energy Resources	SGX:RE4	4.7%
Franklin Street Properties	AME:FSP	3.4%
Industrial Logistics Properties	NAS:ILPT	2.4%
Net cash and other		17%
Total		100%

Unrecognised Tax Losses

The Company has ~$44 million of Australian unused and unrealised losses available as at 31 May 2023. 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).

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Commentary

31 May 2023

On 24 May we published our AGM presentation, which provided an overview of our key investments. The presentation can be viewed here.

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During the month we made the following notable portfolio changes:

- We initiated a small new position in **Franklin Street Properties Corp. (AME:FSP)**, acquiring ~531k shares at an average price per share of ~US$1.16. We lay out the thesis in brief below.

- We initiated a small new position in **Industrial Logistics Properties Trust (NAS:ILPT)**, acquiring 300k shares at an average price per share of ~US$1.835. We lay out the thesis in brief below.

- We sold ~190k shares of **John Wood Group plc (LSE:WG)** at an average price per share of ~GBP2.235, and repurchased ~100k share at ~GBP1.44 per share. We currently hold ~1.01m shares acquired at an average price per share of ~GBP1.405 after accounting for our purchases and sales to date.

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Franklin Street Properties ("FSP") is a beaten-down, left for dead office-focused REIT that is trading near all-time lows following technical selling after being booted out of the S&P SmallCap 600 and Russell 2000 indices in quick succession.

FSP owns 20 office properties with ~6mn sqft of rentable space and holds a mortgage loan over an additional property. Approximately 73% of its rentable office space is concentrated in Dallas, Denver and Houston, whose fortunes are tied to the oil price. As at 31 March 2023 FSP's property assets were valued at ~US$1.1bn. The company has a history of selling properties above book value which suggests a conservative valuation policy and should provide an adequate equity buffer even in the face of a deteriorating office property market.

At the month end share price of US$1.44, FSP has a market cap of ~US$150m for an implied adjusted P/B multiple of only ~0.19x. It's cheap for a reason, of course: FSP has a lot of debt maturing in 2024 (US$316m out of US$400m total debt outstanding), and the debt is held at the company level meaning the risk of bankruptcy is heightened. In addition average occupancy has been on a steady decline, falling from ~86% at year-end 2019 to ~74% as at 31 March 2023.

FSP is only roughly break-even on cash flow from operations (capex is only slightly lower than D&A) so the pressure is on to keep selling assets to pay down debt, whilst trying to keep occupancy up across the portfolio.

However, the extension in February of certain debt maturities from January 2024 to October 2024, high insider buying throughout February and March (500k shares at an average price per share of ~US$2.30), and the March sale of a property just outside of Chicago for $8.4m above book value suggest to us that the company can probably work its way through the looming debt maturities.

There are several possible outcomes here that could stave off bankruptcy: another extension to FSP's debt maturities following further asset sales; a takeover or merger; or a dilutive equity raise. The downside case to our investment would be a total loss or a resolution that does not allow common shareholders to benefit from the inherent upside. However, we see several possible paths in which we would see a material return on our investment.

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Industrial Logistics Properties Trust ("ILPT") is an industrial and logistics properties focused REIT whose stock price has – like FSP's – been hammered following back-to-back deletions from the same two stock indices.

ILPT has a portfolio of 413 properties across 39 US states, comprising ~60mn sqft of rentable space operating at ~99% occupancy with a WALE of ~8 years. ILPT's key assets are split across three portfolio segments: Hawaii Properties (100% owned); Mainland Properties (100% owned); and the Mountain Industrial JV (61% owned). ILPT is managed by **The RMR Group Inc. (NAS:RMR) ("RMR")**.

At month end ILPT had a market cap of ~US$120m at a share price of US$1.81, for an implied P/B multiple of ~0.16x. However, the true discount is likely much higher. The jewel in ILPT's crown is their portfolio of 226 properties in Hawaii, which are on the books for ~US$724m at an implied cap rate of 10.8%: this is an extreme level of undervaluation given these properties consist of ground leases in a highly constrained area with a history of rental growth, no associated capex and high occupancy (98%). We estimate these assets could be worth ~US$1bn more than their stated book value, for an implied NAV of ~US$13/sh for these assets alone.

The discount exists because of ILPT's extreme leverage: ~US$4.3bn of debt outstanding against gross assets of ~US$5.9bn (on a fully

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consolidated basis). The debt burden was incurred by the very ill-timed acquisition of Monmouth Real Estate Investment Corporation for an EV of ~US$4bn, which was announced in November 2021. In September 2022, ILPT managed to refinance the bridge loan taken on as part of the Monmouth acquisition, providing breathing space until 2027 when ~US$2.6bn falls due.

Based on RMR management commentary, a deal involving the sale (or partial sale) of the Hawaii assets at a significant premium to book value is amongst the potential options being considered, which would enable the paydown of a large chunk of ILPT's floating rate debt. On a quarterly basis ILPT's cash interest expense of ~US$58m is currently being met by Cash NOI of ~US$80m. After general and admin of ~US$8m and capex averaging ~US$7m, there's not much left to show for the quality of ILPT's asset base.

RMR is heavily incentivised to maintain its lucrative management fee stream from ILPT, and so would likely step in to provide emergency liquidity using part of its ~US$200m cash pile should the situation require. We don't think that is likely, however there is always the risk that any debt workout or credit support is done at the expense of shareholders.

This is another call-option type investment that we think is mispriced, and we stand to gain handsomely should the underlying value of the portfolio be even partially realised.

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During the month **Apollo Global Management, Inc. (Apollo)** announced that it would not make a formal bid for **John Wood Group plc (LSE:WG.) (Wood Group)**, following several incrementally higher indicative proposals. The share price reacted very negatively to the news.

Despite the short-term sell-off, we think Wood Group should outperform market expectations over the medium term given its focus on lower risk, modular, cost-reimbursable work, and exposure to attractive end markets.

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Announcement released to the market with the authorisation of:

David Lamm	**Adam Saunders**
Chief Investment Officer	Portfolio Manager