Investment & NTA Update

30 November 2021

NGE Capital Summary

ASX ticker	NGE
Share price (30 Nov 21)	$0.715
Shares outstanding	36,169,127
Market cap	$25.9m
NTA per share before tax	$0.913
NTA per share after tax	$0.968
NTA before tax	$33.0m
NTA after tax	$35.0m

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 Nov 2021	31 Oct 2021
NTA per share before tax	$0.913	$0.920
NTA per share after tax	$0.968	$0.975

NTA Per Share Performance Summary

			Since inception[1]	
1 month	Year-to -date	Last 12 months	(p.a.)	(cum.)
-0.8%	16.6%	21.9%	12.3%	79.0%

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	17.4%
Metals X	ASX:MLX	12.2%
Evolve Education Group	ASX:EVO	5.6%
Allegiance Coal	ASX:AHQ	5.1%
Jupiter Mines	ASX:JMS	5.0%
Sprott Physical Uranium Trust	TSX:U.UN	4.8%
Geo Energy Resources	SGX:RE4	4.5%
International Petroleum	TSX,STO:IPCO	1.9%
Austin Engineering	ASX:ANG	1.9%
Base Resources	ASX:BSE	1.8%
Silver ETFs	SILJ, SLV, SIL	1.6%
Consorcio ARA	MEX:ARA	1.6%
Undisclosed – 4 positions	Listed	2.1%
Net cash and other		34%
Total		100%

Unrecognised Tax Losses

The Company has ~$45 million of Australian unused and unrealised losses available as at 30 November 2021. In the aggregate these losses equate to a potential future tax benefit of ~$11m or ~$0.31 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).

Commentary

30 November 2021

In November we initiated a new portfolio position, buying 9.0m shares of **Jupiter Mines Limited (ASX:JMS)** at ~$0.225 per share.

JMS is a manganese ore producer whose sole asset is a 49.9% interest in the Tshipi Borwa mine in South Africa. The company became a pure-play producer after spinning out its pre-production iron ore assets in May 2021.

Manganese is a critical element in carbon steel production with no substitutes – one tonne of steel requires ~7kg pure Mn. Over 90% of Mn produced is consumed in steel production, with dry cell batteries becoming an increasingly important market. Demand is expected to remain strong from continued urbanisation, ramp-up of India's steelmaking capacity, and increased adoption of EVs.

We looked at JMS in detail earlier in the year after noticing a cluster of large insider purchases around 27c in November and December 2020, but held off investing as we felt there was not sufficient upside at the time. Since then, the share price has declined from a high of 37.5c in February to a low of 18c towards the end of November. The rout has followed a ~20% decline in the 37% Manganese Ore Index price (FOB Port Elizabeth) from ~US$4/dmtu to US$3.24/dmtu currently, and uncertainty around the future strategic direction of the company following a board spill at the end of October.

The spill was brought about by substantial shareholder and famed resources investor AMCI (7.4% holding), which is controlled by its co-founders billionaire Hans Mende (5.4% direct holding) and Fritz Kundrun (4.8%). The move was supported by largest shareholder Ntsimbintle (19.9%), which is controlled by Safika Holdings. Safika also holds a stake in Tshipi of ~37%, alongside ASX-listed **OM Holdings Limited (ASX:OMH)** which has a ~13% stake.

In the Notice of Meeting, Hans Mende laid out a desire for "improved returns (both dividends and capital appreciation)", a belief that "JMS can do more to maximize shareholder value", and that "JMS needs to do a better job of engaging with shareholders and the market generally". We did find it unusually difficult to set up a meeting directly with the former Managing Director, eventually only receiving a receptive ear after arranging a meeting via a broker. We also agree that the MD's remuneration, which included a bonus equal to 1% of dividends, was excessive for what is described as a "dividend pass through service"; the Tshipi mine has its own management team to oversee operations.

The upshot to the upheaval is that investors initially attracted to JMS' double digit dividend yield have been selling out on the prospect of lower future dividends, which has provided what we believe to be an attractive entry point for an investment.

Capital structure		
Share price (30-Nov-21)	A$	$0.185
Shares out.	m	1,959.0
Market cap	**A$m**	**362**
Cash [1]	A$m	69
EV	**A$m**	**294**

1 Includes share of attributable Tshipi cash.

Tshipi is a globally-significant open-pit mine containing mid-grade Mn ore. The mine reached steady-state production in 2014, and currently produces ~3.4Mtpa. Capacity can be increased beyond the primary crushing circuit capacity of ~3.6Mtpa by using mobile and semi-mobile equipment, and Tshipi has plans to ramp-up to 4.5Mtpa by 2023. However, such an expansion is predicated on Tshipi's outsourced mine operator, Moolmans, being able to achieve and sustain mining productivity at 1.5 million bcm per month using existing equipment. So far it has not quite been able to achieve these levels.

Tshipi contains 84.5Mt of 2P reserves at 36.25% Mn, providing a 25 year mine-life at current production. If 20% of the mine's significant resources (~423Mt at 33% Mn) can be converted to reserves, Tshipi's mine life could double to 50 years.

Tshipi produces two Mn products: High Grade Lumpy (36.5% Mn) and High Grade Fines (35.5% Mn). Lower grade ore (~33% Mn) is stockpiled and either blended with the higher-grade product when necessary or sold when the market demands. The company targets ~85% lumpy production, which achieves pricing equivalent (adjusted for Mn content) to the benchmark index. The Fines product receives a discount to benchmark.

Tshipi is an average-cost producer when factoring in the grade of ore mined, with a FOB cost of ~US$2.25/dmtu. Around 65% of the FOB cost is related to transportation (road and rail but excluding shipping) as the mine is ~1,000km from the main ports. The cost of rail is ~30% cheaper than road (~US$1.25/dmtu for rail vs ~US$1.75/dmtu for road), however rail network capacity constraints only allow for a 2.1Mtpa rail allocation under a services agreement with operator Transnet.

Tshipi's product is sold on a CIF basis to Asian customers. Whilst CIF prices have risen significantly in 2021, this has been in response to the explosion in shipping rates. FOB prices have actually declined. FOB prices should see some reprieve in the next 3-6 months as Chinese electricity curtailments ease, allowing ferroalloy smelters to bring production back online.

Under a long-term FOB Mn price forecast of US$4.00/dmtu we value JMS at ~A$0.46 per share under the current 3.4Mtpa production rate, suggesting ~150% upside to the month-end price of A$0.185. Based on these assumptions, Jupiter's 49.9% share should produce FCF (net of JMS corporate overhead) of ~A$90m against an EV of ~A$300m. If Tshipi can ramp up production to 4.5mtpa by FY25, we value JMS at ~$0.52 per share; JMS' share of FCF would grow to ~A$115m.

DCF sensitivity – WACC 10% (A$/share)

	LT Mn Benchmark Price (US$/dmtu)				
	$3.00	$3.50	$4.00	$4.50	$5.00
3.4Mtpa	0.20	0.33	0.46	0.59	0.72
4.5Mtpa from FY25	0.21	0.36	0.52	0.67	0.82

Whilst the new strategy of the company has yet to be defined, we think it would make sense to consolidate 100% of Tshipi at a sensible price. It would also be worth investigating the value-adding potential for JMS to provide product to the battery materials supply chain: substantial shareholder POSCO (6.9%) would be a good place to start. POSCO is currently working on a demerger of its steel-making business from its battery materials and green growth investments.

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Our investment in **Metals X (ASX:MLX)** has performed very well, after we acquired ~10.284m shares at an average price of ~A$0.195 in February. Since our initial purchase, the tin price has increased ~60% to ~US$39,900/t as at the time of writing, and the AUDUSD FX rate has decreased ~7% to ~0.715. At spot rates we value MLX's published mine plan – which is due to be updated – at ~A$1.00. This ignores any potential upside from conversion of further resources to reserves, optionality provided by existing infrastructure to tie in nearby tin deposits, and the impending nickel assets spinoff.

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During the month we sold 5m shares of **Geo Energy Resources (SGX:RE4)** at S$0.34 per share in order to de-risk what was an overweight position relative to the inherent risks. We still hold 5.25m shares, acquired at an average price per share of ~S$0.288 (taking into account dividends received).

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During the month we topped up our holding of **Austin Engineering (ASX:ANG)** slightly, taking our holding to 3.0m shares acquired at an average price of ~A$0.215 per share.

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Announcement released to the market with the authorisation of:

David Lamm	Adam Saunders
Chief Investment Officer	Portfolio Manager