Investment & NTA Update

30 November 2022

NGE Capital Summary

ASX ticker	NGE
Share price (30 Nov 22)	$0.735
Shares outstanding	36,000,000
Market cap	$26.5m
NTA per share before tax	$0.897
NTA per share after tax	$0.961
NTA before tax	$32.3m
NTA after tax	$34.6m

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

	30 Nov 2022	31 Oct 2022
NTA per share before tax	$0.897	$0.930
NTA per share after tax	$0.961	$0.994

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception[1] (p.a.)	Since inception[1] (cum.)
-3.5%	-8.3%	-1.7%	9.9%	76.0%

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	12.6%
Golden Energy and Resources	SGX:AUE	8.3%
John Wood Group plc	LSE:WG.	7.9%
Geo Energy Resources	SGX:RE4	5.8%
Metals X	ASX:MLX	5.5%
Sprott Physical Uranium Trust	TSX:U.UN	5.2%
Embark Education	ASX:EVO	5.2%
Danakali	ASX:DNK	5.1%
Jupiter Mines	ASX:JMS	4.7%
Undisclosed	Listed	2.5%
Net cash and other		37%
Total		100%

Unrecognised Tax Losses

The Company has ~$45 million of Australian unused and unrealised losses available as at 30 November 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 November 2022

We made the following portfolio changes in November:

- We initiated a new position in **Golden Energy and Resources Ltd (SGX:AUE)**, purchasing 3.20m shares at an average price per share of ~S$0.779. We outline the investment thesis below.
- We increased our position in **Danakali Limited (ASX:DNK)**, which we had begun building during October and now reveal. We hold 5.0m shares acquired at an average price per share of ~A$0.369. We discuss the investment thesis below.
- We increased our position in **Geo Energy Resources (SGX:RE4)**, and now hold 4.75m shares acquired at an average price per share of ~S$0.375 (accounting for dividends to be received).

•••

Golden Energy and Resources (SGX:AUE) (GEAR) caught our attention after the stock fell 25% on no news on 8 November, and seemingly dragged down **Geo Energy Resources (SGX:RE4)** with it. Indonesian coal miners listed on the Indonesia Stock Exchange were unaffected so it was a puzzling situation. The following day we had our answer: GEAR's controlling shareholder the Widjaja family is to take the company private at a bargain-basement price in a three-part transaction that is inter-conditional.

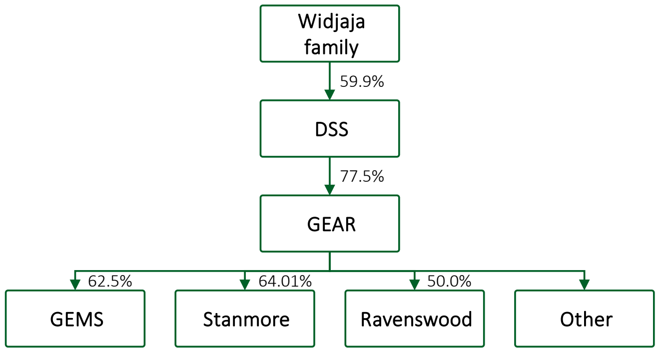
GEAR is a Singapore-listed conglomerate whose key assets comprise:

- a 62.50% shareholding in Indonesian thermal coal miner **Golden Energy Mines (IDX:GEMS) (GEMS)**;
- a 64.01% shareholding in ASX-listed met coal miner **Stanmore Resources (ASX:SMR)**; and
- a 50.0% stake in the unlisted Ravenswood Gold Mine in JV with EMR Capital.

GEAR also owns a grab-bag of smaller investments (a 13% shareholding in **Allegiance Coal (ASX:AHQ)** being an example).

The Widjajas, ranked Indonesia's second-richest family by Forbes in December 2021 with a US$9.7bn fortune, control GEAR via their 59.9% stake in **PT Dian Swastatika Sentosa Tbk (IDX:DSSA) (DSS)**, which in turn holds 77.5% of GEAR.

GEAR SIMPLIFIED CORPORATE STRUCTURE



GEAR CAPITAL STRUCTURE

		SGD	USD
FX rate (30-Nov-22)	1 SGD:	1.0000	0.7350
Share price (30-Nov-22)	$	$0.775	
Shares out.	m	2,638.1	
Market cap	**$m**	**2,045**	**1,503**
Standalone cash (30 Jun) [1]	$m		94
GEMS dividends received since 30-Jun	$m		163
Pro forma standalone cash	**$m**		**257**
Bank borrowings (30 Jun)			6
8.5% Senior Secured Notes due 2027	$m		346
8.5% Senior Secured Notes due 2026	$m		29
Gross standalone debt	**$m**		**381**
Net debt	**$m**		**124**
EV	**$m**		**1,627**

Source: IRESS, company filings, NGE analysis.

1. Ignores US$16.5m of restricted cash held as at 30 June pertaining to environmental rehab and interest reserve accounts held for the Senior Secured Notes and certain loan facility.

The Widjajas' three-pronged take-private plan is as follows:

<u>Proposed Distribution of GEMS shareholding</u>

GEAR is proposing to distribute its GEMS stake to shareholders via an in-specie dividend and capital reduction on a pro rata basis. GEAR shareholders can elect to receive either:

- 1.3936 GEMS shares (worth ~IDR 9,860 or ~S$0.86 based on GEMS's month-end share price) for each GEAR share held; or
- cash consideration of ~IDR 7,665 based on a cash price of IDR 5,500 per GEMS Share (worth ~S$0.67 based on the month-end FX rate).

To receive GEMS shares, shareholders must have an account with a broker able to take delivery of Indonesian-listed shares. Additionally, overseas shareholders are required to notify GEAR of a physical address in Singapore able to accept service of documents in relation to the Proposed Distribution.

Commentary

30 November 2022

Proposed Voluntary Delisting of GEAR

GEAR is seeking a voluntary delisting of its shares from SGX.

Conditional Exit Offer for GEAR shares

An entity controlled by the Widjajas is offering to acquire GEAR shares for S$0.160 cash per share, including the shares held by DSS.

The Exit Offer must be accepted, otherwise by default shareholders will continue to own shares in what will become a private company.

SUMMARY OF TRANSACTION CONSIDERATION

		GEMS Share Consideration		GEMS Cash Consideration	
		IDR	SGD	IDR	SGD
FX rate (30-Nov-22)	1 SGD:	11,485	1.0000	11,485	1.0000
GEMS price per share	$	7,075		5,500	
GEMS Shares ratio	#	1.3936		1.3936	
GEMS Consideration	$	9,860	$0.858	7,665	$0.667
Exit Offer	$		$0.160		$0.160
Total	$		$1.018		$0.827
Upside	*%*		*31.4%*		*6.8%*

The Proposed Distribution and Voluntary Delisting require shareholder approval and are inter-conditional on each other: approval must be obtained for both resolutions in order to be carried. The Exit Offer is conditional on GEAR shareholders voting in favour of the Proposed Distribution and Voluntary Delisting. The Exit Offer is also conditional on DSS' independent shareholders voting in favour of the Proposed Distribution and sale of DSS' shareholding in GEAR.

The stated rationale for the transaction is to reduce GEAR's exposure to thermal coal and allow GEAR to "expand its financing options which would otherwise have been relatively limited if it were to be continuously exposed to the energy coal business". In-specie distributing GEMS shares – which already trade at a cheap valuation – therefore seems like a reasonable move. Providing liquidity via a discounted cash option is also reasonable given the illiquidity of GEMS' shares.

However, the concurrent delisting and takeover of the remaining business for S$0.16 per share – a shocking ~70% discount to the readily calculable NAV per share of ~S$0.50 – is unreasonable and indefensible. The bulk of the ex-GEMS value is in GEAR's stake in Stanmore (worth ~S$0.55 per share), which is a large, liquid, high quality ASX-listed Australian met coal producer that itself is arguably undervalued. It is apparent that extracting the Stanmore stake for themselves at a rip-off price is the real purpose of the Widjaja proposals.

GEAR SOTP VALUATION

		SGD	AUD	IDR	USD
FX rate (30-Nov-22)	1 SGD:	1.0000	1.0820	11,485	0.7350
GEMS shareholding (62.5%)	m			3,676.5	
GEMS share price	$			7,075	
GEMS stake	$m	2,265		26,010,959	
Value per share	$	$0.858			
SMR shareholding (64.01%)	m		577.0		
SMR share price	$		$2.730		
SMR stake	$m	1,456	1,575		
Value per share	$	$0.552			
Ravenswood stake (50%) [1]	$m	0			
Investment securities [2]	$m	35			26
GEAR net debt	$m	-169			-124
Subtotal	$m	-134			
Value per share	$	-$0.051			
GEAR NAV per share	$	$1.360			

Source: IRESS, company filings, NGE analysis.

1. Zero value ascribed to GEAR's 50% stake in the Ravenswood Gold Mine.
2. Investment securities at book value as at 30 June 2022. Zero value ascribed to GEAR's other assets.

The company could have opted to stay listed on the SGX and allow shareholders continued exposure to its holding in Stanmore. Alternatively, it could have in-specie distributed its Stanmore holding to shareholders as part of the proposed transactions. However, the proposal to delist – and the inter-conditionality of the transactions – means that shareholders are being forced down a path to accept an offer that undervalues their company by at least ~S$900m – value that will accrue to the Widjaja family.

GEAR has to appoint an independent financial advisor (IFA) to "opine that the exit offer is fair and reasonable". It will be difficult for an IFA to provide a fair and reasonable recommendation under the Singapore Takeover Code, given the visibility of the market value of GEAR's Stanmore stake and the alternative options available to taking the company private (e.g. maintain SGX listing or in-specie distribute Stanmore shares).

We think there is a reasonable chance of a bump in the Exit Offer in order to gain a favourable recommendation from the IFA and get the deal over the line. If the deal goes through without a bump then we stand to make a small profit. If the deal is pulled or rejected by shareholders, the stock may drop initially but we think the downside is limited as the stock was trading close to ~S$0.90 prior to the deal announcement (a ~35% discount to NAV).

•••

Commentary

30 November 2022

We took a position in **Danakali (ASX:DNK)** after Chinese listed civil engineering and construction company **Sichuan Road & Bridge Group (SHG:600039) (SRBG)** executed a term sheet to acquire Danakali's 50% interest in the Colluli Potash Project located in Eritrea.

Colluli is 100% owned by Colluli Mining Share Company (CMSC), a 50:50 joint venture between Danakali and Eritrean National Mining Corporation (ENAMCO). ENAMCO is an Eritrean government-owned entity.

Danakali is somewhat of a forced seller, after the US sanctioned several Eritrean entities and individuals in November 2021. Whilst the sanctions do not apply to ENAMCO, CMSC or Danakali, they have made doing business in Eritrea very difficult and hindered Danakali's ability to raise funding. CMSC was required to have spent US$200m on the project by mid-December but due to Covid-19 and US sanctions that has not been possible. Sichuan's bid, made as part of a competitive sale process, significantly undervalues Colluli but is reasonable in the circumstances.

Colluli is a large, strategic, long-life asset with favourable economics that has been progressed to an advanced stage. Potassium (in the form of potash) is one of three key fertiliser chemical compounds (the other two being nitrogen and phosphorous) that provide crops with nutrients to enable them to grow bigger, faster, and to produce more food. Cheap sources of fertiliser are key to providing food security and lowering food costs – two issues that are front of mind in today's geopolitical and high gas price environment.

Colluli holds estimated 2P Reserves of ~1,100Mt at 10.5% K_2SO_4 for 203Mt of contained Sulphate of Potash (SOP) equivalent and an almost 200-year mine life. The mineralisation is shallow allowing for open-cut mining, and is amenable to simple processing. The project is also logistically advantaged as it lies only ~75km from the Red Sea coast.

The project is to be developed via a two-stage process, with Phase I targeting annualised SOP production of 472ktpa. Based on a FEED study from 2018 which assumed a long-term SOP price of US$569/t, Phase I of the project has an upfront capex cost of US$302m, average annual undiscounted FCFs of US$88m, and an after-tax NPV of US$505m (100% basis).

SOP prices have risen considerably this year, increasing at one point to above US$1,200/t. Long-term prices are likely to stay elevated due to reduced fertiliser flows out of Russia and Belarus, two of the world's largest producers. At an assumed long-term SOP price of US$800/t, Colluli could produce ~US$130-140m of FCF after allowing for some cost inflation.

DANAKALI CAPITAL STRUCTURE AND DEAL OVERVIEW

		AUD	USD
FX rate (30-Nov-22)	1 AUD:	1.0000	0.6790
Share price (30-Nov-22)	$	$0.330	
Shares out.	m	368.3	
Market cap	$m	121.6	
Cash balance (30-Sep-22)	$m	16.3	
Sale of 50% of Colluli			
CMSC equity consideration	$m		135.0
Shareholder loan - upfront	$m		15.5
Shareholder loan - deferred 6 mths	$m		15.5
Gross proceeds	$m		166.0
Taxes and transaction costs	$m		-45.0
Net proceeds	$m	178.2	121.0
Pro forma cash	$m	194.5	
Pro forma cash	$/sh	$0.528	

Source: IRESS, company filings.

A binding offtake agreement has been signed with Eurochem for up to 100% of Phase I SOP production, and a US$200M debt financing term sheet has been executed. All material permits are in place. The Eurochem offtake agreement can be cancelled by Danakali at no cost, with management having had the foresight to envisage such a sale scenario when drafting the offtake agreement.

The SRBG term sheet provides for a total pre-tax cash consideration of US$166m, comprising:

- US$135m consideration for Danakali's 50% equity stake in CMSC; and
- ~US$31m to purchase the shareholder loan Danakali has provided to CMSC to fund development of the project to date, split into an upfront payment of US$15.5m and a deferred payment for the balance of the loan on the 6-month anniversary of the deal completion date.

Danakali expects to receive ~US$121m of net proceeds after tax (~A$178m at month-end AUD:USD FX rate of 0.679). Combined with the company's existing cash balance as at 30 September, Danakali will end up with ~A$195m of pro forma cash or ~A$0.53 per share.

Management intends to return ~90%+ of the sale proceeds to shareholders via an equal pro rata off-market buyback, and has stated that at the current USD exchange rate ~A$170m or ~$0.46 per share would be returned. The company will retain ~A$25m (~A$0.07 per share) to look for a new potash project in a more stable jurisdiction.

Once an SPA is executed between buyer and seller, the transaction is expected to be completed between March and May 2023. A shareholder vote is required.

Commentary

30 November 2022

Whilst the deal is not yet binding, we think it has a very high chance of succeeding. SRBG has a long history of operations in Eritrea, and is already in partnership with ENAMCO on a copper/gold project. The world is short cheap sources of fertiliser, and the Chinese are in the box seat to acquire a Tier 1 asset they have coveted for some time for a fire sale price in a jurisdiction they know well. It would make little sense to pull out now.

•••

Announcement released to the market with the authorisation of:

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