

Investment & NTA Update

30 November 2024



NGE Capital Summary

ASX ticker	NGE
Share price (30 Nov 24)	\$1.120
Shares outstanding	35,553,223
Market cap	\$39.8m
NTA per share before tax	\$1.302
NTA per share after tax	\$1.395
NTA before tax	\$46.3m
NTA after tax	\$49.6m

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	Leslie 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 2024	31 Oct 2024
NTA per share before tax	\$1.302	\$1.334
NTA per share after tax	\$1.395	\$1.427

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception ¹ (p.a.)	(cum.)
-2.4%	12.2%	18.9%	12.4%	155.3%

Note: Returns are net of all expenses. FYE 31 December.
1 From 30 Nov 2016, the date on which NGE became a LIC.

Portfolio Composition

Company	Ticker	% of NTA
Yellow Cake plc	LSE:YCA	15.4%
Pioneer Credit	ASX:PNC	10.3%
Metals X	ASX:MLX	8.0%
Indiana Resources	ASX:IDA	7.9%
Cash Converters International	ASX:CCV	7.1%
Sprott Physical Uranium Trust	TSX:U.UN	6.1%
Embark Early Education	ASX:EVO	5.7%
Industrial Logistics Properties	NAS:ILPT	4.8%
Jupiter Mines	ASX:JMS	4.6%
Northern Ocean Ltd.	OSL:NOL	4.5%
Capricorn Energy PLC	LSE:CNE	4.5%
K92 Mining Inc.	TSX:KNT	4.1%
John Wood Group plc	LSE:WG.	2.2%
Danakali	ASX:DNK	2.1%
Achieve Life Sciences	NAS:ACHV	1.5%
Net cash and other		11%
Total		100%

Unrecognised Tax Losses

The Company has ~\$28 million of Australian unused and unrealised losses available as at 30 November 2024. In the aggregate these losses equate to a potential future tax benefit of ~\$7m or ~\$0.20 per share (of which only ~\$3.3m or ~\$0.093 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 2024



During November and subsequent to month end we made the following notable portfolio changes:

- we added to our holding in **Northern Ocean Ltd. (OSL:NOL)**, a position initiated in July, after the company announced a large drilling contract win. We held ~1.7m shares at month end and currently hold 2.0m shares. We lay out the investment thesis below;
- we added to our holding in **Cash Converters International Limited (ASX:CCV) (Cash Converters)**, and held 14.0m shares at month end. We noted **EZCORP, Inc. (NAS:EZPW)** management's bullish commentary on the most recent earnings call that "one of the most exciting parts of our pipeline is our...strategic investments", which includes its ~44% holding in Cash Converters; and
- we participated in a small way in **Pioneer Credit Limited's (ASX:PNC) (Pioneer)** \$10m placement done at \$0.58 per share. The proceeds will be put towards the purchase of additional Purchased Debt Portfolios, enabling Pioneer to increase FY25 PDP investment guidance from \$80m to at least \$90m. Pioneer also firmed up FY26 NPAT guidance to \$18m+ (from previously a number it had been targeting). We now hold ~7.50m shares.

•••

Northern Ocean Ltd. (OSL:NOL) (Northern Ocean or Company) is a Bermuda-incorporated, Oslo-listed drilling contractor to the international oil and gas industry. The Company owns two 6th generation ultra deepwater harsh environment semi-submersible drill rigs, the Deepsea Mira and the Deepsea Bollsta. Construction of these huge structures was completed in 2018 and 2019 respectively, and they are amongst the most modern and technologically advanced harsh environment rigs in the world. The rigs are capable of drilling in water depths of up to 10,000ft in the most demanding markets; to date the Company's activities have been focused in Norway and West Africa.

The rigs' marketing, management and day-to-day operations have been outsourced to a third-party manager, Odfjell Drilling AS, a subsidiary of **Odfjell Drilling Ltd. (OSL:ODL) (Odfjell)**. Odfjell owns and operates four UDW HE semi-submersibles, and acts as third-party operator for a further four (including the two on behalf of Northern Ocean). Unsurprisingly, Odfjell has locked in long-term drilling contracts at day rates of ~US\$400-500k for its four owned rigs, whilst the backlog of work for its four managed rigs has lagged.

Northern Ocean is a controlled entity of Norwegian billionaire shipping magnate John Fredriksen via his associated entity Hemen Holding Limited (Hemen), which holds a ~54% stake. Hemen went above 40% following a recent private placement thereby triggering a requirement to make an offer for the remaining shares under Norwegian securities law. Hemen unashamedly made an offer at the *bare minimum* NOK 7 per share required under law and picked up additional shares. Fredriksen has also provided a US\$215m loan facility to the Company via related party entity Sterna Finance Ltd.

The Company is a spinoff of **Northern Drilling Ltd. (NODL)**, which was founded by Fredriksen and listed on the Oslo Stock Exchange in 2017. NODL was set up to buy drilling vessels still under construction at shipyards at distressed prices following a boom-bust cycle in the offshore market.

NODL acquired Deepsea Mira for US\$365m and Deepsea Bollsta for US\$400m from shipbuilder **HD Hyundai Heavy Industries Co. Ltd (KRX:329180)** after their respective customers cancelled the orders citing delivery delays. The two rigs were purchased at a ~50% discount to their build cost. NODL also acquired two UDW drillships. Northern Ocean, a wholly owned subsidiary of NODL that in turn held the two semis, was spun out in early 2020 in a difficult capital raising environment. Funds were needed to prepare Deepsea Bollsta for its first drill job, a 10-well firm contract with Lundin Petroleum that was due to commence in 2Q20. Northern Ocean was able to raise capital as a separate entity given both its rigs had signed long-term contracts at the time.

Since then the Company has endured choppy waters, with day rates bottoming during Covid-19 to as low as ~US\$125k per day, several operational incidents under the previous third-party operator Seadrill Ltd., and a lack of firm backlog at sufficient day rates requiring constant equity raises and debt refinancings to plug the gap.

The good news, however, is that the Company's situation has improved markedly over the past few months and in our view the current setup offers a very attractive risk-reward. The Company is well positioned to benefit from: improving supply/demand dynamics in the deepwater drilling market; stable oil prices that have been rangebound between ~US\$70-90/bbl over the past 24 months; day rates of US\$500k+ being signed on long-term contracts; a recent equity and debt recapitalisation that eased pressure on the balance sheet; a refreshed and incentivised management team; a string of recent contract wins that has increased firm backlog from as low as US\$62m at the end of May to US\$488-507m currently; and the potential for a further debt

Commentary

30 November 2024



refinance to lengthen the term (and perhaps reduce the current ~10% p.a. interest cost).

At the month-end share price of NOK 8.76 and implied EV of ~US\$680m, Northern Ocean's rigs are being valued at ~US\$340m apiece. This is a significant discount to Odfjell's implied valuation of ~US\$420m per rig, despite its rigs having an average age of ~11 years versus Northern Ocean's at ~5.5 years. Applying Odfjell's valuation implies a share price of ~NOK 14, a ~60% premium. A recent transaction involving the Transocean Norge, which is a very similar rig to Northern Ocean's, valued the 2019 built, 6th generation Moss Maritime CS60 semi at ~US\$637m. At that valuation, Northern Ocean's equity value per share is ~NOK 30, ~3.5x higher than the current price.

Further highlighting the large discount to asset value that Northern Ocean's shares offer, in its [Sep-24 presentation](#) Odfjell noted that a newbuild HE floater would likely take 4 years to build from project sanction, cost US\$800-1,000m, shipyards would likely require an upfront payment of ~50%, and a day rate of at least US\$720k with a 5-year contract would be needed to justify the investment. At the midpoint of that range Northern Ocean's equity would be worth ~NOK 49/sh, or ~5.6x higher than the current price.

We increased our holding during the month after the Company announced a long-term contract win with a subsidiary of **Equinor ASA (OSL:EQNR; NYS:EQNR)** for the Deepsea Bollsta to operate in Norway. The contract is expected to commence in 2H25 and has an estimated firm duration of two years, plus five one-year optional periods. The implied day rate for the firm period is ~US\$460k, though that does not include ~US\$80m of upgrades and mobilisation-related costs that are also being covered by Equinor.

Based on the illustrative earnings sensitivity analysis provided by Northern Ocean in its [Sep-24 presentation](#), we estimate that with both rigs on a \$460kpd rate the Company should generate ~US\$175m p.a. of FCF prior to debt service; this drops to ~US\$125m after interest expense but before principal paydown. Those numbers look very attractive on a market cap of ~US\$240m, and would enable rapid paydown of debt, the potential for dividends, and the ability to fulfil management's ambition to consolidate "orphaned" single-owner HE rigs.

This is a levered bet to be sure, and the achievement of those numbers will require further contract wins for Deepsea Mira; the Company is now focusing all marketing efforts on increasing Mira's order backlog. Given the opportunity set in West Africa and Norway, we are confident in management's ability to deliver.



Announcement released to the market with the authorisation of:

David Lamm
Chief Investment Officer

Adam Saunders
Portfolio Manager