

Investment & NTA Update

31 October 2022



NGE Capital Summary

ASX ticker	NGE
Share price (31 Oct 22)	\$0.740
Shares outstanding	36,000,000
Market cap	\$26.6m
NTA per share before tax	\$0.930
NTA per share after tax	\$0.994
NTA before tax	\$33.5m
NTA after tax	\$35.8m

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

	31 Oct 2022	30 Sep 2022
NTA per share before tax	\$0.930	\$0.894
NTA per share after tax	\$0.994	\$0.957

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception ¹ (p.a.)	(cum.)
4.1%	-5.0%	1.1%	10.7%	82.4%

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	14.4%
John Wood Group plc	LSE:WG.	8.3%
Sprott Physical Uranium Trust	TSX:U.UN	6.1%
Embark Education	ASX:EVO	5.3%
Geo Energy Resources	SGX:RE4	5.1%
Metals X	ASX:MLX	5.0%
Jupiter Mines	ASX:JMS	4.8%
Undisclosed	Listed	2.3%
Undisclosed	Listed	0.5%
Net cash and other		48%
Total		100%

Unrecognised Tax Losses

The Company has ~\$44 million of Australian unused and unrealised losses available as at 31 October 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

31 October 2022



We made the following portfolio changes in October:

- We reduced our position in **Yellow Cake plc (LSE:YCA)** and held ~624k shares at month end. Since month end we have further reduced our holding to 575k shares. In total, we sold 337k shares at an average price per share of ~GBP4.30 in October and November month-to-date. We acquired our stake in Yellow Cake at an average price per share of ~GBP2.26.
- We bought back into **Geo Energy Resources (SGX:RE4)**, acquiring 4.0m shares at an average price per share of ~S\$0.387.
- We initiated a small new position in a developing special situation that we may disclose in the future.

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We previously wrote up **Geo Energy Resources (SGX:RE4)** in our [September 2021 NTA statement](#). We exited our position in April 2022 for a tidy profit, noting at the time that “[w]e may revisit the thesis if the share price falls sufficiently below our estimate of intrinsic value”. The subsequent share price decline, build in the company’s cash balance and consistently high benchmark Indonesian ICI 4 thermal coal prices means the company appears very cheap to us once again.

Assuming production drops from the current 12.0Mt rate to 11.5Mt in 2023 per the mine plan published in February 2022, and benchmark coal prices average US\$70/t (for reference the spot price is ~US\$92/t), we estimate the company could generate ~US\$245m of free cash flow over the next 12 months. That compares to an Enterprise Value of ~US\$210m. It is also worth noting that the company’s two key mines, TBR and SDJ, have ~5½ years of remaining mine life on a 2P reserves basis.

The company has been surprisingly timid on using its 10% on-market buyback facility despite its large cash balance and a share price that looks to be trading well below NAV, even assuming much lower coal prices. Indeed, the recent buyback of 3m shares at an average price per share of ~S\$0.36 was the first such purchase in 9 months. However, dividends have been more forthcoming: a total of S\$0.12 has been paid out in the last 12 months.

There is a good chance that thermal coal prices stay elevated relative to historical levels for the foreseeable future, as dislocation in the European gas market creates knock-on demand for coal-fired power. As Worley’s (ASX:WOR) Chairman noted at the 2022 AGM, “The energy transition is a multidecadal journey and current supply disruption issues in Europe demonstrate the dual challenge of securing supply while transitioning to a net zero future.”

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GEO ENERGY RESOURCES CAPITAL STRUCTURE

		SGD	USD
FX rate (31-Oct-22)	SGD:USD	1.0000	0.7070
Share price (31-Oct-22)	\$	\$0.390	
Shares out.	m	1,406.0	
Market cap	\$m	548.3	387.7
Cash balance (10-Aug-22)	\$m		206.0
S\$0.02 dividend paid Sep-22	\$m	-28.2	-19.9
Share buyback (3-Oct-22)	\$m	-1.1	-0.8
Pro forma cash	\$m		185.3
Debt (30-Jun-22)	\$m		3.5
Net cash	\$m		-181.8
Minorities	\$m		2.3
EV	\$m		208.1

Source: IRESS, company filings.

Even at much lower coal prices Geo Energy should still generate significant cash flow relative to the valuation being ascribed by the market, as shown in the earnings sensitivity analysis below.

NTM FREE CASH FLOW

		ICI4 benchmark (US\$/t)						
		\$40	\$50	\$60	\$70	\$80	\$90	\$100
Prod'n (Mt)	11.0	112	153	193	233	273	314	354
	11.5	118	160	202	244	286	328	370
	12.0	124	168	211	255	299	343	387

EV / NTM FCF

		ICI4 benchmark (US\$/t)						
		\$40	\$50	\$60	\$70	\$80	\$90	\$100
Prod'n (Mt)	11.0	1.9x	1.4x	1.1x	0.9x	0.8x	0.7x	0.6x
	11.5	1.8x	1.3x	1.0x	0.9x	0.7x	0.6x	0.6x
	12.0	1.7x	1.2x	1.0x	0.8x	0.7x	0.6x	0.5x

The undemanding valuation should provide us with a reasonable margin of safety, given we are investing at less than 1x FCF and at a ~30% trailing dividend yield.

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Announcement released to the market with the authorisation of:

David Lamm
Chief Investment Officer

Adam Saunders
Portfolio Manager