Investment & NTA Update

30 September 2021

NGE Capital Summary

ASX ticker	NGE
Share price (30 Sep 21)	$0.720
Shares outstanding	36,169,127
Market cap	$26.0m
NTA per share before tax	$0.914
NTA per share after tax	$0.969
NTA before tax	$33.1m
NTA after tax	$35.1m

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 Sep 2021	31 Aug 2021
NTA per share before tax	$0.914	$0.867
NTA per share after tax	$0.969	$0.923

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception[1] (p.a.)	Since inception[1] (cum.)
5.4%	16.8%	36.7%	12.8%	79.2%

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	20.7%
Metals X	ASX:MLX	11.5%
Undisclosed – 4 positions	Listed	6.7%
Allegiance Coal	ASX:AHQ	5.9%
International Petroleum	TSX,SEK:IPCO	1.9%
Vita Group	ASX:VTG	1.9%
Consorcio ARA	MEX:ARA	1.6%
Base Resources	ASX:BSE	1.5%
Silver ETFs	SILJ, SLV, SIL	1.5%
Sprott Physical Uranium Trust	TSX:U.UN	0.7%
Net cash and other		46%
Total		100%

Unrecognised Tax Losses

The Company has ~$45 million of Australian unused and unrealised losses available as at 30 September 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).

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Commentary

30 September 2021

During September **Vita Group Limited (ASX:VTG)** announced it had agreed to sell its Telstra franchised store network and Sprout accessories business to Telstra for $110m cash ($0.66 per share). Telstra had been offering individual and small franchisees 2.4x *normalised pre-Covid* EBITDA for their businesses as part of Telstra's transition to a full corporate ownership model, so that was widely presumed to be a floor price for Vita Group's large, well-run store network that included the added kicker of the Sprout business. It was notable by omission that no transaction multiples were mentioned in Vita Group's announcement. Whilst it may have made for bad publicity for Telstra to squeeze mum and dad small business owners during Covid, Telstra seemed to have no qualms leveraging Covid uncertainty and driving a hard bargain from a sophisticated listed company.

Our original investment thesis was that following a deal (at a price at least as good as small franchisees), Vita Group would be able to return capital to shareholders at a level that would cover our entry price (~82c accounting for dividends received) and leave us with a free option on the roll-out of the promising Artisan Skin Health and Wellness clinic network. The thesis didn't quite play out, so we sold down ~2/3 of our position by month end at ~86c per share.

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During the month we initiated two new positions in the portfolio that we may discuss in due course once we have settled on appropriate portfolio weightings.

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After 30 September we initiated a new position in **Geo Energy Resources Limited (SGX:RE4)**, buying 10.50m shares at ~S$0.315 per share. Geo Energy is an Indonesian thermal coal miner listed on the Singapore Stock Exchange that sells ~60% of its low-quality coal to China. Putting aside the obvious red flags, Geo Energy is currently making money hand over fist thanks to a near tripling of its benchmark coal price, the ICI4 Indonesian Coal Index, to ~US$120/t since the start of the year, whilst our entry price represents a ~70% increase in the share price over the same period.

Geo Energy's key assets are its owned and operated PT Sungai Danau Jaya (SDJ) and PT Tanah Bumbu Resources (TBR) coal mines located in Kalimantan. It outsources all mining operations to BUMA, a third-party independent mining contractor. SDJ achieved sales of 1.9Mt of coal in 1H21, TBR 3.4Mt and BEK, a smaller mine that has just restarted operations, sold 0.1Mt, for a group total of 5.4Mt.

Indonesia's Ministry of Energy and Mineral Resources sets an annual national coal production target, and allocates quotas to individual coal mines. A key condition of the quotas is that producers must sell at least 25% of production to the state-owned power utility Perusahaan Listrik Negara (PLN) under a system known as the Domestic Market Obligation. DMO sales are capped at US$38/t for 4,200 GAR coal. The remaining 75% of production can be sold for export at market prices.

On 20 September, Geo Energy announced its annual quota had been increased from 10Mt to 11.5Mt. The company also stated that in "just one month of July 2021, the Group achieved an EBITDA of US$26.5 million and net earnings of US$18.6 million." During July, the ICI4 price fluctuated between US$61-68/t. For comparison, during 1H21 the ICI4 price averaged ~US$48/t and the company achieved EBITDA of US$78m and net profit of US$49m for the entire period. The benchmark price is now ~US$120/t.

At our entry price, the fully diluted market cap is ~S$470m (~US$350m) and the EV ~US$265m (adjusted for dilutive securities expected to be exercised and redemption of outstanding bonds). For this quarter, we estimate that the company will sell ~3.4Mt of coal (including incremental production under higher quota). If we assume 75% of sales achieve an average sale price of US$95/t, cash costs of production increase from their historical range of US$20-30/t to US$35/t (likely higher as a portion of opex is linked to the coal price), run-rate G&A and other expenses, D&A of US$20m, tax at 22%, and capex of $2m, then the company could make ~US$120m of FCF in this quarter alone.

There is a real possibility that coal prices trend higher yet as China approaches winter amidst an energy crisis.

One key risk is uncertainty around what the board decides to do with all the excess cash. The company has a dividend policy of paying out 30% of profits, and a 10% buyback is in place until the next AGM. It will certainly be a very interesting story to watch over the coming months.

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Announcement released to the market with the authorisation of:

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