Investment & NTA Update

30 September 2022

NGE Capital Summary

ASX ticker	NGE
Share price (30 Sep 22)	$0.700
Shares outstanding	36,000,000
Market cap	$25.2m
NTA per share before tax	$0.894
NTA per share after tax	$0.957
NTA before tax	$32.2m
NTA after tax	$34.5m

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 2022	31 Aug 2022
NTA per share before tax	$0.894	$0.907
NTA per share after tax	$0.957	$0.971

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception[1] (p.a.)	Since inception[1] (cum.)
-1.5%	-8.7%	-2.2%	10.1%	75.2%

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	19.8%
John Wood Group plc	LSE:WG.	7.5%
Capricorn Energy plc	LSE:CNE	7.4%
Sprott Physical Uranium Trust	TSX:U.UN	5.8%
Evolve Education Group	ASX:EVO	5.4%
Metals X	ASX:MLX	5.4%
Jupiter Mines	ASX:JMS	5.0%
Undisclosed	Listed	1.8%
Net cash and other		42%
Total		100%

Unrecognised Tax Losses

The Company has ~$45 million of Australian unused and unrealised losses available as at 30 September 2022. In the aggregate these losses equate to a potential future tax benefit of ~$11m or ~$0.32 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 September 2022

At the end of September **Capricorn Energy plc (LSE:CNE)** announced a proposed merger with **NewMed Energy Limited Partnership (TAE:NWMD)** and its intention to terminate the heavily-criticised merger with **Tullow Oil plc (LSE:TLW)**.

The new merger is effectively a reverse takeover, whereby 2.337344 new Capricorn shares will be issued to NewMed unitholders for each NewMed participating unit held. The combined group will be renamed NewMed Energy. The combination will result in Capricorn shareholders holding ~10.3% of the combined group, with NewMed unitholders holding the remaining ~89.7%. **Delek Group Ltd. (TAE:DLEKG)** controls ~54% of NewMed's units, and will hold ~48% of the shares of the combined group on completion.

Capricorn is to pay out a special cash dividend of US$620m (~£1.72 per share after taking into account of employee share plans) immediately prior to merger completion. Based on NewMed's share price at month end (ILS 8.57 or ~£2.16), Capricorn shareholders' scrip consideration is worth ~£0.925 per share. In total, Capricorn shareholders are to receive ~£2.65 in value, though we note that NewMed's share price has declined ~3% in GBP terms since month end.

NewMed is an oil and gas producer listed on the Tel Aviv Stock Exchange with a market cap of ~ILS 10.1bn (~US$2.8bn). NewMed is very leveraged, with gross debt of ~US$2.2bn and net debt of ~US$2.0bn, for an EV of ~US$4.8bn.

NewMed's key asset is a 45.34% stake in the monster Leviathan gas field located offshore Israel. Leviathan has been in production since 31 December 2019. Chevron (39.66%) is operator of the field. Gas is delivered to customers in Israel, Egypt and Jordan via pipeline under long-term take-or-pay contracts that are linked to prevailing Brent oil prices.

On a 100% basis, Leviathan holds an estimated 22.3tcf of ultimate recoverable gas and is expected to produce ~10.65BCM (~376bcf or ~63mmboe) in 2022.

We estimate NewMed could generate FCFE of ~US$300m in 2022 assuming an average realised price of US$6.00/mcf. That would put the company on a P/FCFE multiple of ~9.4x, which is reasonable given the long-life of the asset, strong cash flow generation potential due to low operating costs and low ongoing capex requirements, options to increase production through the Leviathan Phase 1B capacity expansion project, and the potential to add liquefaction capacity in the future so as to be able to export to more lucrative gas markets. NewMed also has a 30.0% interest in the undeveloped Aphrodite gas field which is estimated to hold ~3.5tcf of gas (2C Resource 100% basis), and may be tied back to the existing Egyptian gas network.

NewMed's Leviathan stake was valued at an NPV of ~US$4.30bn on a 2P reserves basis as at 31 December 2021, assuming a 10% discount rate and future Brent oil prices of ranging from ~US$70-86/bbl.

Whilst the proposed NewMed deal certainly makes more financial and common sense for Capricorn shareholders than the Tullow merger proposal, we feel shareholders are still being short-changed by Capricorn's board. We are confounded by the board's seeming desperation to do a deal – any deal – as quickly as possible.

Indeed we think alternative options – such as harvesting Capricorn's cash flows and making ongoing capital distributions to shareholders – would be a preferable outcome. NewMed, it seems, gets access to a quick and cheap way to gain a premium listing on the London Stock Exchange and at the same time cleans up a complicated corporate structure. It's not clear what Capricorn shareholders get that they couldn't already by buying listed shares of NewMed directly. We doubt there will be many synergies with NewMed's super lean 22-person head office, though perhaps some of their frugality will rub off on Lothian Road HQ.

The result is that on an ex-dividend basis, Capricorn's assets are being valued at just ~£290m (~US$310m). We estimate Capricorn's Egypt assets alone are likely worth ~US$250-350m, net of contingent payments owed to Shell. In addition Capricorn's assets comprise:

- a ~$114m trade receivables balance owing by the government entity Egyptian General Petroleum Corporation as at 30 June 2022;
- UK North Sea 2022-2025 earn-outs that – per Capricorn's 1H22 interim report – "at 30 June 2022 had a risk-weighted fair value of US$240.9m". Furthermore, "[t]he forecast FY2022 earn out payment, based on US$100/bbl average Brent price and production associated with the assets of 15,500 bopd, is ~US$136m";
- Senegal earn-out that, based on **Woodside Energy Group's (ASX:WPL)** commentary on 30 August that Sangomar is on track for first oil in 2023, should pay out US$100m (worth ~US$88m on a present value basis); and
- Exploration assets (zero value ascribed).

Deducting corporate G&A expense capitalised at 2x ($40m) and 2H22 exploration and appraisal capex to be spent of ~US$30-40m, results in an estimated valuation range of ~US$625-715m (~£580-665m) or ~£1.85-2.10 per share on an ex-dividend basis: about double the implied value of the NewMed scrip.

We calculate – based on the limited information currently available – that ~20m share plan shares (~6.5% of the basic shares outstanding) that have not yet been awarded will be entitled to the special dividend, netting a ~£35m windfall for insiders. Perhaps more detail will be provided in the deal documents when they are published.

Slightly exasperated, we have decided to exit our holding in Capricorn after month-end for a small overall profit.

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Announcement released to the market with the authorisation of:

David Lamm	Adam Saunders
Chief Investment Officer	Portfolio Manager