

**NGE CAPITAL LIMITED SUMMARY**

ASX ticker	NGE
Share price (31-Jul-19)	\$0.790
Shares outstanding	37,194,774
Market cap	\$29.4m
NTA per share before tax	\$0.914
NTA per share after tax	\$0.969
NTA before tax	\$34.0m
NTA after tax	\$36.0m

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.

INVESTMENT STRATEGY

NGE has a flexible investment mandate and invests according to a defined set of investment principles, summarised as follows:

- Only invest in a compelling opportunity, otherwise hold cash;
- Invest based on fundamental analysis;
- Target investments that can generate strong returns with an adequate margin of safety; and
- Aim to hold a concentrated portfolio of high conviction investments.

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 (NTA) PER SHARE

	31 Jul 2019	30 Jun 2019
NTA per share before tax	\$0.914	\$0.732
NTA per share after tax	\$0.969	\$0.786 ⁽¹⁾

(1) Adjusted from 30 June Investment and NTA update following Half Year accounts review.

NTA PER SHARE PERFORMANCE SUMMARY

	1 month	Year-to-date	Last 12 months	Since inception ⁽¹⁾	
				(p.a.)	(cum.)
	24.9%	19.5%	12.9%	24.5%	79.3%

Note: Returns are before tax and net of all operating expenses. As an internally managed LIC NGE does not incur external management and performance fees.

(1) From 30 November 2016, the date on which NGE became a LIC.

TOP HOLDINGS (% OF NTA)

Company	Ticker	%
Karooon Energy	ASX:KAR	41.5%
United Company RUSAL	HKE:0486	23.0%
Yellow Cake plc	LSE:YCA	13.0%
Horizon Oil	ASX:HZN	7.4%
Base Resources	ASX:BSE	5.9%

PORTFOLIO COMPOSITION

	31 Jul 2019
Listed equities	93%
Net cash and other	7%
Total	100%

UNRECOGNISED TAX LOSSES

The Company has ~\$39 million of Australian unused and unrealised losses available as at 31 July 2019. In the aggregate these losses equate to a potential future tax benefit of ~\$10.6m or ~\$0.29 per share (of which only \$2.0m or \$0.054 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).

MONTHLY COMMENTARY

NGE's portfolio produced a return of 24.9% for the month of July. On a rolling 12-month basis, the portfolio is up 12.9%.

KAROON ENERGY INVESTMENT UPDATE

NGE's strong performance for July was primarily driven by the share price appreciation of our largest holding, **Karooon Energy Ltd (ASX:KAR) (Karooon)**. NGE held 8.5 million Karooon shares at month end, acquired at an average cost of ~\$0.89 per share. We bought in at a ~32% discount to cash backing of ~A\$1.31 per share, which provided us with an adequate margin of safety and exposure to any future potential upside in the event that the company delivered on its long-held ambition to acquire a tier 1 producing asset.

In our [February Investment and NTA update](#), where we discussed Karooon in detail, we wrote that "if the company does acquire an attractive producing asset, the market could well get excited again". Market interest in Karooon's shares increased after the company announced it had signed a binding agreement to acquire 100% of the Baúna oil field from Petrobras for US\$665m.

It was reported that Macquarie and RBC analysts have each increased their Karooon target price to \$3.00 per share, underpinned by their respective valuations of the Baúna asset. Baúna also holds potential strategic value for Karooon's existing Santos Basin assets, as

management believes that the proximity to its undeveloped Neon (Echidna) and Goiás (Kangaroo) fields may provide operational and logistical synergies on any future development. The deal is effective from 1 January 2019. The transaction is subject to final Brazilian regulatory approvals, and is expected to close in 1H 2020.

The headline purchase price will be adjusted downwards to account for cash flows generated from the effective date to the closing date. Karoon management has guided to a consideration reduction of US\$140-200m, however we think that range is probably conservative: if the deal closes on 31 March 2020, we estimate the adjustment could be ~US\$210m for a final settlement cost of ~US\$455m. Our adjustment estimate assumes 4% interest on US\$665m for 5 quarters (adjusted for US\$50m deposit paid).

The acquisition will be funded by cash on hand, a ~US\$250m credit facility from ING and an equity raise to be undertaken at a future date. After accounting for corporate costs up to transaction close and Karoon's share of the Marina-1 well, we estimate that the shortfall to be covered by the equity raise will be ~US\$60m (~A\$90m), though management will likely seek to raise a higher amount for headroom and future firepower.

KAROON SOTP VALUATION

We value Karoon, assuming successful close of the Baúna transaction, at A\$3.39 per share on a sum-of-the-parts (SOTP) basis. Our Baúna valuation is derived from a DCF analysis. Our valuation includes zero value for Karoon's existing exploration assets and Poseidon contingent payments.

	Equity raise: US\$120m		
	Issue price: A\$1.30/sh		
			PF shares: 382.0m
	Book value	Valuation	
	A\$m	A\$m	A\$/sh
Bauna (DCF valuation)		\$1,459	\$3.82
Cash post transaction ⁽¹⁾		\$201	\$0.53
Debt post transaction		-\$365	-\$0.96
Neon (Echidna) development	\$109	?	?
Peru exploration	\$69	?	?
Australian exploration	\$29	?	?
Other net assets and liabilities	\$14	?	?
PV Poseidon contingent payments	\$0	\$0-\$175	\$0-\$0.71
Total SOTP valuation		\$1,295-\$1,470	\$3.39-\$4.10

Note: Book value as at 31 December 2018.

(1) Cash post transaction calculated as US\$228m as at 30 June 2019 plus 96% net proceeds from assumed US\$120m equity raise less US\$205m equity portion of final settlement cost, converted at current AUDUSD FX rate of 0.6850.

We show the effect of various equity raise prices on our valuation in the table below, assuming a US\$120m equity raise.

		Brent oil price (US\$/bbl)				
		Base case				
		\$45	\$55	\$65	\$75	\$85
Issue price (A\$/sh)	\$1.00	\$1.14	\$2.12	\$3.07	\$3.99	\$4.89
	\$1.30	\$1.26	\$2.34	\$3.39	\$4.41	\$5.41
	\$1.60	\$1.35	\$2.51	\$3.63	\$4.72	\$5.79

The key assumptions underpinning our Bauna DCF valuation are:

- Financial close 31 March 2020.
- Production ends at end of 1Q 2030.
- Production increases to 33kbopd for 2022 after submersible pumps replacement and Patola tie-in.
- Achieved LT oil sales price of US\$65/bbl (including any Brent benchmark premium and hedging cost).
- Revenue royalty 10%.
- Lifting costs of US\$10.5m/qtr (~US\$7/bbl LOF).
- Provision for abandonment costs of US\$2.25/bbl.
- FPSO lease cost US\$225k/day (based on historical Teekay Offshore Partners disclosures):
 - Assume Charter rate is 75% of total lease cost, balance is Operations & Maintenance rate (25%).
- Capex of US\$25m per submersible pump, with 4 out of 6 well pumps replaced every 3 years, and US\$130m for Patola tie-in
- Corporate tax rate 34%.
- US\$70m of Karoon Brazilian tax losses able to be used to offset tax from 2Q 2020.
- 5% interest on ING credit facility, 4-year term with quarterly principal repayment.
- Cash flows discounted using WACC of 9.0%.
- 4% equity raise costs.
- AUDUSD FX rate of 0.6850.

OTHER PORTFOLIO MOVEMENTS

During the month we sold down ~85% of our holding in **Warrior Met Coal (NYS:HCC)** at an average price of ~US\$25.12. As we noted in our [January Investment and NTA update](#), we significantly increased our holding in November and December 2018 at an average price of ~US\$22.80 per share following a period of volatility that allowed for an attractive entry point for further investment. After upping our stake we collected a further ~US\$4.54 in dividends. Since we purchased our initial stake in November 2017 at US\$27.50 per share, Warrior has returned ~US\$22.45 to shareholders via dividends and a capital return. For the sold shares we made a ~73% return on our original investment and a ~30% return on our more recent investment.

During the month we also added to our holding of **Yellow Cake (LSE:YCA)**.

IMPORTANT INFORMATION:

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