

# NGE Capital Limited

ASX : NGE

## AGM Presentation

26 May 2021

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# Company Snapshot



- NGE Capital Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which offers investors exposure to an actively managed, concentrated portfolio of high conviction investments.
- Broad investment mandate, not restricted by geography, asset class, or security type.
- Focus primarily on listed ASX and international equities.
- Employ a bottom-up, fundamental approach to investment selection.
- Aim to generate strong risk-adjusted returns over the medium to long term.



Actively  
managed



Fundamental  
analysis



Concentrated,  
high conviction  
portfolio



Open investment  
mandate



Goal of strong  
risk-adjusted  
returns



Heavily aligned  
management

# Company Snapshot (cont.)



## Summary

|                          |           |
|--------------------------|-----------|
| Ticker                   | ASX : NGE |
| Share price              | \$0.635   |
| Shares outstanding       | 36.20m    |
| Market cap               | \$23.0m   |
| NTA per share before tax | \$0.843   |
| NTA per share after tax  | \$0.895   |
| NTA before tax           | \$30.5m   |
| NTA after tax            | \$32.4m   |

Note: Share price as at 25 May 2021, NTA as at 30 April 2021.

## Top shareholders

|                           |        |
|---------------------------|--------|
| David Lamm                | 11.05% |
| Raphael Lamm              | 8.76%  |
| Wallbay Pty Ltd           | 5.55%  |
| Kuridale Nominees Pty Ltd | 5.17%  |
| Adam Saunders             | 3.52%  |



Significant management shareholding in the Company: backing our investment decisions, and aligned with shareholders.

## Directors

|               |                          |
|---------------|--------------------------|
| David Lamm    | Chief Investment Officer |
| Adam Saunders | Portfolio Manager        |
| Ilan Rimer    | Non-Executive Director   |

# Investment Philosophy



①

## Target investments that can generate strong returns with an adequate margin of safety

- Individual securities can and do significantly deviate away from their fair value.
- Potential to generate strong risk-adjusted returns by investing in select securities at opportune times.

②

## Aim to hold a high conviction, concentrated portfolio

- Only invest in a compelling opportunity, otherwise hold cash.
- Prefer to invest heavily in a small number of high conviction opportunities, than invest small amounts in a large number of less compelling investments.

③

## Invest based on fundamental analysis

- Bottom up stock selection, focusing on the fundamentals of individual companies rather than market trends.
- Conduct extensive proprietary research with a focus on:
  - **Board and management** – track record, skin in the game.
  - **Credit risk** – gearing, debt profile, interest coverage.
  - **Earnings** – free cash flows including timing and likelihood, margins, payout ratio, growth potential.
  - **Valuation** – multiples, discounted cash flow analysis, break-up value.
  - **Competition** – market share, industry position, market dynamics.

# Investment Process



## Idea generation

- Screening
- Identify mispricing
- Leverage network of contacts



## Proprietary research

- Rigorous fundamental analysis
- Company meetings & site visits
- Speak to experts



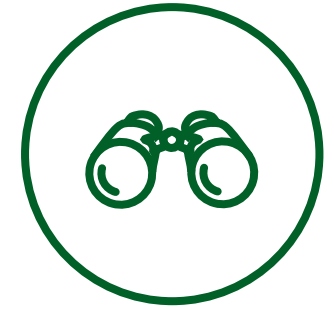
## Assessment

- Qualify against investment philosophy
- Stress test valuation and assumptions
- Refine hypothesis



## Investment decision

- Buy, hold, sell, wait, do nothing
- Investment committee approval as required
- Sizing and structure based on risk-reward payoff



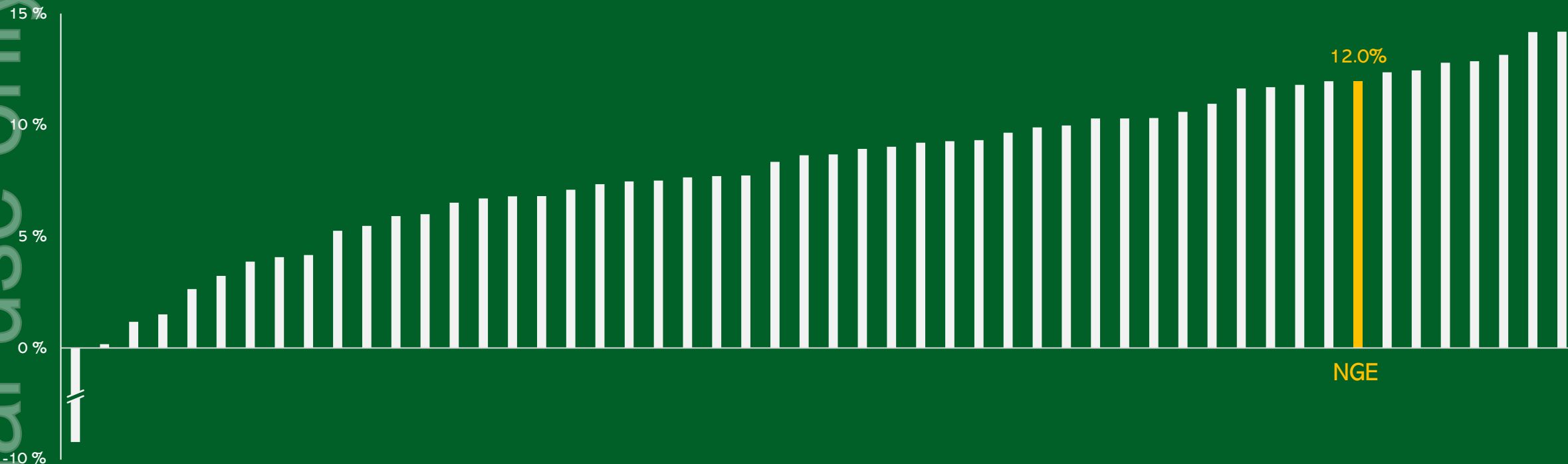
## Monitor & exit

- Update assessment for new information
- Stay on top of the story

# A Top Performing LIC



Annualised portfolio return since NGE inception – all ASX LICs<sup>1</sup>



Note: Each bar represents the annualised return of an ASX listed LIC between 30 November 2016, the date NGE became a LIC, and 31 March 2021. Returns include growth in NTA (pre-tax, after fees and expenses) and payment of dividends grossed up for franking credits).

<sup>1</sup> Peer comparison data comprises 52 ASX-listed equities-focused LICs with FUM of at least A\$10m that were listed as at 30 November 2016.

# Performance



## Growth in NTA per share

|  |       |       |       | 2021  | Since inception <sup>1</sup> |               |
|--|-------|-------|-------|-------|------------------------------|---------------|
|  | 2017  | 2018  | 2019  | 2020  | YTD                          | (p.a.) (cum.) |
|  | 26.8% | 21.4% | 11.2% | -8.0% | 7.7%                         | 12.1% 65.4%   |

Note: Returns are before tax and net of all expenses.

<sup>1</sup> From 30 November 2016, the date on which NGE became a LIC, to 30 Apr 2021.

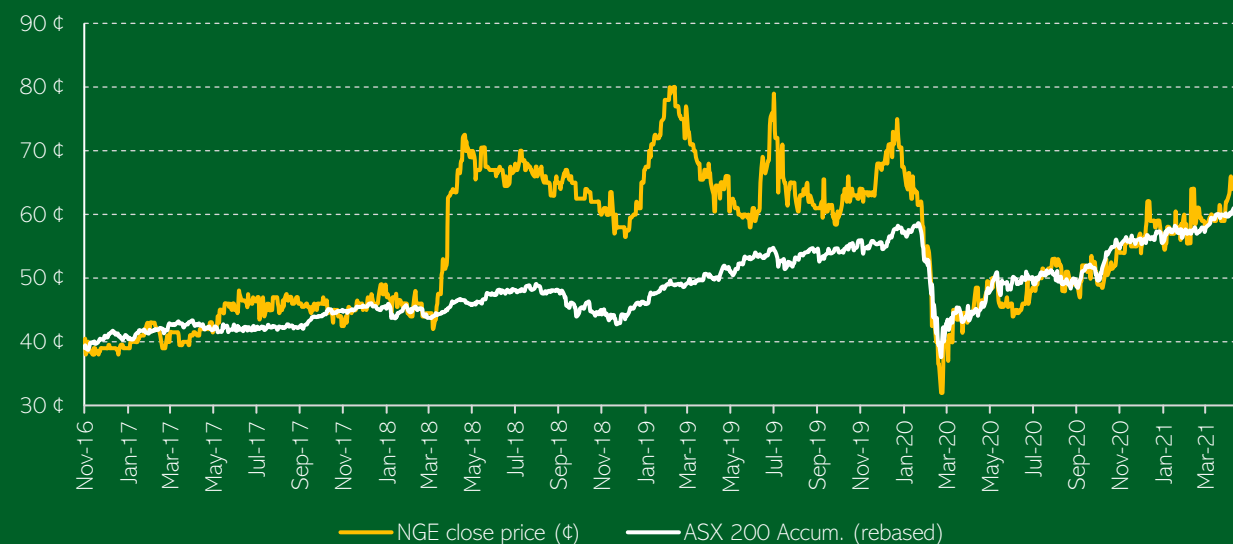
## Tax efficient investment vehicle

- In the aggregate, NGE's potential future tax benefit equates to approximately \$12m or **\$0.33 per share**.
- Of this, NGE has only recognised a \$1.9m (\$0.052 per share) deferred tax asset as at 31 December 2020.

## Share price performance

|                | 2017  | 2018  | 2019  | 2020   | 2021  | Since inception <sup>1</sup> |        |
|----------------|-------|-------|-------|--------|-------|------------------------------|--------|
|                |       |       |       |        | YTD   | (p.a.)                       | (cum.) |
| NGE            | 16.7% | 27.5% | 17.2% | -19.1% | 15.5% | 11.5%                        | 62.8%  |
| ASX 200 Accum. | 11.8% | -2.8% | 23.4% | 1.4%   | 9.7%  | 10.4%                        | 55.6%  |

<sup>1</sup> From 30 November 2016, the date on which NGE became a LIC, to 25 May 2021.





# Portfolio

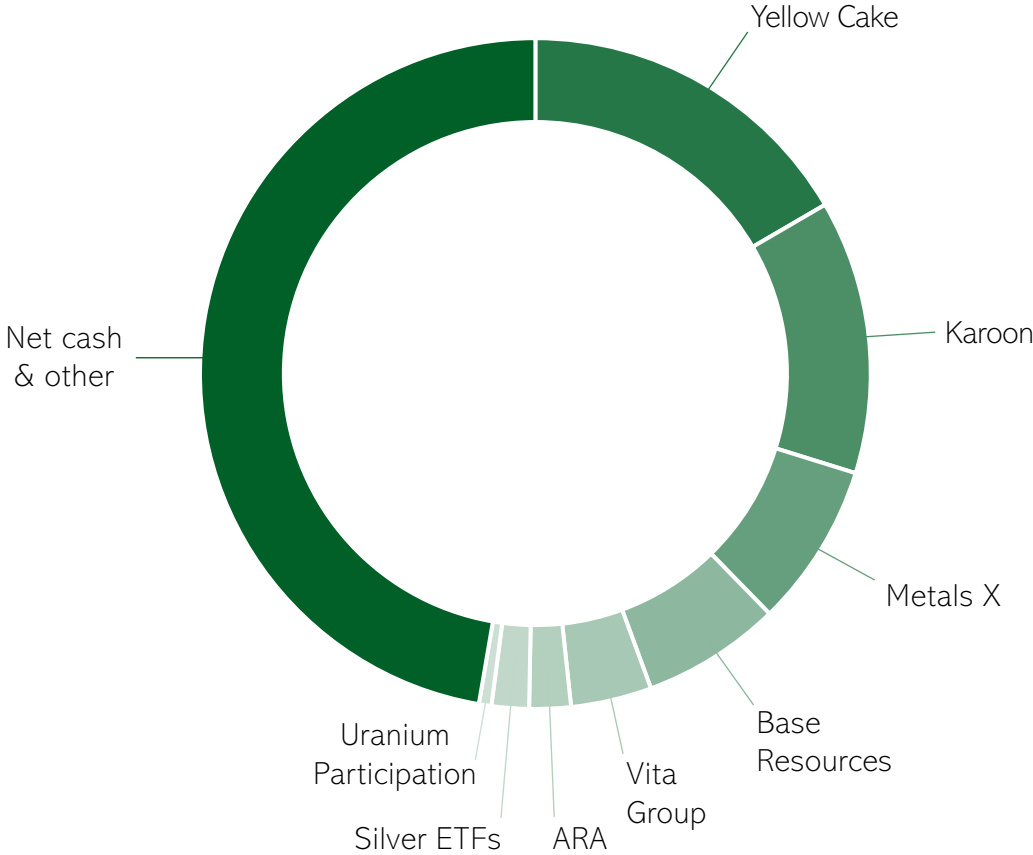


## Portfolio composition (% of NTA)

| Company                 | Ticker         | %     |
|-------------------------|----------------|-------|
| Yellow Cake plc         | LSE : YCA      | 16.6% |
| Karoon Energy           | ASX : KAR      | 13.2% |
| Metals X                | ASX : MLX      | 7.9%  |
| Base Resources          | ASX : BSE      | 6.7%  |
| Vita Group <sup>1</sup> | ASX : VTG      | 3.9%  |
| Consortio ARA           | MEX : ARA      | 2.0%  |
| Silver ETFs             | SILJ, SLV, SIL | 1.8%  |
| Uranium Participation   | TSX : U        | 0.6%  |
| Net cash & other        | -              | 47.3% |

Note: Values as at 30 April 2021.

<sup>1</sup> NGE has increased its holding in VTG during May and currently holds ~2.41m shares.



# Portfolio holding - Yellow Cake



## Description

- Listed investment company whose strategy is to buy and hold physical uranium long-term.
- Holds 13.31 mmlbs of “natural uranium” in the form of  $U_3O_8$ , also known as yellow cake.

## Situation

- YCA offers exposure to the uranium price without the risks typically borne by companies which explore for, develop and mine uranium.
- Uranium price yet to recover from prolonged bear market. Whilst US\$31.05/lb spot as at 24 May is up 24% since Dec 2019, still well below the level that would induce mothballed/new primary supply.

## Assessment

- YCA now trades at a premium due to renewed interest by investors in uranium as industry dynamics appear to be improving, helped by changing attitudes towards nuclear power in a climate conscious world, curtailed primary production due to COVID-19 and recent spot purchases by aspirational miners.
- Further uranium price recovery forecast for the following reasons:
  - Nuclear power net demand expected to grow, led by China and India, as nations try to meet carbon-neutrality targets;
  - Higher priced LT contracts which have shielded producers from low spot prices are expected to continue rolling off in next few years;
  - ~40% of primary production has total costs above spot;
  - Secondary sources (esp. commercial and government inventories) will eventually be depleted; and
  - Supply deficit (demand ~175-180mmlbs vs primary production ~125mmlbs) forecast to grow due to growing demand, underinvestment in new primary supply and long lead times to bring on new production.

## Snapshot

|                              |              |               |
|------------------------------|--------------|---------------|
| Ticker                       |              | LSE : YCA     |
| Uranium holdings             | mmlb         | 13.31         |
| Spot price                   | US\$/lb      | 31.050        |
| <b>Fair value of uranium</b> | <b>US\$m</b> | <b>413.14</b> |
| Cash and other net assets    | US\$m        | 19.30         |
| <b>Net Asset Value</b>       | <b>US\$m</b> | <b>432.44</b> |
| FX rate                      | GBP:USD      | 0.7050        |
| <b>Net Asset Value</b>       | <b>£m</b>    | <b>304.87</b> |
| Shares outstanding           | m            | 128.58        |
| <b>NAV per share</b>         | <b>£</b>     | <b>2.37</b>   |
| Share price (25 May 2021)    | £            | 2.60          |
| Premium to NAV               | %            | 9.7%          |
| NGE position size            | %            | 16.6%         |

Note: Uranium spot price and NAV as at 25 May 2021, using midpoint of Numerco's quoted bid/ask spread of 3085/3125 USc/lb.

# Portfolio holding - Karoon Energy



## Description

- Oil and gas producer with operations in Brazil and Australia.
- Key asset is recently acquired Baúna oil field in the Santos Basin, Brazil.

## Situation

- Transition to producer has gone smoothly under stewardship of Chairman Bruce Phillips.
- Board and management overhaul well underway.
- KAR has a strong balance sheet with \$173m cash and no debt.

## Assessment

- KAR offers unhedged oil exposure as a small- to mid-cap ASX-listed producer operating a large, high quality production asset with low costs of production.
- Global economy re-opening has seen Brent oil price recover to ~US\$65-70/bbl.
- Upside from low-risk rejuvenation program, funded by Baúna cashflow, targeting a 5,000-10,000 bopd boost to production during FY23; current level ~14,000 bopd.
- Further upside from tying in Patola field, targeting >10,000 bopd. FID expected this quarter.
- Share price has lagged Brent crude price increase: contingent payments owing to Petrobras cap some of the upside, and investors are likely being cautious given value depends on success of well workover campaign and Patola tie-in.
- We scaled back our overweight position in 1Q 2021, taking profits after the share price more than tripled from its March 2020 lows.

## Snapshot

|                           |     |           |
|---------------------------|-----|-----------|
| Ticker                    |     | ASX : KAR |
| Price (30 Apr 21)         | \$  | 1.285     |
| Market cap                | \$m | 711       |
| EV                        | \$m | 538       |
| Cash                      | \$m | 173       |
| EV/FCF (NTM) <sup>1</sup> | x   | 4.0       |
| NGE position size         | %   | 13.2%     |

<sup>1</sup> Pre rejuvenation/growth capex.

# Portfolio holding - Metals X



## Description

- Tin producer with 50% interest in the Renison Tin Operation, Tasmania.
- Also owns the undeveloped Wingellina Nickel-Cobalt Project straddling WA, NT and SA.

## Situation

- Divested troubled copper assets to Cyprium Metals (ASX:CYM) in Mar 2020, becoming one of the largest listed pure-play tin producers globally.
- LME tin price up over 80% since Jan 2020 to ~US\$31k/t (~A\$40k/t), against MLX's AISC of ~A\$19k/t.
- Area 5 expansion extends mine-life to 10 years, will enable increased production, grades and reduced AISC from FY25.
- Plans to spin off nickel assets into separate listed vehicle, with MLX shareholders to receive an in-specie distribution of shares.

## Assessment

- MLX seems cheap against a range of assumed long-term tin prices.
- Tin is an essential element in modern tech. ITA forecasts a significant supply deficit from 2025 as tin demand grows, supporting long term price uplift.
- Significant potential for further mine-life extensions via conversion of existing resources to reserves, exploration upside, or by tying-in other nearby tin deposits.
- MLX still retains some upside to copper via a convertible and options in Cyprium.

## Snapshot

|  |           |       |
|--|-----------|-------|
| Ticker                                       | ASX : MLX |       |
| Price (30 Apr 21)                            | \$        | 0.235 |
| Market cap                                   | \$m       | 213   |
| EV <sup>1</sup>                              | \$m       | 174   |
| EV/EBITDA (FY22E) <sup>2</sup>               | x         | 3.4   |
| EV/FCF (FY22E) <sup>2</sup>                  | x         | 6.5   |
| EV/FCF pre growth capex (FY22E) <sup>2</sup> | x         | 4.6   |
| NGE position size                            | %         | 7.9%  |

1 Pro forma for \$6.5m Copper Division environmental bonds yet to be received, estimate of environmental rehab provision post close of copper asset sale and Mt Gordon Sale Agreement copper price contingent payments.

2 Assumed tin price of US\$26k/t.

## DCF sensitivity to LT tin price

|           | LT tin price (US\$/t) |        |        |        |        |        |
|-----------|-----------------------|--------|--------|--------|--------|--------|
|           | \$20k                 | \$22k  | \$24k  | \$26k  | \$28k  | \$30k  |
| DCF value | \$0.16                | \$0.24 | \$0.32 | \$0.40 | \$0.48 | \$0.57 |

# Portfolio holding - Base Resources



## Description

- Owns and operates the Kwale mineral sands project in Kenya, which produces zircon, ilmenite and rutile.
- Owns the undeveloped Toliara mineral sands project, Madagascar.

## Situation

- Toliara FID delayed by 11+ months as government negotiations on project fiscal terms have been prolonged due to COVID-19.
- Paid maiden dividend of 3.5c in Oct 2020, further 3c dividend paid in Mar 2021.

## Assessment

- Sensible capital management strategy adopted by the company in light of Toliara delay.
- Toliara project sell-down remains most attractive funding solution and would avoid large and dilutive equity raise.
- While Kwale North Dune PFS disappointing, still offers some potential as BSE assesses feasibility of mining a higher-grade subset of the deposit; results expected mid-2021.
- Market continues to attribute little to no value to Toliara as is common for resource development assets, regardless of quality, when sitting within an established and profitable company.

## Snapshot

|                             |     |           |
|-----------------------------|-----|-----------|
| Ticker                      |     | ASX : BSE |
| Price (30 Apr 21)           | \$  | 0.275     |
| Market cap                  | \$m | 343       |
| EV                          | \$m | 251       |
| EV/EBITDA (FY22E)           | x   | 2.7       |
| EV/FCF (FY22E) <sup>1</sup> | x   | 3.1       |
| NGE position size           | %   | 6.7%      |

<sup>1</sup> Excludes Toliara-related payments of US\$17m that become due upon securing fiscal terms and Large Mining Investment Act certification.

## Sum-of-the-parts valuation

|  | Per share<br>A\$ | Valuation<br>A\$m    US\$m |              |
|--|------------------|----------------------------|--------------|
| DCF - Kwale Project (10% WACC)             | \$0.23           | 286.5                      | 222.0        |
| Net cash                                   | \$0.07           | 92.4                       | 71.6         |
| <b>Current operations equity valuation</b> | <b>\$0.30</b>    | <b>378.9</b>               | <b>293.6</b> |
| Upside                                     | 10%              |                            |              |
| Toliara upfront (15% stake, land)          | -\$0.02          | -21.5                      | -16.7        |
| Toliara NPV                                | \$1.09           | 1,366.5                    | 1,059.0      |
| Toliara capex                              | -\$0.46          | -570.3                     | -442.0       |
| <b>Toliara equity valuation (unrisked)</b> | <b>\$0.62</b>    | <b>774.6</b>               | <b>600.3</b> |
| Risk factor                                | 25%              | 25%                        | 25%          |
| <b>Toliara equity valuation (risked)</b>   | <b>\$0.16</b>    | <b>193.6</b>               | <b>150.1</b> |
| <b>Total equity valuation</b>              | <b>\$0.46</b>    | <b>572.5</b>               | <b>443.7</b> |
| Upside                                     | 67%              |                            |              |

# Portfolio holding - Vita Group



## Description

- Australian retailer which owns and operates 104 Telstra-branded retail stores and 20 premium cosmetic skincare clinics, mostly under the Artisan Aesthetic brand.
- Also owns a mobile phone accessories business, Sprout Accessories.

## Situation

- In Feb 2021 Telstra announced it will transition to full corporate ownership of all Telstra-branded retail stores – VTG's dealer agreement with Telstra ending in June 2025 would not be renewed.
- VTG now plans to focus on Artisan and rapidly expand its clinic base - goal to open 30-50 clinics over next 4-5 years.

## Assessment

- Likely VTG sells its store network to Telstra in the next 12 months.
- Deal structure unclear, however a full sale of the company to Telstra combined with a demerger of Artisan via an in-specie distribution would be our preference given NGE's utilisable tax losses.
- If instead the sale proceeds of the ICT business are distributed to shareholders via a dividend/capital return, we expect VTG to be left with net cash proceeds of ~\$1.10+ per share, after our estimate of tax and restructuring costs and including cash already on the balance sheet.
- We would expect to receive a distribution that at least covers our buy-in cost of ~82c, leaving us with a free option on the promising roll-out of Artisan.

## Snapshot

|                                |     |           |
|--------------------------------|-----|-----------|
| Ticker                         |     | ASX : VTG |
| Price (30 Apr 21)              | \$  | 0.83      |
| Market cap                     | \$m | 137       |
| EV                             | \$m | 107       |
| EV/EBITDA (FY22E)              | x   | 2.0       |
| EV/FCF (FY22E)                 | x   | 4.0       |
| NGE position size <sup>1</sup> | %   | 3.9%      |

<sup>1</sup> NGE has increased its holding in VTG during May and currently holds ~2.41m shares, acquired at an average price of ~82c (adjusted for 5.6c dividend received on initial shareholding in April).

# Portfolio holding - Consorcio ARA



## Description

- Mexican homebuilder that constructs 10-12k homes p.a., ~60% of which are flats/apartments.
- Three segmented product offerings: Affordable Entry Level (~A\$25-40k per unit), Middle Income (A\$40-85k) and Residential (A\$85k+).
- Also operates 7 shopping centres (5 fully owned, 2 within 50% owned JVs).

## Situation

- Discount to Book Value has increased in recent years, and blew out in 2020 with ARA trading at 0.2x P/B in June.
- Significant land bank is booked at acquisition cost – could be materially undervalued.
- Shopping centres are also booked at historical cost (and JVs via equity method), and contribute EBIT at a 20%+ yield.

## Assessment

- NGE acquired its stake at an average ~MX\$3.98 per share, equivalent to ~0.36x P/B.
- Strong tailwinds to Mexican property market, with high population growth and a housing shortage predicted.
- ARA's management has proven itself able to navigate the property cycle, and has significant skin in the game with a ~49% stake.
- Strong FCF generation, a conservative balance sheet, a propensity to payout solid dividends and a large land bank (inflation hedge) make ARA an attractive investment opportunity.

## Snapshot

| Ticker            |     | MEX : ARA |                  |
|-------------------|-----|-----------|------------------|
|                   |     | MXN       | AUD <sup>1</sup> |
| Price (30 Apr 21) | \$  | 5.15      |                  |
| Market cap        | \$m | 6,495     | 416              |
| EV                | \$m | 5,450     | 349              |
| BV per share      | \$  | 11.07     |                  |
| P/B               | x   | 0.47      |                  |
| EV/FCF (LTM)      | x   | 4.4       |                  |
| NGE position size | %   | 2.0%      |                  |

<sup>1</sup> Converted at AUD:MXN FX rate of 15.62 as at 30 April.



# Board & Management



**David Lamm**

**Executive Chairman &  
Chief Investment Officer**

- Responsible for the origination of investment ideas, management of NGE's portfolio and overall performance of the LIC.
- Over 15 years' experience in business and financial markets including roles at Credit Suisse, Bain and the Alter Family Office.
- Founder and MD of Kentgrove Capital.
- Qualified as a Fellow of the Institute of Actuaries of Australia.
- Bachelor in Commerce from the University of Melbourne with First Class Honours.



**Adam Saunders**

**Executive Director &  
Portfolio Manager**

- Responsible for the origination, analysis and execution of investment ideas and management of NGE's portfolio.
- Portfolio Manager at Kentgrove Capital, and previously held corporate advisory roles at GBS Finanzas in Madrid and Credit Suisse in Melbourne.
- Bachelor in Commerce from the University of Melbourne with Honours in Finance.
- Graduate of the Australian Institute of Company Directors.



**Ilan Rimer**

**Non-Executive Director**

- Extensive experience in management consulting, corporate strategy and new business development.
- Founder of two Australian technology businesses.
- Previously held roles at Bain, PwC, Australia Post, Visy and Stellar Asia-Pacific.
- MBA from Oxford University and a Bachelor in Commerce (Hons) from Monash University.
- Graduate of the Australian Institute of Company Directors.



**Leslie Smith**

**Chief Financial Officer &  
Company Secretary**

- Senior financial and company secretarial experience in various private, public and listed entities in the resources, manufacturing, IT and not-for-profit sectors in a career spanning 30+ years.
- Bachelor of Business from Massey University and an MBA at the University of Melbourne.
- Graduate Diploma in Applied Corporate Governance.
- Chartered Accountant and Member of the CPA and Governance Institute of Australia.



## Investment proposals

Submit an investment opportunity for us to consider to:  
[investments@ngecapital.com.au](mailto:investments@ngecapital.com.au)



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