Investment & NTA Update

31 August 2024

NGE Capital Summary

ASX ticker	NGE
Share price (31 Aug 24)	$1.100
Shares outstanding	35,553,223
Market cap	$39.1m
NTA per share before tax	$1.293
NTA per share after tax	$1.386
NTA before tax	$46.0m
NTA after tax	$49.3m

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

Leslie Smith
Company Secretary & Chief Financial Officer

Contact Details

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Net Tangible Assets Per Share

	31 Aug 2024	31 Jul 2024
NTA per share before tax	$1.293	$1.305
NTA per share after tax	$1.386	$1.398

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception[1] (p.a.)	Since inception[1] (cum.)
-0.9%	11.4%	24.1%	12.8%	153.5%

Note: Returns are net of all expenses. FYE 31 December.
1 From 30 Nov 2016, the date on which NGE became a LIC.

Portfolio Composition

Company	Ticker	% of NTA
Yellow Cake plc	LSE:YCA	14.9%
OCI N.V.	AMS:OCI	10.7%
Pioneer Credit	ASX:PNC	8.6%
Metals X	ASX:MLX	8.3%
Sprott Physical Uranium Trust	TSX:U.UN	5.9%
Industrial Logistics Properties	NAS:ILPT	5.9%
Jupiter Mines	ASX:JMS	5.8%
John Wood Group plc	LSE:WG.	5.5%
Undisclosed	Listed	5.3%
Embark Early Education	ASX:EVO	5.2%
Indiana Resources	ASX:IDA	5.0%
Capricorn Energy PLC	LSE:CNE	4.3%
Undisclosed	Listed	2.9%
Danakali	ASX:DNK	2.1%
Achieve Life Sciences	NAS:ACHV	1.4%
Northern Ocean Ltd.	OSL:NOL	1.3%
Net cash and other		7%
Total		100%

Unrecognised Tax Losses

The Company has ~$29 million of Australian unused and unrealised losses available as at 31 August 2024. In the aggregate these losses equate to a potential future tax benefit of ~$7m or ~$0.20 per share (of which only ~$3.3m or ~$0.093 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

31 August 2024

In our July NTA statement we noted that we had initiated new positions in three ASX-listed stocks. We added to those positions in August, and now reveal two of the positions as at month end to be:

- a ~7.20m shareholding in **Pioneer Credit Limited (ASX:PNC)**; and
- a ~24.53m shareholding in **Indiana Resources Limited (ASX:IDA)**.

We discuss the investment thesis for Pioneer Credit below. We made the following additional notable portfolio changes in August:

- We initiated a small position in a listed company, which we may disclose once we have settled on a final portfolio weighting.
- We increased our holding in **Northern Ocean Ltd. (OSL:NOL)**, and held ~626k shares at month end.

Whilst there is some conflicting data about the state of the Australian economy, there are many households coming under increasing financial pressure due to elevated inflation and interest rates. In February we noted in the Chairman's Letter of our Annual Report that we were cautious on the macroeconomic outlook due to "our expectation that it may take longer than anticipated for inflation to get sustainably below 2% long-term targets, as growth in wages, energy prices and rents may prove to be sticky even in a slowing economic environment". Whilst we hope conditions improve, our investment in **Pioneer Credit Limited (ASX:PNC)** (**Pioneer**) should provide some downside portfolio protection if current conditions persist.

Pioneer acquires aged, unsecured, retail debts at a discount to face value – usually for 10-20c in the dollar – and then works to collect the debts. The acquired debts, also referred to as "Purchased Debt Portfolios" or PDPs, predominantly consist of credit card balances and personal loans. The debts are purchased from Australian banks and non-bank lenders. The vendors are typically also the originators of the debts and want to be confident that the buyer pursues their collection in an efficient, ethical, and compliant manner.

Slightly more than half of Pioneer's cash collections come from payment arrangements, where the customer and Pioneer have negotiated a reshaped debt profile that better suits the customer's needs. The remaining collections come from one-off, lump sum payments. Employment remains the key to collectability, so our investment is implicitly a bet that Australian unemployment remains at relatively stable levels.

At its peak in March 2018 Pioneer traded at a market cap of ~$230m, achieved a FY18 NPAT of ~$18m and paid out ~$8.8m in fully franked dividends. The good times did not last long: the following year an accounting issue led to a debt covenant breach. Pioneer had been incorrectly reporting the value of its PDPs at fair value, when instead from 1 July 2018 these should have been valued at amortised cost pursuant to a newly introduced accounting standard. Pioneer is currently suing its auditor at the time, PwC, alleging that PwC gave bad advice in relation to the treatment of its PDPs that resulted in Pioneer incurring ~$27m of additional costs. Any success with this litigation would represent additional upside to our investment thesis.

We think that after several difficult years Pioneer's earnings are about to materially inflect upwards due to the PDP market returning to growth, decreased competition as a result of increased regulation and compliance costs which saw the exit of several competitors, PDPs currently being offered at much better IRRs than in recent historical experience, a recent debt refinancing which significantly lowers interest expense and affords Pioneer the financial capacity to take advantage of the current market conditions, and Pioneer's position as one of the two main established players (the other being **Credit Corp Group Limited (ASX:CCP)**).

Pioneer's long-telegraphed senior debt refinancing was finalised on 1 July and should lower interest expense by ~$8m p.a. – a material amount when compared to the month-end market cap of ~$77m. The Company has guided to $80m+ of PDP investment and NPAT of $9m+ this year; we suspect there is upside potential to those numbers given the strong start to the year with ~$61m PDP investment under contract already and a tendency to increase PDP investment guidance over the course of the year.

What makes us particularly excited about Pioneer's prospects is management's confidence in delivering $18m+ NPAT in FY26 – a level of profitability achieved in FY18 and that would put the company on a P/E of ~4.3x (vs Credit Corp at ~9.8x). Management is heavily incentivised to hit guidance, as they have ~6.9m performance rights that vest on achievement of NPAT of at least $18m in FY26. The FY24 results presentation lays out management's thinking in how they can achieve their profit target.

We were able to pick up the majority of our stake at what we

Commentary

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believe to be a very attractive price from an unnatural holder who exercised nil exercise price warrants that had been issued as part of a refinancing in 2020 and were due to expire this month.

A messy FY24 result, a somewhat chequered history, and low trading liquidity means Pioneer will have to start delivering on its earnings targets before the market warms to the company's renewed prospects. If Pioneer achieves its FY26 profit target and resumes paying franked dividends, the stock price could conceivably triple in short order. We think it will only be a matter of time before investors realise how the stars are aligning in what should be a very profitable period in Pioneer's history.

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The news continues to flow thick and fast for **OCI N.V. (AMS:OCI)**, as it nears the end of its strategic review process that began last year. On 29 August OCI announced the completion of the sale of **Iowa Fertilizer Company LLC** (**IFCo**) to Koch Ag & Energy Solutions. This was a welcome development, as we believed this deal to be the most at risk of breaking: the US Federal Trade Commission had taken an interest in the transaction. We expect OCI to have received net proceeds of ~EUR 10.5-11.0/sh on completion.

On 9 September OCI announced an agreement to sell its global OCI Methanol business to **Methanex Corporation (TSX:MX; NAS: MEOH)** for a total enterprise value of US$2.05bn (~EUR 8.80/sh). OCI's share of net proceeds comprises cash of ~US$750m (~EUR 3.20/sh) and 9.9m Methanex shares worth ~US$450m assuming a US$45 share price (~EUR 1.95/sh), for a total of ~EUR 5.15/sh. OCI will become a ~13% shareholder in Methanex.

Methanex has a fully committed debt financing package in place to part-fund the acquisition. The deal is expected to close in 1H 2025, subject to legal and regulatory conditions and relevant anti-trust approvals.

There is one wrinkle in the transaction. OCI Methanol's 50% stake in the Natgasoline LLC joint venture forms part of the assets being sold. The other partner in the JV, Consolidated Energy Limited (which is owned by the Proman Group), has launched a lawsuit in relation to shareholder rights. Approximately 40% of the enterprise value consideration (~EUR 3.50/sh) and substantially all of the debt (~EUR 1.95/sh) is attributable to Natgasoline. As a result, if the lawsuit is not resolved by the time regulatory approvals are received, Methanex has the option to carve out this portion of the transaction.

Whilst the Methanol business sale offers further testament to the quality of the assets OCI built over a relatively short period of time, the price and structure are less attractive than we had expected.

Following OCI's strategic review and the resulting series of relatively attractive transactions which were announced we sold our entire position (post month end). We made a profit of 15% or ~A$690k on our investment (including shareholder distributions received), with ~45% of these profits derived from our decisive purchases at the end of July and early August.

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Announcement released to the market with the authorisation of:

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