Investment & NTA Update

31 October 2024

NGE Capital Summary

ASX ticker	NGE
Share price (31 Oct 24)	$1.145
Shares outstanding	35,553,223
Market cap	$40.7m
NTA per share before tax	$1.334
NTA per share after tax	$1.427
NTA before tax	$47.4m
NTA after tax	$50.7m

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 Oct 2024	30 Sep 2024
NTA per share before tax	$1.334	$1.310
NTA per share after tax	$1.427	$1.403

NTA Per Share Performance Summary

			Since inception[1]	
1 month	Year-to-date	Last 12 months	(p.a.)	(cum.)
1.8%	15.0%	26.6%	12.9%	161.6%

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	15.1%
Pioneer Credit	ASX:PNC	9.4%
Metals X	ASX:MLX	9.4%
Indiana Resources	ASX:IDA	7.7%
Cash Converters International	ASX:CCV	6.1%
Sprott Physical Uranium Trust	TSX:U.UN	6.0%
Embark Early Education	ASX:EVO	5.4%
Jupiter Mines	ASX:JMS	5.3%
John Wood Group plc	LSE:WG.	5.3%
Industrial Logistics Properties	NAS:ILPT	4.2%
K92 Mining Inc.	TSX:KNT	4.0%
Capricorn Energy PLC	LSE:CNE	4.0%
Danakali	ASX:DNK	2.0%
Achieve Life Sciences	NAS:ACHV	1.5%
Northern Ocean Ltd.	OSL:NOL	1.3%
Net cash and other		13%
Total		100%

Unrecognised Tax Losses

The Company has ~$27 million of Australian unused and unrealised losses available as at 31 October 2024. In the aggregate these losses equate to a potential future tax benefit of ~$7m or ~$0.19 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 October 2024

During October we made the following notable portfolio changes:

- we added to our holding in **K92 Mining Inc. (TSX:KNT) (K92)**, a position which we had initiated in August and disclose now for the first time. We held ~189.6k shares at month end. K92 owns and operates the Kainantu gold mine in the Eastern Highlands of PNG, a high-grade, low-cost, long-life underground mine. K92 is in the process of executing two expansion stages that will significantly increase production whilst further reducing production costs. We may write up the investment thesis in more detail in the future; and

- we participated in a small way in **Embark Early Education Limited's (ASX:EVO) (Embark)** ~$18.2m placement done at $0.76 per share, with funds put towards the acquisition of 7 childcare centres. Including the recent purchases, Embark has in 2024 acquired a total of 12 centres for a total outlay of ~$33.3m. The acquired centres are expected to add ~$8.2m in pro forma annual centre-based EBITDA. At the month end share price of $0.775 we estimate that Embark trades at an implied EV/FY25E EBITDA multiple of ~5.1-5.3x. We currently hold 3.30m shares.

Subsequent to month end we made the following notable portfolio change:

- we added to our holding in **Cash Converters International Limited (ASX:CCV)**, a position which we reveal now for the first time. We initiated and acquired the bulk of our holding in July following forced selling from a fund being wound up. We held ~13.10m shares at month end, and currently hold ~13.68m shares. We lay out the investment thesis below.

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Cash Converters International Limited (ASX:CCV) (Cash Converters or CCV) caught our eye in mid-July after the shares sold down on unusually heavy trading volumes. One of Cash Converters' largest shareholders, a fund, had shut down and its portfolio was in the process of being dismantled via a transition manager. The uneconomic selling provided us with what we believe to be an attractive entry point.

Cash Converters is a consumer lender and second-hand goods retailer via a large network of owner operated (corporate) and franchise operated stores across Australia and overseas. CCV's key corporate markets are Australia, New Zealand and the UK. In total CCV's network comprises 137 corporate and 532 franchised stores operating across 15 countries.

The store network provides the company with strong brand awareness and a loyal customer base, and allows CCV to offer several loan products and services in-store. Nevertheless, roughly half of the company's FY24 profits were derived from online consumer lending. CCV offers various products that range in duration from under one year to multiple years, secured and unsecured, and loan sizes ranging from hundreds of dollars to $10,000. CCV's borrowers consist mainly of subprime and near-prime credits.

Similar to **Pioneer Credit Limited (ASX:PNC)**, CCV was negatively impacted by Covid as government stimulus led to decreased demand for credit: in 2020 CCV's loan book paid down from ~$225m to ~$140m in the space of 6 months. CCV also lost trading days in its in-store network. The loan book stagnated for a further 18 months before returning to growth.

At the current market cap of ~$140m CCV trades at an implied forward P/E of ~6.5x, ~0.8x P/NTA and a dividend yield of ~9.1% (~13.0% grossed up for franking credits). Adjusted for our estimate of excess cash on the balance sheet, the forward P/E is closer to ~5.1x. Coupled with the company's history of generating consistent operating profits, CCV looks very cheap to us. We think this is especially so given demand for CCV's services is improving, competitive pressures are easing, and regulatory overhang is no longer an issue.

During boom economic times, subprime credit providers and pawnbrokers like CCV tend to face increased competition as debt providers chase lower quality credits for growth. A good example was the explosion of Buy Now-Pay Later product offerings over the past decade, funded by a wave of loose money.

Conversely, during busts debt providers tend to tighten lending standards and reduce access to credit for lower credit quality customers: competition for lending softens, just as demand is increasing. Indeed, in its 4Q24 trading update CCV noted that "[c]ustomer demand is growing as cost-of-living pressures continue to impact consumers and traditional finance providers reduce risk appetite, leaving a growing pool of under serviced borrowers coming to Cash Converters".

In the near-term the gross loan book may not grow much as CCV deliberately reduces its exposure to Small Amount Credit Contracts (SACCs) which have become less attractive following recent legislative changes, as well as ceasing new loans in its auto loan book and putting it in run-off. However, beneath the headline figure Medium Amount Credit Contracts (MACC) have been growing strongly, as has the newly introduced Line of Credit (LoC) offering. These products are highly regulated, less risky and longer in duration than in the past.

CCV has the firepower to continue to grow its loan book given a ~$56m cash balance as at 30 June, strong cash flow generation from operations, and a recently renewed and upsized senior finance facility of $200m ($144m drawn as at 30 June).

Additionally, CCV has the option to grow via the acquisition of franchise stores and converting them to corporate stores. To date CCV has focused on franchise acquisitions in Australia, New Zealand and the UK, though could expand its corporate store network beyond these regions in the future if it makes sense to do so. The franchise model provides CCV excellent visibility on the performance of master franchisors in different geographies, and has allowed CCV to expand internationally with very low risk.

CCV has paid its regulatory, class action and government inquiry dues for historical lending practices. The company is now well capitalised to withstand tougher economic conditions and offers measured growth potential alongside an attractive dividend yield. Further upside could potentially come from corporate interest by Nasdaq-listed pawnbroker **EZCORP, Inc. (NAS:EZPW)**, which owns ~44% of CCV. Whilst that would be a welcome development, we expect our investment to do well simply from continued execution by CCV's sensible management team.

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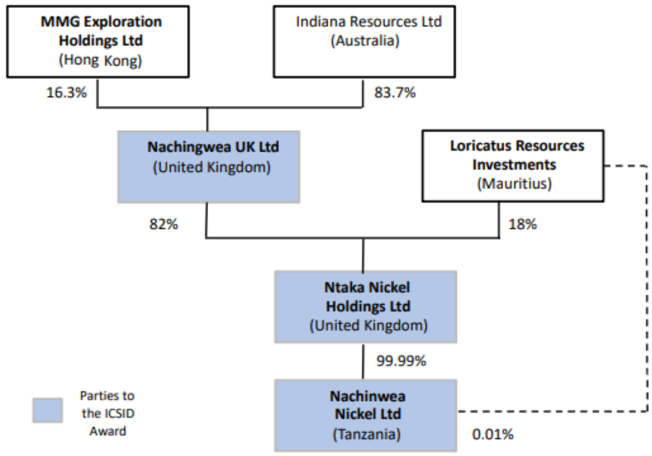
We initiated a position in **Indiana Resources Limited (ASX:IDA)** (**Indiana** or **Company**) in July after the Company announced it had settled a long-running arbitration case with the government of Tanzania for US$90m. The arbitration had proceeded through a process run by the International Centre for Settlement of Investment Disputes (ICSID), a division of the World Bank.

The ICSID Tribunal delivered its Award on 14 July 2023, and unanimously found that Tanzania had unlawfully expropriated Indiana's Ntaka Hill Nickel Project on 10 January 2018 in breach of the UK-Tanzania Bilateral Investment Treaty.

The Tribunal ordered Tanzania to pay the Claimants ~US$77m in damages and additional losses, as well as compound interest at the rate of 2% above the USD Prime rate on the amount awarded from 10 January 2018 to the date of payment.

CLAIMANTS OWNERSHIP STRUCTURE



Source: Company presentation 27 Aug 2024.

As the majority shareholder in Ntaka Nickel Holdings Ltd, Nachingwea UK Ltd (both incorporated in the UK), and Nachingwea Nickel Ltd (incorporated in Tanzania) (together the "Claimants"), Indiana was the key driver behind the arbitration success. It took 7 years of dedication and perseverance by Indiana's Executive Chairman, Bronwyn Barnes, to see the proceedings through to completion, which amongst other things involved lining up litigation funding, legal counsel and expert advice.

Since the Award was based on historical expenditure carried out on the Ntaka Hill Nickel Project, the distribution of the settlement amount between the JV parties (Indiana, Loricatus and MMG) is not necessarily in accordance with the shareholdings shown in the figure above. Indiana noted recently that "[t]he distribution of funds between the Claimants continues to be negotiated between the Claimants".

As part of the settlement announced on 29 July, Tanzania agreed to pay Indiana US$90m in cash in three instalments as follows:

- US$35m – received upfront;
- US$25m – on or before 25 October 2024 (received); and
- US$30m – on or before 30 March 2025.

The receipt of the second tranche payment of US$25m during the month significantly derisks the investment, in our view, as the government of Tanzania has demonstrated an ability and willingness to stick to the agreed payment schedule.

Following settlement of the litigation funding facility and legal costs, and after payment of tax (if any), negotiated settlements with the other JV partners Loricatus and MMG, and retention of

~$10m for exploration, we expect Indiana to be able to distribute ~10-14c to shareholders via two instalments. Our average entry price was ~8.78c per share.

The first distribution is expected to be paid by the end of the year, and the second distribution should be paid 4-6 weeks after receipt of the third tranche payment of US$30m next year. We estimate based on the Contributed Equity balance as at 30 June 2024 that Indiana may be able to pay ~5c of the total distributions via a capital return, though Indiana will need to obtain tax advice prior to confirming the amount and make-up of the distributions.

Indiana intends to carry out further exploratory drilling on its gold and rare earth elements prospects within its Central Gawler Craton Project in South Australia. The near-term focus is on the Minos prospect, which has shown some promising gold drill results to date.

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On 24 October **Metals X Limited (ASX:MLX) (Metals X)** announced that it had made an unsolicited offer for **Greentech Technology International Limited (HKE: 0195) (Greentech)** to acquire all of the issued shares for HK$0.28 per share and to cancel all outstanding options for an equivalent price. The offer values Greentech at ~HK$387m (~A$75m).

Greentech, via a wholly-owned subsidiary, holds an 82% interest in YT Parksong Australia Holdings Pty Ltd (YT Parksong). **Yunnan Tin Co. Ltd. (SHE: 000960)** indirectly holds the remaining 18% of YT Parksong. Metals X and YT Parksong each hold a 50% interest in the Bluestone Mines Tasmania Joint Venture (BMTJV), which holds the assets that comprise the Renison Tin Operations.

If successful in acquiring Greentech's effective 41% interest in Renison, Metals X will take its stake in the project to 91%.

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Subsequent to month end **John Wood Group plc (LSE:WG.) (Wood Group** or **Company)** provided a 3Q24 trading update to the market. Management confirmed the outlook for FY24 of "high single digit growth in EBITDA" and year end net debt "to be broadly flat compared to last year" (ref: US$694m), despite weakness in the Projects business which is the main earnings driver of the Group.

Management also appeared to walk back the previous promise of the delivery of "significant free cash flow in 2025", with the more measured comment that "we remain confident in the continued improvement in the cash trajectory of the Group".

Alongside the trading update, Wood Group also announced that it has commissioned an independent review to be performed by Deloitte that will focus on "reported positions on contracts in Projects, accounting, governance and controls, including whether any prior year restatement may be required". The review follows the "exceptional contract write-offs relating to the exit from lump sum turnkey and large-scale EPC [business] reported at the half year 2024 results".

The share price fell ~60% on the news to an all-time low of 50p, with ~GBP520m (~US$670m) wiped from the market cap. ~9% of the shares outstanding were traded on the day.

In 1H24 the Company took ~US$140m of one-off charges made up of US$53m of receivables write-offs, US$61m of new provisions and US$26m of final settlements. A broker research note suggests that the review may focus on whether these write-downs made in 1H24 should have been made in FY23. Additionally, Goodwill attributable to the Projects business was impaired by ~US$815m at the half year review. In total, Wood Group took ~US$955m of pre-tax exceptional charges in 1H24, and ended the half with net assets of ~US$2.6bn.

In the footnotes to the trading update, the Company noted that the Group order book as at 30 June 2024 had been revised downward by US$97m to US$6,112m, with the revision related to Projects. In percentage terms, the revision equates to ~4.7% of the Projects order book or ~1.6% of the Group order book as reported prior to the restatement.

We do see a potential risk of a further impairment to the carrying value of Goodwill (~US$3.0bn), as well as to contract balances. However, we presently hold the view that the quantum of half year impairments suggests the Company took a hard-nosed look at its accounts only a few months ago, and should have a sufficient equity buffer to absorb any additional impairments that come from the Deloitte review. Whilst the market is understandably concerned about a perceived existential threat to the business, we think the shares have been oversold.

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Finally, during the month Portfolio Manager Adam Saunders appeared on Chris Judd's "Talk Ya Book" podcast to discuss the investment thesis for **Pioneer Credit Limited (ASX:PNC)**. The episode can be viewed here.

Commentary

31 October 2024

Announcement released to the market with the authorisation of:

David Lamm
Chief Investment Officer

Adam Saunders
Portfolio Manager