

# NGE Capital Limited

## Market update

19 October 2017



NGE Capital Limited

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References to dollars, cents or \$ in this presentation are to Australian currency, unless otherwise stated.

# Company snapshot



- ▶ NGE Capital Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which allows investors to invest in a concentrated, high conviction, professionally managed portfolio of financial assets.
- ▶ Focus primarily on ASX listed equities.
- ▶ Aim to generate strong risk-adjusted returns over the medium to long term.
- ▶ Internally managed by Chief Investment Officer David Lamm and Portfolio Manager Adam Saunders.
- ▶ Significant Board shareholding in the Company: backing our investment decisions and ability, and interests aligned with shareholders.

## Board of directors

David Lamm	<b>Chief Investment Officer</b>
Adam Saunders	<b>Portfolio Manager</b>
Ilan Rimer	<b>Non-Executive Director</b>

## Summary

ASX ticker		<b>NGE</b>
NTA per share post tax (30 Sep 2017)	\$	<b>\$0.629</b>
NTA attributable to cash (30 Sep 2017)	\$	<b>\$0.150</b>
Net asset value (30 Sep 2017)	\$m	<b>\$23.82</b>
Share price (18 Oct 2017)	\$	<b>\$0.450</b>
Discount to NTA	%	<b>-28.5%</b>
Shares outstanding	m	<b>37.87</b>
Market cap	\$m	<b>\$17.04</b>

## Top shareholders

Kentgrove Capital Pty Ltd <sup>(1)</sup>	<b>24.0%</b>
Asia Image Limited	<b>7.2%</b>
Noontide Investments Ltd	<b>6.9%</b>

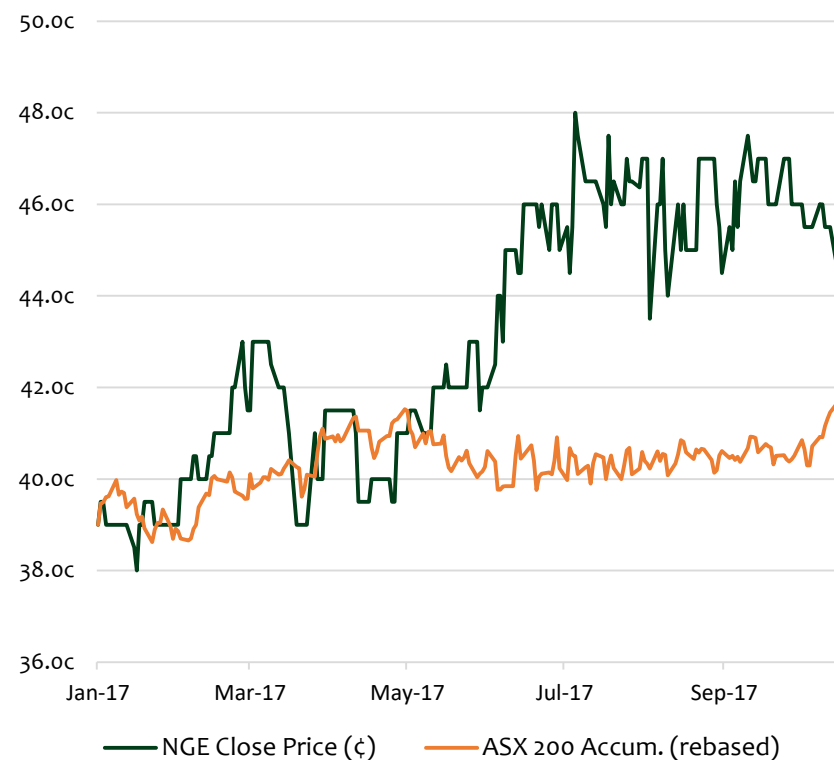
(1) Entity controlled by David Lamm.

# Review of operations

- ▶ 26.6% increase in NTA (after tax) per share to \$0.629 as at 30 September since 1 January.
- ▶ Continued to build up NGE's portfolio based on our investment principles, with investments in Eureka, Mineral Deposits, Godfreys and Millennium Services.
- ▶ Exited investment in Metals X and Westgold Resources (following demerger) for a \$1.7M gain from a \$5.0M investment.
- ▶ Exited investment in Peet for a 11.5% return.
- ▶ Appointment of Adam Saunders as Executive Director and Portfolio Manager.
- ▶ Appointment of Ilan Rimer as independent, Non-Executive Director.
- ▶ Change of company name to NGE Capital Limited.
- ▶ New corporate website launched at [www.ngecapital.com.au](http://www.ngecapital.com.au).
- ▶ Initiation of a new on-market share buy-back of up to 10% of the Company's issued capital, being 3,786,944 shares.
- ▶ Cancellation of 172,500 Treasury Shares.

## NGE performance YTD

Total return	NGE	ASX 200 Accum.
NTA	26.6%	
Share price	15.4%	7.7%



# Investment philosophy

## 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.

## 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.

## 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, sensible market operating.

# Investment process

## Idea generation

- Screening
- Identify mispricing
- Leverage network of contacts

## Proprietary research

- Fundamental analysis
- Company meetings / site visits
- Speak to experts

## Investment decision

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

## Assessment

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

## Monitor and exit

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

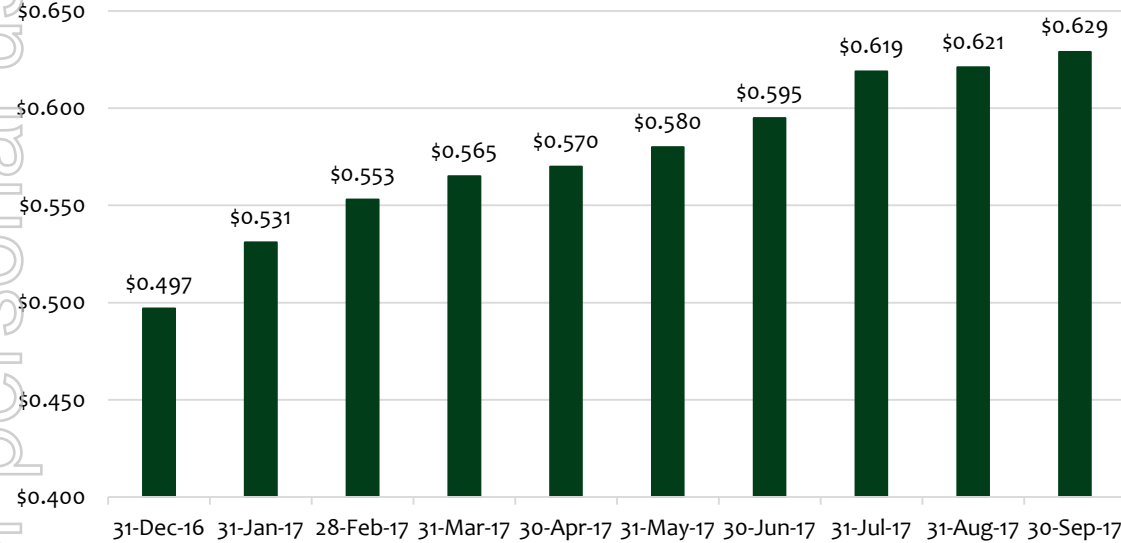
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# A top performing LIC in 2017 YTD

▶ NGE has been one of the best performing LICs on the ASX since the beginning of the year.

## NTA per share (year to date)

(\$ per share)



Total portfolio return	9 mths to 30 Sep
NGE	26.6%
ASX 200 Accumulation	3.9%

**Our aim is to generate strong risk-adjusted returns for shareholders over the medium to long term**

# NGE portfolio

## Key characteristics – 30 September 2017

Listed equities	57%
Unlisted equities	16%
Convertible notes	3%
Other	0%
Cash balance	24%

## Top holdings – 30 September 2017

<b>Listed equities</b>	
Mineral Deposits	28%
Eureka Group Holdings	12%
Godfreys Group	11%
Millennium Services	4%
<b>Unlisted equities</b>	
Powerwrap	15%

# Portfolio holding: Mineral Deposits

## Mineral Deposits (ASX:MDL)

<b>Description</b>	<ul style="list-style-type: none"> <li>MDL owns a 50% stake in the TiZir joint venture, which owns the Grande Cote (GCO) mineral sands operation in Senegal and the TiZir Titanium &amp; Iron ilmenite upgrading facility (TTI) in Norway.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>Company had been trading at depressed levels due a heavy debt burden carried by its joint venture company, TiZir.</li> <li>The company was stretched to the brink following a large decline in the market prices of its core commodities of ilmenite, zircon, titanium slag and high purity pig iron.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>Bottom of the cycle of commodity prices – MDL is highly leveraged to a recovery in commodity prices, which have been improving in recent months.</li> <li>Operational performance of the GCO mineral sands operation has been improved.</li> <li>TiZir has refinanced its debt on reasonable terms.</li> <li>Strong and supportive JV partner in ERAMET.</li> </ul>

## Snapshot – Mineral Deposits

ASX ticker		<b>MDL</b>
Price (18 Oct 2017)	\$	<b>0.805</b>
Market cap	\$m	<b>159</b>
EV	\$m	<b>140</b>
NGE position size <sup>(1)</sup>	%	<b>~15%</b>

(1) At investment.

## Snapshot – TiZir joint venture (50%)

Net assets	US\$m	<b>451</b>
Corporate net debt	US\$m	<b>344</b>
Sub debt - ERAMET <sup>(1)</sup>	US\$m	<b>139</b>
Sub debt - MDL <sup>(1)</sup>	US\$m	<b>84</b>

(1) ERAMET has provided excess loans of ~US\$55m to TiZir in the form of subordinated debt and accrued interest.

## Share price performance



# Portfolio holding: Eureka Group



## Eureka Group Holdings (ASX:EGH)

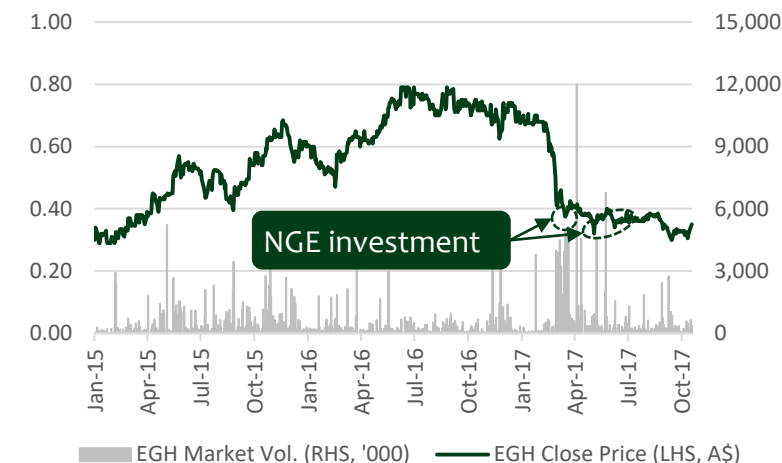
<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Provider of low cost rental accommodation to independent retirees who are reliant on the Government pension and Rent Assistance.</li> <li>▶ The company owns and manages 29 villages comprising 1,430 units, and manages a further 9 villages comprising 681 units.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Market cap has fallen from \$173m (\$0.75 per share) a year ago to \$75m (\$0.325 per share).</li> <li>▶ Business model has been to steadily acquire villages based on disciplined criteria, however a failure to continue historical pace of acquisitions, a few poorly executed deals, and a lack of management oversight led to the sell-off.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ We believe the sell-off has been overblown, with the problem areas (South Australia, Couran Cove, falling occupancy) being dealt with appropriately.</li> <li>▶ Recent management changes should put in place better procedures around future acquisitions.</li> <li>▶ Thematics remain strong: ageing population, housing affordability at all-time lows.</li> <li>▶ High operating leverage: higher occupancy will fall to the bottom line.</li> <li>▶ Few large competitors in the affordable rental retirement space (e.g. not a focus of Ingenia).</li> </ul>

## Snapshot

ASX ticker		EGH
Price (18 Oct 2017)	\$	<b>0.350</b>
Market cap	\$m	<b>80</b>
EV	\$m	<b>127</b>
EV / EBITDA (FY18E)	x	<b>12.4</b>
P/E (FY18E)	x	<b>11.5</b>
NGE position size <sup>(1)</sup>	%	<b>~16%</b>

(1) At investment.

## Share price performance



# Portfolio holding: Godfreys

## Godfreys Group (ASX:GFY)

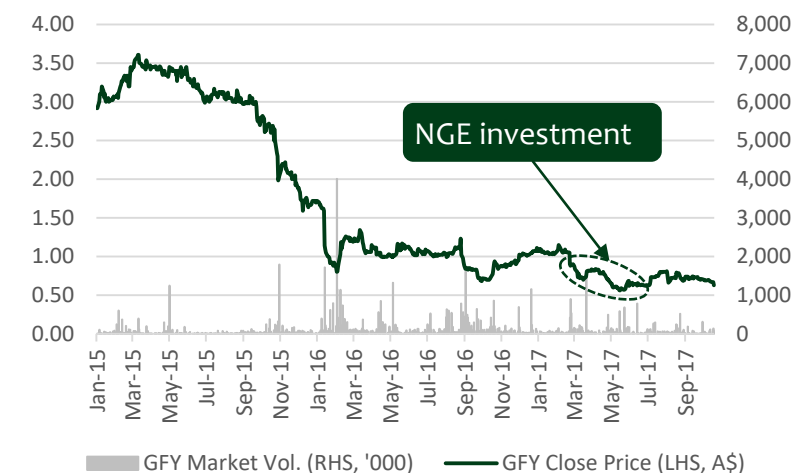
<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Specialty retailer of vacuum cleaners and cleaning products for domestic use in Australia and NZ.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Share price has taken a battering after a series of poor financial results.</li> <li>▶ The market remains jittery over:                             <ul style="list-style-type: none"> <li>▶ a high level of debt (gross \$29.9m, net \$16.5m);</li> <li>▶ a high level of inventory (\$32.2m);</li> <li>▶ poor comparable store sales;</li> <li>▶ scepticism about the ability of the company to stick to its timetable of converting 60 company-owned stores to franchises in the next 3 years; and</li> <li>▶ a highly competitive retail environment, with Amazon on the horizon.</li> </ul> </li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Trading on cheap multiples for a business that we believe is being fixed by retail expert John Hardy.</li> <li>▶ Company is invigorating its product range.</li> <li>▶ Conversion of poor-performing company owned stores to franchises should free up cash.</li> <li>▶ Mr Hardy has acquired \$984k worth of shares on-market at an average of ~\$0.90 per share since his appointment – serious skin in the game.</li> </ul>

## Snapshot

ASX ticker		GFY
Price (18 Oct 2017)	\$	0.63
Market cap	\$m	26
EV	\$m	42
EV / EBITDA (FY18E)	x	3.0
P/E (FY18E)	x	4.3
NGE position size <sup>(1)</sup>	%	~11%

(1) At investment.

## Share price performance



# Portfolio holding: Godfreys



We encourage our shareholders to shop at Godfreys stores and take advantage of the excellent in-store service and fantastic product range

## Selected product range



**Hoover Air Stick Pro 25.2V  
Stickvac**  
(launched August 2016)

<https://www.youtube.com/watch?v=4ndEXecNz7I>



**Hoover Zoom**  
(launched July 2017)



**Wertheim 7 Series Vacuum**  
(launched August 2017)

<https://www.youtube.com/watch?v=WjvnczGov4I>

# Portfolio holding: Millennium Services



## Millenium Services (ASX:MIL)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Mid-tier provider of cleaning, security and low-level maintenance services to retail shopping centres, offices and schools in Australia and New Zealand.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Case study in how severely the market can punish companies that fail to meet their prospectus forecasts, with the share price plummeting from its Nov 2015 IPO price of \$2.25.</li> <li>▶ Appears to have flown under the radar for a lot of investors since.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Bulk of revenues come from cleaning contracts at retail shopping centres.</li> <li>▶ Owners and operators of large shopping centres have a strong incentive to keep them well-maintained, clean, safe and attractive to visitors.</li> <li>▶ High renewal rate of contracts, which typically run for 3 years with options to renew.</li> <li>▶ Bad debts almost negligible due to blue chip nature of company's clients.</li> <li>▶ Looking to grow security services revenue.</li> <li>▶ Trades on low earnings multiples given the company's highly visible, recurring earnings and ability to retain existing clients and win new business.</li> </ul>

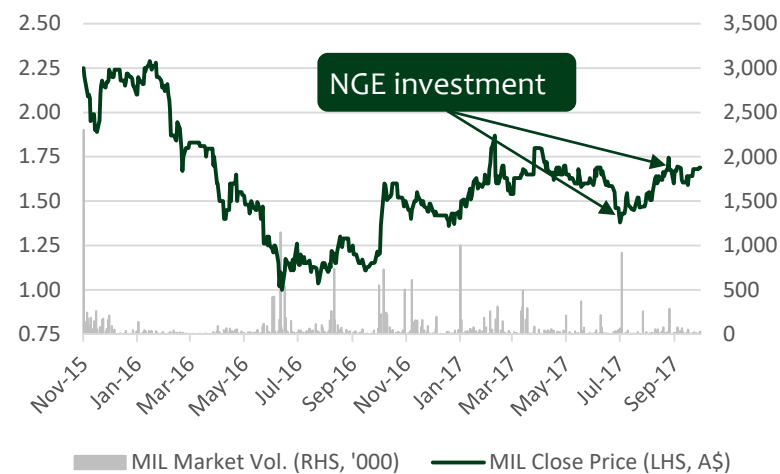
## Snapshot

ASX ticker		<b>MIL</b>
Price (18 Oct 2017)	\$	<b>1.69</b>
Market cap	\$m	<b>78</b>
EV	\$m	<b>99</b>
EV / EBITDA (FY18E)	x	<b>5.0</b>
P/E (FY18E) <sup>(1)</sup>	x	<b>8.2</b>
NGE position size <sup>(2)</sup>	%	<b>~4%</b>

(1) Adjusted for amortisation related to recent acquisitions.

(2) At investment.

## Share price performance



# Portfolio holding: Powerwrap

## Powerwrap Limited

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Powerwrap is an unlisted public company that provides investment portfolio administration services.</li> <li>▶ Powerwrap has ~\$7bn in funds under administration (FUA).</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Raised pre-IPO funds at a depressed valuation due to debt stress.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Powerwrap is one of the biggest platform providers to the independent financial advice market, which is a strong, high-growth industry.</li> <li>▶ Debt issue resolved through capital raise.</li> <li>▶ Clients are sticky as it is a hassle to switch platforms.</li> <li>▶ Company should become break-even next financial year after 9 years of losses.</li> <li>▶ Peers include listed companies Hub24, Praemium, Managed Accounts and OneVue which trade on high earnings multiples, soon-to-be listed Netwealth, and Linear which is being acquired by Managed Accounts.</li> <li>▶ Powerwrap has ambitions to list on ASX in the near future.</li> </ul>

## Snapshot – Powerwrap

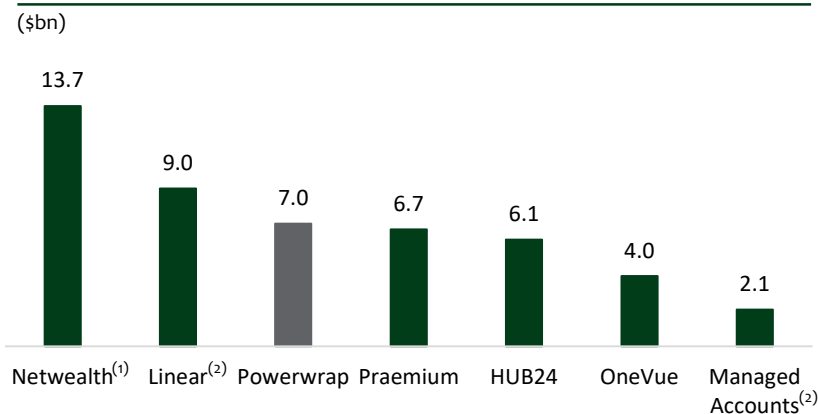
FUA <sup>(1)</sup>	\$bn	~7.0
FY17 Revenue <sup>(2)</sup>	\$m	11.6
FY17 EBITDA	\$m	-5.7
Net cash (30 Jun 2017)	\$m	11.4
NGE position size <sup>(3)</sup>	%	~16%

(1) FUA is not reported by the company. Estimate based on press reports.

(2) Excludes \$3.5m R&D rebate.

(3) At investment.

## Listed peers FUA



Note: FUA relates to Platform Services only.

(1) Netwealth is currently undertaking an IPO.

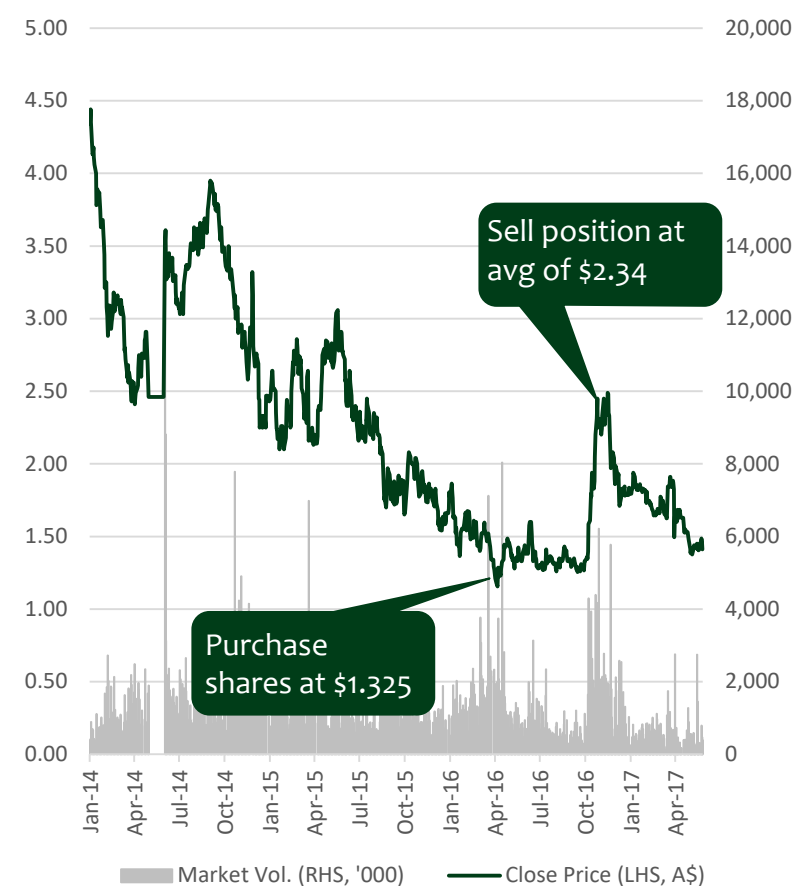
(2) Linear is currently being acquired by Managed Accounts.

# Recent wins – Karoon Gas Australia

## Karoon Gas Australia Limited (ASX:KAR)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Oil and gas explorer with operations in Australia, Brazil and Peru.</li> <li>▶ Stated ambition to transition from explorer to producer.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Trading at a share price of ~\$1.30, well below the cash per share of \$1.94 and net assets (book value basis) per share of \$3.42.</li> <li>▶ Shareholders not confident that the company would be able to grow value from its substantial cash balance.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ No value attributed to exploration assets or Poseidon contingent payments.</li> <li>▶ Sufficient margin of safety, with downside risk already baked into share price.</li> </ul>
<b>Outcome</b>	<ul style="list-style-type: none"> <li>▶ Exited following market excitement about potential company transforming transaction.</li> <li>▶ Risk to transaction success no longer justified the premium valuation.</li> <li>▶ \$2.7M gain on \$3.55M investment.</li> </ul>

## Share price performance

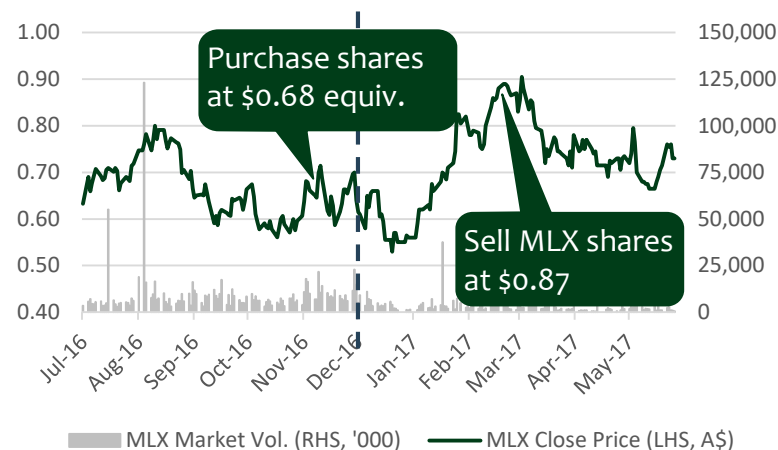


# Recent wins – Metals X / Westgold

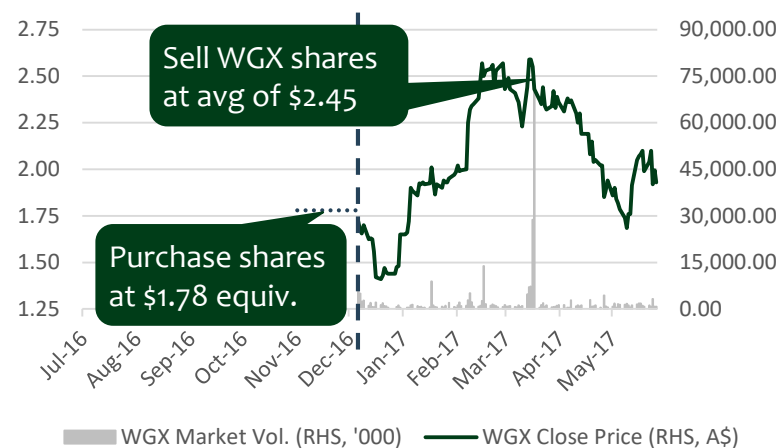
## Metals X (ASX:MLX) and Westgold Resources (ASX:WGX)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Gold and base metals (Copper and Tin) exploration, development and production company.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Demerger to spin-off the gold division into a separate company (Westgold Resources), leaving the base metals operations within Metals X.</li> <li>▶ Catalyst for re-rating as pure-play gold investors now able to invest in Westgold.</li> <li>▶ Gold companies currently attracting a premium.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ MetalsX management are sensible operators and consider themselves to be “Project Renovators”.</li> <li>▶ Market cap at the time of investment of ~\$960m against our estimated valuation post demerger:                             <ul style="list-style-type: none"> <li>▶ <b>Gold business</b> ~\$800m-1.1bn;</li> <li>▶ <b>Base metals business</b> ~\$300-400m;</li> <li>▶ <b>Cash</b> on balance sheet \$170m;</li> <li>▶ <b>Total value</b> ~\$1.3bn+.</li> </ul> </li> <li>▶ 30%+ upside initially.</li> </ul>
<b>Outcome</b>	<ul style="list-style-type: none"> <li>▶ Short-term trade able to take advantage of value arbitrage, resulting in a \$1.7M gain from a \$5.0M investment.</li> </ul>

## Share price performance – Metals X



## Share price performance – Westgold Resources



Demerger effective

# Board and 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 a decade of experience in business and financial markets including roles at Credit Suisse, Bain and the Alter Family Office.
- ▶ Founder and MD of Kentgrove Capital.
- ▶ 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.
- ▶ Senior Associate 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 and CEO of Property Trail.
- ▶ 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*

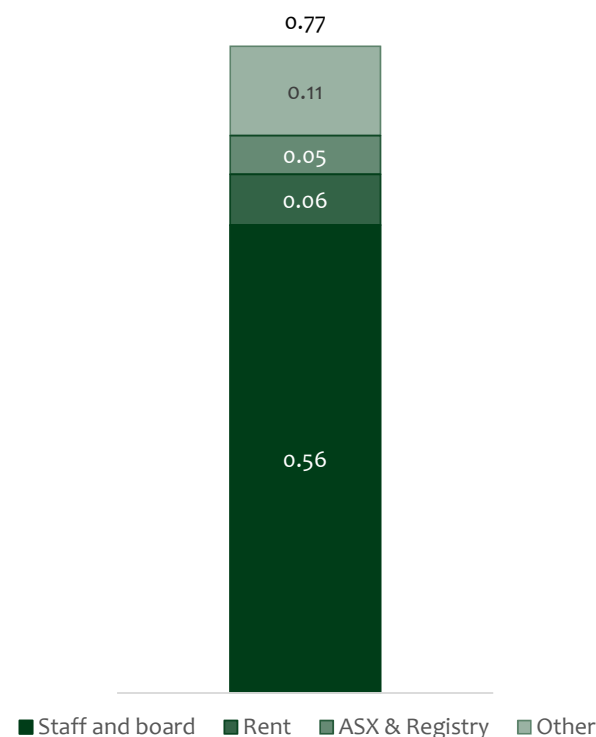
- ▶ Senior financial and company secretarial experience in various private, public and listed entities in the resources, manufacturing, IT and not-for-profit sectors in a career spanning 30+ years.
- ▶ Bachelor of Business from Massey University and a MBA at the University of Melbourne.
- ▶ Graduate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

# LIC structure

- ▶ NGE is an internally managed LIC with no external management fees or external performance fees.
- ▶ Became a LIC in November 2016 following a change in nature of business and ASX re-compliance process. Negligible legacy assets and expenses from historical NGE operations.
- ▶ Experienced, aligned and incentivised management.
- ▶ Our expense ratio currently stands at ~3.2% of NTA. We aim to reduce this ratio through continued positive investment returns and tight expense controls. Currently no plan to raise capital, though may be a possibility in the future to further reduce the expense ratio.
- ▶ The Chief Investment Officer and Portfolio Manager are incentivised via annual bonuses up to 100% of base salaries (total of \$370k) with KPI's tied to achieving NTA growth, with 100% bonus payable on achieving NTA growth of 25% or more (after running costs).
- ▶ NGE is a tax efficient investment vehicle, with substantial historical tax losses able to be applied to future investment income and capital gains.

## Estimated running costs (p.a.)

(\$m)



# Outlook

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We continue to see more value opportunities in the market than was the case 12 months ago.

Continue to build up and manage NGE's portfolio.

Continue to grow NTA based on our investment principles.

Our bottom-up, value-based stock picking approach should shield our portfolio from most macro-driven events.

Continue sensible capital management programs, with the initiation of another on-market buy-back to enable Company to buy-back shares at attractive prices.

Continue to build track-record, as has been the case over the past year.

Recent inclusion in LIC sector broker reports should help to boost NGE's profile.

Discount to NTA remains high, but we expect this to narrow over time, better reflecting the Company's intrinsic value in the share price.

# Contact details



## David Lamm

Executive Chairman &  
Chief Investment Officer

## Adam Saunders

Executive Director &  
Portfolio Manager

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NGE Capital Limited

## Investment proposals

Submit an investment opportunity for us to consider to:



[investments@ngecapital.com.au](mailto:investments@ngecapital.com.au)

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