

Investment & NTA Update

31 July 2023



NGE Capital Summary

ASX ticker	NGE
Share price (31 Jul 23)	\$0.790
Shares outstanding	35,847,019
Market cap	\$28.3m
NTA per share before tax	\$1.022
NTA per share after tax	\$1.087
NTA before tax	\$36.6m
NTA after tax	\$39.0m

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.

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

Level 4 100 Albert Road South Melbourne VIC 3205	+61 3 9648 2290 admin@ngecapital.com.au www.ngecapital.com.au
--	---

Net Tangible Assets Per Share

	31 Jul 2023	30 Jun 2023
NTA per share before tax	\$1.022	\$0.979
NTA per share after tax	\$1.087	\$1.044

NTA Per Share Performance Summary

1 month	Year-to-date	Last 12 months	Since inception ¹ (p.a.)	(cum.)
4.4%	10.2%	12.4%	11.0%	100.4%

Note: Returns are net of all expenses.

1 From 30 Nov 2016, the date on which NGE became a LIC.

Portfolio Composition

Company	Ticker	% of NTA
Danakali	ASX:DNK	22.4%
Yellow Cake plc	LSE:YCA	15.2%
Greek NPE basket	Various	10.2%
John Wood Group plc	LSE:WG.	7.8%
OCI N.V.	AMS:OCI	6.1%
Embark Early Education	ASX:EVO	5.9%
Metals X	ASX:MLX	5.6%
Sprott Physical Uranium Trust	TSX:U.UN	5.4%
Industrial Logistics Properties	NAS:ILPT	5.2%
Jupiter Mines	ASX:JMS	4.6%
Geo Energy Resources	SGX:RE4	4.0%
Net cash and other		8%
Total		100%

Unrecognised Tax Losses

The Company has ~\$38 million of Australian unused and unrealised losses available as at 31 July 2023. In the aggregate these losses equate to a potential future tax benefit of ~\$10m or ~\$0.27 per share (of which only ~\$2.3m or ~\$0.065 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).

...

Commentary

31 July 2023



During the month we made the following notable portfolio changes:

- We initiated a new “basket” position, acquiring holdings in three Greek listed stocks as follows:
 - 1.25m shares of **Galaxy Cosmos Mezz Plc (ATH:GCMEZZ)** at an average price per share of ~EUR 0.576;
 - 15.0m shares of **Phoenix Vega Mezz Plc (ATH:PVMEZZ)** at an average price per share of ~EUR 0.0618; and
 - 2.75m shares of **SunriseMezz Plc (ATH:SUNMEZZ)** at an average price per share of ~EUR 0.281.

We lay out the investment thesis in brief below.

- We sold out of our holding in **Franklin Street Properties Corp. (AME:FSP)**, netting a ~A\$350k profit for a ~38% return over an approximate two month hold period.

In addition, we bought back 62,253 shares via NGE’s on-market buyback facility.

...

We believe we have found three very attractive investments in **Galaxy Cosmos Mezz (“GCMEZZ”)**, **Phoenix Vega Mezz (“PVMEZZ”)** and **SunriseMezz (“SUNMEZZ”)**. These three Cyprus-incorporated, Athens listed securities trade at P/E multiples (adj for cash) in a range of ~2.0-3.6x, whilst yielding ~19-25% based on forthcoming capital returns. The earnings are underpinned by quarterly interest coupon payments that flow from long-dated bonds they hold, with longer-term multi-bagger upside potential (up to ~3.5-9x) if bond principal is paid down. If Greece’s economic growth and real estate price recovery remain robust, then we expect to benefit via continued strong returns to shareholders.

In the past 4 years or so Greece’s four systemically important banks – **Alpha Services and Holdings S.A. (ATH:ALPHA)**, **Eurobank Ergasias Services and Holdings S.A. (ATH:EUROB)**, **National Bank of Greece S.A. (ATH:ETE)** and **Piraeus Financial Holdings S.A. (ATH:TPEIR)** – have carried out various complex transactions to offload billions of euros of non-performing exposures (NPEs) from their balance sheets.

They have done so under the framework of the Greek government’s Hellenic Asset Protection Scheme (HAPS). The HAPS program encourages the banks to offload bad loans – many of which have been held since the GFC – to free up precious capital and get them lending again to boost the economy. This has been done via securitisation transactions and outright sales.

Alpha Bank offloaded ~EUR 14.2 billion of NPEs – which include non-performing mortgage loans, secured and unsecured retail debt, and wholesale loans – via the securitisation of two portfolios of bad debts dubbed “Galaxy” and “Cosmos”. The securitisations were implemented as follows:

- Incorporation of several SPVs (e.g. Orion X Securitization Designated Activity Company, Galaxy II Funding Designated Activity Company etc);
- Hiving off portions of the NPE portfolios into the SPVs;
- In return for receiving the NPE receivables, the SPVs issued long-dated bonds to Alpha Bank by securitising the receivables, with payment of interest and principal dependent on performance of the NPEs. Specifically, the bonds were split into tranches according to recoverability: Series A/Senior; Series B1 & B2/Mezzanine; and Series C/Junior;
- The placement of these securitised NPEs under the HAPS program, whereby the Greek government guarantees the least risky, senior tranches of the bonds, allowing for derecognition of certain NPEs for capital adequacy calculation purposes for Alpha’s ongoing banking business;
- Transfer of the servicing of the NPEs to a third-party Servicer (in this case the entity Cepal Hellas), and the subsequent sale of Cepal Hellas shares to investor Davidson Kempner; and
- The “hive-down” of the banking business to a “demerged entity”, which was named Alpha Services and Holdings S.A. (previously the group had been called Alpha Bank S.A.).

Alpha Bank retained 100% of the senior bonds, 5% of the mezz bonds and 5% of the junior bonds. It sold 51% of the mezz and junior bonds to Davidson Kempner for EUR 40m, and transferred 44% of the mezz and junior bonds to a newly created entity **GCMEZZ** before in-specie distributing shares in GCMEZZ to existing Alpha Bank shareholders.

GCMEZZ exists solely to own the bonds and pay out distributions if the bonds perform. Specifically, GCMEZZ holds Series B2 bonds with a face value of ~EUR 424m (4.0%, Oct 2060) and Series C bonds with a face value of ~EUR 3,414m (Oct 2060).

It is the job of the Servicer to enhance the recovery rate of the underlying assets in the work-out process. The Servicer receives servicing fees that are conditional upon performance targets, with certain fees deferred or subject to haircut in the instance of underachievement of expected recoveries against the initial business plan. Additionally, mezzanine tranche interest payments are delayed until the cumulative actual recoveries are equal or greater to the initial business plan projected recoveries.

Commentary

31 July 2023



A simplified overview of the waterfall payment structure, which determines the order in which interest and principal payments from the underlying loan portfolios are allocated, is as follows:

1. Senior expenses, Servicer fees and certain other fees;
2. Interest on any drawn amounts on a liquidity line (referred to as a Reserves Loan);
3. HAPS guarantee fee to Greek government;
4. Interest payments of the Class A (Senior) Notes;
5. Reserve payments to ensure sufficient ongoing liquidity for Senior Notes' interest, actions in relation to NPEs backed by real estate ("REOC operations"), and principal repayments of the Reserves Loan (in the event of prior drawdown);
6. **Interest payments of the Class B (Mezzanine) Notes;**
7. Principal repayments of the Class A (Senior) Notes (up until their redemption in full);
8. Principal repayments of the Class B (Mezzanine) Notes (up until their redemption in full); and
9. Principal payments of Class C (Junior) Notes (following redemption of Class A & Class B Notes).

If the Servicer suffers a period of prolonged underperformance against the collection targets, an "acceleration" event can be triggered, whereby mezzanine interest payments are paused and the Senior Notes principal is required to be paid down in full. This is a key risk to our investment, and we are implicitly betting that the Servicer is appropriately incentivised to adhere to the business plan. By adopting a basket investment approach, we can at least partly mitigate this risk.

PVMEZZ and SUNMEZZ are entities that were created from similarly structured securitisation transactions by Piraeus Bank.

COMPARABLE TRADING ANALYSIS

Ticker	Share price EUR/sh ¹	Market cap. EURm	PF Market cap. EURm ²	Cash NPAT EURm	P/E x	Upcoming Capital Return EUR/sh	Distr. yield %
GCMEZZ	\$0.5560	48.3	33.9	9.5	3.6	\$0.1064	19.1%
PVMEZZ	\$0.0580	72.5	45.0	18.1	2.5	\$0.0144	24.8%
SUNMEZZ	\$0.2560	45.7	28.9	14.4	2.0	\$0.0588	23.0%

Source: IRESS, company filings, NGE analysis.

1. Share price as at 31 July 2023.
2. Pro forma for NGE estimate of cash balance.

GCMEZZ, PVMEZZ and SUNMEZZ are all currently receiving quarterly interest payments from the mezz bonds they each hold. The coupon receipts have been lumpy to date, which is to be expected given the waterfall payment structure and the nature of debt work-outs. For example, in the last 12 months GCMEZZ received coupon interest payments totalling ~EUR 11m from three

of the four securitisations in which it holds bonds. It is owed ~EUR 8 million from the fourth securitisation (Galaxy II Funding DAC), being its share of unpaid interest due to insufficient cash flows of the securitisation to date.

COMPARABLE SECURITISATION ANALYSIS

Ticker	Class B notes held EURm	Class C notes held EURm	Total securitisation			Total notes EURm	Class B notes interest rate %
			Class A notes EURm	Class B notes EURm	Class C notes EURm		
GCMEZZ	424	3,414	5,483	963	7,760	14,206	4.0%
PVMEZZ	257	1,792	2,393	396	3,981	6,770	7.0 - 9.0%
SUNMEZZ	163	2,557	3,690	370	5,812	9,872	9.0%

Source: IRESS, company filings, NGE analysis.

The table above shows the face value of the Class B/Mezz and Class C/Junior notes held by the three securities. Any eventual paydown of principal on the Class B notes would result in up to ~9x upside on GCMEZZ equity, and ~3.5x upside for PVMEZZ and SUNMEZZ. Given the waterfall payment structure, the likelihood of the Class C/Junior notes being paid out for any of the three securities is remote.

In summary, we think the interest coupon payments received by GCMEZZ, PVMEZZ and SUNMEZZ over the life of the bonds they hold will lead to shareholder distributions that cover our purchase price multiple times over. Any principal paydown on top would provide significant additional upside.

...

On 26 July **Geo Energy Resources Limited (SGX:RE4) ("RE4")** announced a deal to acquire a 58.65% stake in listed Indonesian thermal coal miner **PT Golden Eagle Energy Tbk (IDX:SMMT) ("SMMT")** from the Rajawali Group. The Rajawali Group will retain a 25.0% holding in SMMT.

In conjunction with and inter-conditional on successful purchase of the SMMT stake, RE4 will acquire a 33.0% stake in **PT Marga Bara Jaya ("MBJ")** which owns development rights for an infrastructure project comprising a haulage road and coal jetty. RE4 will receive an option to increase its holding in MBJ by 25.7% to 58.7%.

On completion of the SMMT and MBJ stake purchases, RE4 will subsequently make a Mandatory Takeover Offer for the remaining 16.35% SMMT shares held publicly, which would take its holding up to 75.0%.

RE4 is paying IDR 1,255 per share for SMMT, for an outlay of ~US\$154m for the 58.65% stake, with up to an additional ~US\$43m for the 16.35% of shares held by the public. RE4 is paying

Commentary

31 July 2023



US\$49,500 for the 33% stake in MBI, with an additional US\$38,550 payable should it exercise the option to increase its stake by 25.7%. The total potential outlay is ~US\$197m. RE4 has paid a 10% deposit for the initial stake purchases.

RE4 has lined up a senior debt package of up to US\$220m to fund the acquisitions.

SMMT's key asset is an 85% stake in **PT Triaryani ("TRA")**, which owns and operates a coal mine in South Sumatra. TRA held 2P reserves of ~317Mt (as at 31 December, 100% basis), and produced ~2.34Mt of coal in 2022. All produced coal is currently sold into the domestic market.

SMMT also holds a 49% stake in **PT Internasional Prima Coal ("IPC")**, which owns and operates a mine in East Kalimantan. IPC held 2P reserves of ~13.6tMt (as at 31 December, 100% basis), and produced ~872kt of coal in 2022. IPC exported ~80% of its production in 2022.

RE4 is planning to complete the new infrastructure project held by MBI in order to improve the productivity of TRA's operations, with the aim of ramping production to up to 25Mtpa in the long term.

The transactions require shareholder approval from RE4's shareholders. We expect to receive further detail, including the merits of the transactions, in the notice of meeting materials that will be distributed to shareholders prior to the vote.

...

Announcement released to the market with the authorisation of:

David Lamm

Chief Investment Officer

Adam Saunders

Portfolio Manager

IMPORTANT INFORMATION: While management of NGE Capital Limited (NGE Capital) have taken every effort to ensure the accuracy of the material in this document, the material is provided for information purposes only. No representation or warranty, express or implied, is or will be made by NGE Capital or its officers, directors, employees or advisers as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in, or implied by, this document, or as to the reasonableness of any assumption, forecasts, prospects or returns contained in, or implied by, this document or any part of it. This document does not constitute investment, legal, taxation or other advice and the document does not take into account your investment objectives, financial situation nor particular needs. You are responsible for forming your own opinions and conclusions on such matters and should make your own independent assessment of the information contained in, or implied by, this document and seek independent professional advice in relation to such information and any action taken on the basis of the information. This document is not, and does not constitute advice or an offer to sell or the solicitation, invitation or recommendation to purchase any securities that are referred to in this document.