

# **NGE Capital Limited**

**(ASX:NGE)**

**Investor presentation**

31 January 2019



**NGE Capital Limited**

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# 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 listed ASX and international 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 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 as at 31 December 2018

Ticker		<b>ASX:NGE</b>
Share price	\$	<b>0.580</b>
Shares outstanding	m	<b>37.19</b>
Market cap	\$m	<b>21.6</b>
NTA per share before tax	\$	<b>0.765</b>
NTA per share after tax	\$	<b>0.819</b>
NTA before tax	\$m	<b>28.5</b>
NTA after tax	\$m	<b>30.5</b>

## Top shareholders

Kentgrove Capital Pty Ltd <sup>(1)</sup>	<b>27.2%</b>
Noontide Investments Ltd	<b>5.7%</b>
Wallbay Pty Ltd	<b>5.6%</b>

(1) Entity controlled by David Lamm.

# Performance

## Growth in NTA per share

FY2017	FY2018	Since inception <sup>(1)</sup>	
		(p.a.)	(cum.)
26.8%	21.4%	21.5%	50.0%

Note: Returns are before tax and net of all operating expenses.  
 (1) From 30 November 2016, the date on which NGE became a LIC, to 31 December 2018.

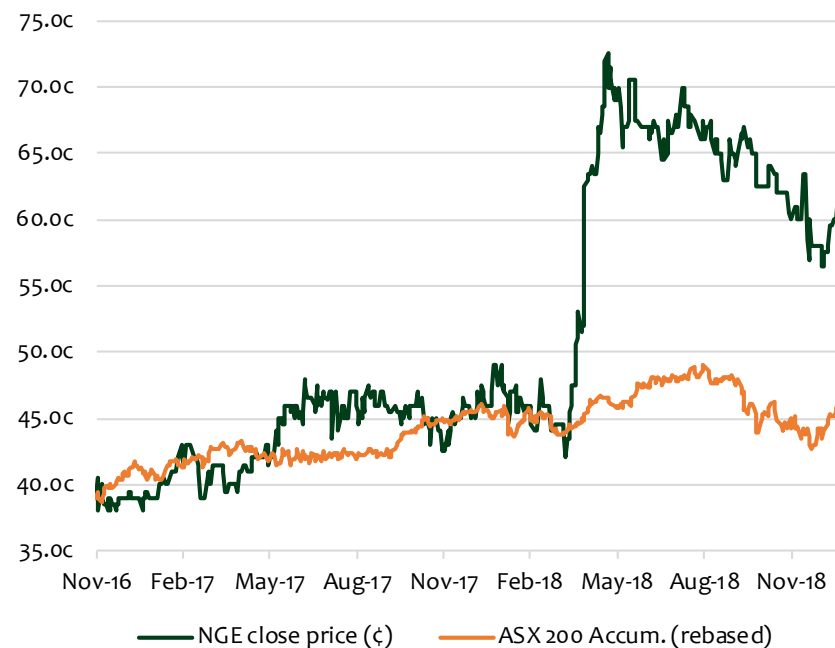
### Tax efficient investment vehicle

- ▶ The Company has recognised a \$2m (\$0.054 per share) deferred tax asset on the balance sheet as at 31 December 2018.
- ▶ In addition, NGE has approximately \$14m of realised but unrecognised tax losses that are not currently carried on the Company's balance sheet.
- ▶ NGE also has approximately \$22m of capital losses available as at 31 December 2018.
- ▶ In the aggregate, NGE's potential future tax benefit equates to approximately \$12m or \$0.33 per share.

## Share price performance

	FY2017	FY2018	Since inception <sup>(1)</sup>	
			(p.a.)	(cum.)
<b>NGE</b>	16.7%	27.5%	21.0%	48.7%
<b>ASX 200 Accum.</b>	11.8%	-2.8%	6.2%	13.4%

(1) From 30 November 2016, the date on which NGE became a LIC, to 31 December 2018.

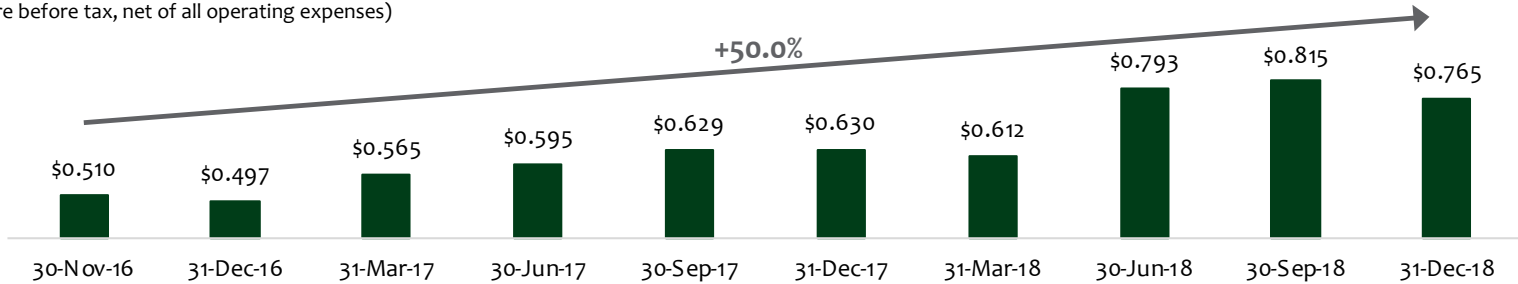


# A top performing LIC

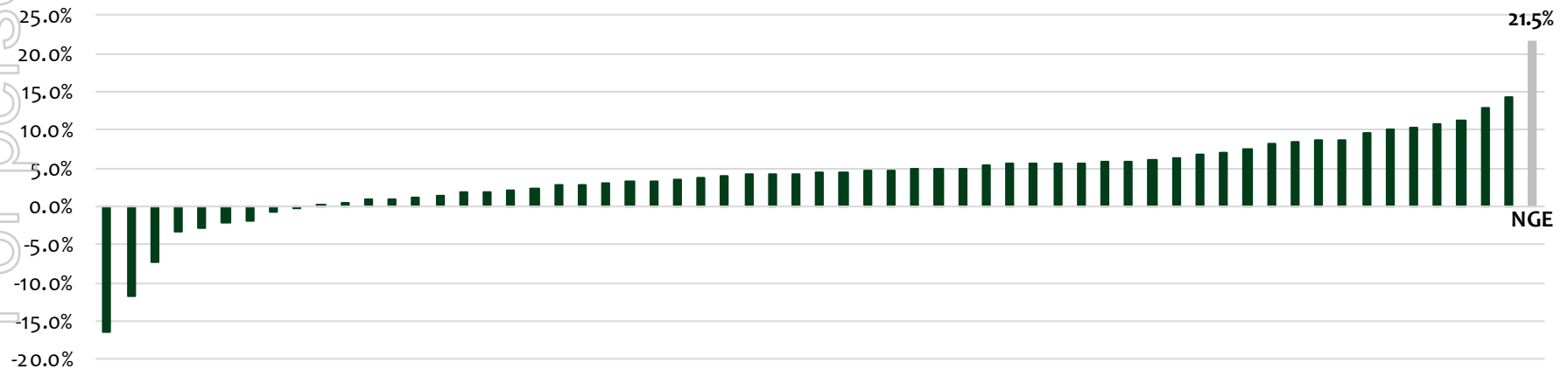
▶ NGE has been the best performing LIC on the ASX since inception (30 November 2016).

## Total portfolio return since inception – NGE

(NTA per share before tax, net of all operating expenses)



## Annualised portfolio return since inception – all ASX LICs<sup>(1)</sup>



Note: Each bar represents the total return of an ASX listed LIC since 30 November 2016. Returns include growth in NTA (pre-tax, after fees and operating expenses) and payment of dividends (grossed up for franking credits).

(1) Peer comparison data comprises 60 ASX-listed equities focused LICs with FUM of at least A\$10m that were listed as at 30 November 2016.

# 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

# NGE portfolio

## Key characteristics – 31 December 2018

Listed equities	69%
Unlisted equities	22%
Convertible notes	3%
Cash balance <sup>(1)</sup>	6%

<sup>(1)</sup> Net of liabilities.

## Top holdings – 31 December 2018

<b>Listed equities</b>		
United Company RUSAL	HKE:0486	19.2%
Yellow Cake plc	LSE:YCA	15.4%
Eureka Group	ASX:EGH	8.7%
Horizon Oil	ASX:HZN	7.4%
Base Resources	ASX:BSE	6.1%
Warrior Met Coal	NYS:HCC	5.6%
<b>Unlisted equities</b>		
Powerwrap		21.0%



# Portfolio holding: RUSAL

## United Company RUSAL plc (HKE:0486)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Vertically integrated aluminium producer, responsible for ~6% of global aluminium supply.</li> <li>▶ Operates 12 aluminium smelters (4mtpa capacity), 10 alumina refineries (10.5mtpa capacity) and 8 bauxite mines (17.5mtpa capacity).</li> <li>▶ Also has a strategic 27.8% stake in listed nickel producer MMC Norilsk Nickel PJSC (Nornickel).</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ NGE invested after the OFAC slapped sanctions on RUSAL, its major shareholder En+ and En+ major shareholder Oleg Deripaska, with the expectation that the sanctions would be lifted.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Early on, the US Dept of Treasury softened its stance, inviting the possibility of lifting the sanctions if Deripaska relinquished control.</li> <li>▶ OFAC extended the deadline on many occasions for trading in the company's securities and winding up dealings with the company.</li> <li>▶ RUSAL's importance to global aluminium supply, the US' position as the world's largest aluminium importer (~7mtpa), and the 28% increase in the cash price in response to the sanctions suggested that there would be an appetite to find a solution.</li> <li>▶ <b>Sanctions were lifted on 28 January after the company agreed to significant restructuring and governance changes.</b></li> </ul>

## Snapshot

		HKE:0486
Ticker		HKE:0486
Price (30 Jan 2019)	HKD	3.250
Market cap	US\$m	6,295
Net debt (30 Sep 2018)	US\$m	7,468
EV	US\$m	13,763
Nornickel stake	US\$m	9,179
EV adj	US\$m	4,584
EV adj / EBITDA (FY19E)	x	2.0
P/E (FY19E)	x	3.1
NGE position size	%	19.2%

### Cheap even prior to sanctions

- ▶ Even at a share price of HK\$4.64 prior to the sanctions RUSAL looked cheap back then, trading on an EV/FY18E EBITDA multiple (adjusted for Nornickel) of ~3.7x versus Alcoa at ~4.2x, aluminium peers at ~6.8x, and global diversified miners at ~5.3x.
- ▶ NGE invested at around half that price averaging in initially at ~HK\$2.26. We increased our stake slightly in December at ~HK\$2.60.

# Portfolio holding: Yellow Cake

## Yellow Cake plc (LSE:YCA)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Listed investment company whose strategy is to buy and hold physical uranium for the long-term.</li> <li>▶ Currently holds 8.4mmlbs of “natural uranium” in the form of U<sub>3</sub>O<sub>8</sub>, also known as yellow cake.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Company offers exposure to the uranium price without the risks typically borne by companies which explore for, develop and mine uranium.</li> <li>▶ Uranium price yet to recover from prolonged bear market.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Uranium price recovery forecast for following reasons:             <ul style="list-style-type: none"> <li>▶ Uranium price near historic lows, despite solid run in 2018 – prices peaked at US\$143/lb in May 2007, suggesting significant potential upside from spot;</li> <li>▶ Nuclear power demand expected to grow, led by China and India;</li> <li>▶ Higher priced LT contracts which have shielded producers from low spot prices are expected to roll off over 2019-2022;</li> <li>▶ Up to 60% of global production has total costs above spot price, an unsustainable situation;</li> <li>▶ Major producers have significantly curtailed production in response to low price environment; and</li> <li>▶ Current supply deficit forecast to grow due to production cuts, underinvestment in new mine development and growing demand.</li> </ul> </li> </ul>

## Yellow Cake NAV as at 31 Dec 2018

Uranium holdings	mmlb	8.44
Spot price	US\$/lb	28.50
<b>Fair value of uranium</b>	<b>US\$m</b>	<b>240.6</b>
Cash	US\$m	9.0
Other net assets / (liabilities)	US\$m	-3.0
<b>Net Asset Value</b>	<b>US\$m</b>	<b>246.6</b>
FX rate	GBP:USD	0.7831
<b>Net Asset Value</b>	<b>£m</b>	<b>193.1</b>
Shares out.	m	76.2
<b>NAV per share</b>	<b>£</b>	<b>2.53</b>
Share price (30 Jan 2019)	£	2.35
Discount to NAV	%	-7.3%
NGE position size	%	15.4%

### The big unknown: inventories

- ▶ There are widely varying estimates of the global level of inventories, which represent many years' consumption, however the counter-argument is that the “saleable” inventory is much lower.
- ▶ Theory yet to be tested, however recent run in spot price suggests there is not necessarily a large volume of ready-made inventory available.

# Portfolio holding: Eureka Group



## Eureka Group Holdings Limited (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 32 villages (including 5 under JV) comprising 1,501 units, and manages a further 9 villages comprising 681 units.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ ~\$20m of valuable capital is tied up in non-core and underperforming assets – a significant drag on performance and management time.</li> <li>▶ Acquisition rate of new rental villages has slowed.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Core business is performing pretty well with occupancy rates finishing FY18 at 92.9%.</li> <li>▶ Should earn ~11% EBITDA return on invested capital at the property level: applying proceeds from non-core asset sales to sensible leveraged acquisitions of new villages could generate a further ~\$4.0-4.5m of EBITDA (versus FY18 ~\$7m).</li> <li>▶ Applying a conservative EV/EBITDA multiple of 12.0x to these theoretical earnings would result in a share price boost of ~12-15¢, or ~45-55% upside.</li> <li>▶ Thematics remain strong: ageing population, housing affordability remains a significant issue.</li> </ul>

## Snapshot

Ticker		<b>ASX:EGH</b>
Price (30 Jan 2019)	\$	<b>0.270</b>
Market cap	\$m	<b>62</b>
EV	\$m	<b>112</b>
EV / EBITDA (FY19E)	x	<b>13.9</b>
P/E (FY19E)	x	<b>11.3</b>
NGE position size	%	<b>8.7%</b>

### Patience required

- ▶ Legacy issues take longer to resolve than incoming managers expect and investors hope.
- ▶ Initial indications suggest new board and management are doing the right things to clean up the business, though it is still early days.

# Portfolio holding: Horizon Oil



## Horizon Oil Limited (ASX:HZN)

<b>Description</b>	<ul style="list-style-type: none"> <li>Oil and gas producer, with a 26.95% interest in producing assets in the Beibu Gulf, offshore China, a 26% interest in the producing Maari/Manaia fields in offshore New Zealand, and a strategic interest in a PNG LNG development project.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>Market values the producing assets conservatively and ascribes no value to the PNG LNG project.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li><b>Cheap on a sum-of-the-parts valuation:</b> we value Horizon's producing assets at ~16c (~20c less net debt of ~4c) based on spot oil price of ~US\$62.50.</li> <li><b>Highly leveraged to oil price:</b> a 12% increase in the spot price to US\$70 leads to a 24% increase in valuation (of course this works in reverse too!)</li> <li><b>PNG LNG Project a potential value kicker:</b> potential for partial sell-down of stake, as well as cash payment due on FID which combined could be worth ~10c on a present value basis.</li> <li>In June 2018 the PNG Petroleum Minister gave the JV partners a notice of intention to cancel PDL 10, one of the key gas fields that underpins the PNG LNG project, frustrated at a perceived lack of progress. We think it is possible that Repsol is allowed to proceed with its stake sale, on condition that the acquirer commits to a more aggressive development schedule.</li> </ul>

## Snapshot

Ticker		<b>ASX:HZN</b>
Price (30 Jan 2019)	\$	<b>0.120</b>
Market cap <sup>(1)</sup>	\$m	<b>206</b>
EV <sup>(1)</sup>	\$m	<b>276</b>
EV / EBITDAX (FY19E) <sup>(2)</sup>	x	<b>2.7</b>
NGE position size	%	<b>7.4%</b>

(1) Diluted and adjusted for IMC options and in-the-money SARS.

(2) Based on spot Brent price of ~US\$62.50/bbl.

## DCF valuation of production assets (WACC 10%)

		Brent oil price (US\$/bbl)				
		Spot	\$50.00	\$62.50	\$70.00	\$80.00
<b>Possible values of PNG LNG</b>	\$0.00	\$0.096	\$0.160	\$0.199	\$0.251	\$0.302
	\$0.10	\$0.196	\$0.260	\$0.299	\$0.351	\$0.402
	\$0.20	\$0.296	\$0.360	\$0.399	\$0.451	\$0.502

**At the current share price of \$0.12, we are getting the PNG LNG stake for free**

# Portfolio holding: Base Resources

## Base Resources Limited (ASX:BSE)

<b>Description</b>	<ul style="list-style-type: none"> <li>Owns and operates the Kwale Mineral Sands Project in Kenya, which produces zircon, ilmenite and rutile.</li> <li>Owns 85% (with option to purchase remaining stake) of the Toliara development project, Madagascar.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>Difficult for investors to attribute full value now to Kwale's cash flows knowing that they are going to be ploughed into Toliara for an uncertain outcome.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li><b>Cheap on sum-of-the-parts valuation:</b> we value Kwale at ~\$0.37 per share (net of net debt). Toliara could be worth an additional ~\$0.14+ per share (net of capex) on a risked basis (~\$0.70+ per share unrisked).</li> <li><b>Strong cash flow generation:</b> at spot prices, Kwale should generate ~US\$89m of free cash in FY19E.</li> <li><b>Exploration upside at Kwale:</b> potential to extend remaining mine life beyond current ~6 years.</li> <li><b>Toliara project economics:</b> market will have a better understanding once PFS published later this quarter.</li> <li><b>Toliara funding:</b> potential to avoid equity raise with sizeable debt package and/or project sell down.</li> <li>Despite some recent softening in zircon and ilmenite markets, demand for high quality rutile feedstock from pigment producers remains strong.</li> <li>Medium term outlook for zircon market looks tight.</li> </ul>

## Snapshot

Ticker		ASX:BSE
Price (30 Jan 2019)	\$	0.240
Market cap <sup>(1)</sup>	\$m	292
EV	\$m	290
EV / EBITDA (FY19E)	x	1.9
EV / FCF (FY19E)	x	2.4
NGE position size	%	6.1%

(1) Diluted for performance rights.

## Sum-of-the-parts valuation

	Per share	Valuation	
	A\$	A\$m	US\$m
DCF - Kwale Project (10% WACC)	\$0.37	451.5	325.1
Net debt	\$0.00	1.4	1.0
<b>Current operations equity valuation</b>	<b>\$0.37</b>	<b>452.9</b>	<b>326.1</b>
<b>Upside</b>	<b>55%</b>		
Toliara upfront (PFS, DFS, 15% stake)	-\$0.03	-36.2	-26.0
Toliara NPV (rough estimate)	\$1.26	1,527.6	1,100.0
Toliara capex (rough estimate)	-\$0.51	-624.9	-450.0
<b>Toliara equity valuation (unrisked)</b>	<b>\$0.71</b>	<b>866.5</b>	<b>624.0</b>
Risk factor	20%	20%	20%
<b>Toliara equity valuation (risked)</b>	<b>\$0.14</b>	<b>173.3</b>	<b>124.8</b>
<b>Total equity valuation</b>	<b>\$0.52</b>	<b>626.2</b>	<b>450.9</b>
<b>Upside</b>	<b>115%</b>		

**Currently no value ascribed to Toliara Project**

# Portfolio holding: Warrior Met Coal



## Warrior Met Coal (NYS:HCC)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Producer and exporter of metallurgical coal from two underground mines located in Alabama.</li> <li>▶ Operational capacity to mine ~8 million short tons (~7.25m Mt) per year from reserves of ~101m St.</li> <li>▶ Also has 103m St of undeveloped reserves at the Company's Blue Creek Energy Mine.</li> </ul>
<b>Situation</b>	▶ Initially dipped our toe with a small investment in Nov-17, and probably underinvested at that time. Recent volatility has afforded us an attractive entry point for further investment.
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ HCC typically receives a slim ~2% discount to benchmark due to its high quality coal product.</li> <li>▶ Simple, pure-play met coal business that is highly cash generative.</li> <li>▶ At spot met coal prices of US\$200/t, Warrior should generate EBITDA of ~US\$635m and FCF of ~US\$495m.</li> <li>▶ Assuming a FY19E coal price of US\$165/t, and LT (2020E+) price of US\$160/t, we value Warrior's operations at ~US\$34 per share (net of net debt and asset retirement obligations). The Blue Creek Mine could be worth an additional ~US\$1 per share.</li> <li>▶ Management focused on returning capital to shareholders, having paid out gross dividends of US\$17.94 since we acquired our initial stake at US\$27.50.</li> </ul>

## Snapshot

Ticker		NYS:HCC
Price (30 Jan 2019)	US\$	28.30
Market cap	US\$m	1,493
EV <sup>(1)</sup>	US\$m	1,720
EV / EBITDA (FY19E) <sup>(2)</sup>	x	4.3
P / E (FY19E) <sup>(2)</sup>	x	5.6
NGE position size	%	5.6%

- (1) EV based on NGE internal estimate of net debt as at 31 December 2018.  
 (2) Based on assumed FY19E met coal price of US\$165/t (vs spot price ~US\$200/t).

## Sum-of-the-parts valuation

	Valuation US\$m	Per share US\$
DCF - operating mines (10% WACC) <sup>(1)</sup>	\$2,097	\$39.74
Blue Creek (undeveloped) <sup>(2)</sup>	\$52	\$0.98
Net debt as at 31 Dec 2018 (estimate)	-\$227	-\$4.30
Asset retirement obligations	-\$98	-\$1.86
<b>Total equity valuation</b>	<b>\$1,823</b>	<b>\$34.55</b>
<b>Upside</b>		<b>22%</b>

- (1) Assumes FY19E met coal price of US\$165/t; LT price US\$160/t.  
 (2) Assume US\$0.50/St on 103m St of recoverable reserves.

**At spot coal price, Warrior is creaming cash**

# 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 ~\$7.1bn in funds under administration (FUA).</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Planned IPO for 1H 2019.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Powerwrap operates in a very attractive market supporting independent financial advisors in managing their clients' wealth.</li> <li>▶ Company is not yet profitable, but growing rapidly.</li> <li>▶ Industry fundamentals look strong with increasing number of advisors leaving large financial institutions (e.g. big banks, AMP, IOOF) to set up independently or join smaller groups.</li> <li>▶ Peers include listed companies Netwealth (ASX:NWL), Hub24 (ASX:HUB), and Praemium (ASX:PPS) which trade on high earnings multiples.</li> </ul>

## Peer comparison

Company	FUA \$bn <sup>(1)</sup>	Mkt cap \$m <sup>(2)</sup>	EV \$m	FY18 Revenue \$m	FY18 EBITDA \$m	EV / Revenue x
Netwealth	19.0	1,640	1,587	83.3	42.3	19.1x
HUB24	10.0	771	754	84.0	11.4	9.0x
Praemium	8.4	255	243	43.2	8.8	5.6x
<b>At NGE carrying value of \$0.10 per share:</b>						
Powerwrap	7.1	75	64	14.6	-1.8	4.4x
NGE position size 21.0%						

(1) FUA as at 31 December 2018, except Powerwrap as at 30 June 2018.

(2) Market cap based on share price as at 30 January 2019.

### Carrying value looks conservative on peer comparison

- ▶ NGE's carrying value of \$0.10 per share implies an EV/Revenue multiple of 4.4x, well below comparable listed company valuations.

# 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.
- ▶ 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 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.



# Contact details



**David Lamm**  
Executive Chairman &  
Chief Investment Officer

**Adam Saunders**  
Executive Director &  
Portfolio Manager

## NGE Capital Limited

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NGE Capital Limited

## Investment proposals

Submit an investment opportunity for us to consider to:



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

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