

Friday, 12 October 2018

ASX Codes : KBC; KBCPA

ASX MARKET ANNOUNCEMENT

NET ASSET BACKING – SEPTEMBER 2018

Keybridge Capital Limited (ASX:KBC) gives notice that its unaudited after-tax Net Asset Backing as at 30 September 2018 was \$0.0974 per share.

Net Asset Backing

	% Change	Current Month 30 September 2018	Previous Month 31 August 2018
Net Asset Backing for Period Ending:			
Pre-Tax Net Asset Backing per share	+6.12%	\$0.0974	\$0.0918
Post-Tax Net Asset Backing per share	+6.12%	\$0.0974	\$0.0918
Based on total issued (listed) share capital ⁽¹⁾		158,080,432	158,080,432

Net Assets

	Current Month 30 September 2018		Previous Month 31 August 2018	
	\$'million	% of Net Assets	\$'million	% of Net Assets ¹
Cash	3.647	23.70%	4.582	31.60%
Investment in Associated entity ^(Note 2)	2.539	16.50%	2.228	15.40%
Other Listed Securities	7.443	48.30%	6.921	47.70%
Managed Funds	0.227	1.50%	0.233	1.60%
Other Investments	0.099	0.60%	0.099	0.70%
Loan Receivables:				
• Private Equity ^(Note 3)	0.545	3.50%	0.542	3.70%
• Insurance ^(Note 4)	3.200	20.80%	3.178	21.90%
• Property ^(Note 5)	0.885	5.70%	0.885	6.10%
• Other ^(Note 6)	0.836	5.40%	0.840	5.70%
Other Assets	0.355	2.30%	0.277	1.90%
Convertible Redeemable Promissory Notes (ASX: KBCPA) ^(Note 8)	(4.093)	(26.6%)	(4.181)	(28.80%)
Provision for tax	-	-	-	-
Financial liabilities	0.002	<0.00%	(0.064)	(0.40%)
Other Liabilities	(0.288)	(1.90%)	(1.031)	(7.10%)
Net Assets	15.397	100%	14.509	100%

Currency Exposure

% of Net Assets	Current Month 30 September 2018	Previous Month 31 August 2018
Australian Dollars	73%	35%
Euros	2%	36%
US Dollars	4%	7%
New Zealand Dollars	21%	22%

Major Investment Holdings

Security	Code	Industry Sector	Current Month 30 September 2018		Previous Month 31 August 2018	
			Value \$'million	% of Net Assets	Value \$'million	% of Net Assets ¹
HHY Fund	HHY	Financials	2.539	16.5%	2.228	15.3%
Metgasco Limited	MEL	Energy	2.551	16.6%	2.004	13.8%
Molopo Energy Limited ^(Note 7)	MPO	Energy	0.943	6.1%	1.012	7.0%
Pershing Square Holdings Ltd	PSH	Financials	1.585	10.3%	1.602	11.0%
Monash Absolute Investment Company Limited	MA1	Financials	1.236	8.0%	1.236	8.5%
Yowie Group Ltd	YOW	Food, Beverage	0.868	5.6%	0.789	5.4%
Copper Strike Limited	CSE	Materials	0.261	1.7%	0.278	1.9%
Other managed funds	-	-	0.227	1.5%	0.233	1.6%
Other listed securities	-	-	-	-	-	-
Other unlisted securities	-	-	0.099	0.6%	0.099	0.7%
Total			10.309	66.9%	9.481	65.3%

Loan Receivable Holdings

Loan Exposure to Industry Sector	Current Month 30 September 2018 \$'million			Previous Month 31 August 2018 \$'million		
	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value
Private Equity ^(Note 3)	6.538	(5.995)	0.545	6.538	(5.995)	0.543
Insurance ^(Note 4)	3.200	-	3.200	3.178	-	3.178
Property ^(Note 5)	4.189	(3.304)	0.885	4.189	(3.304)	0.885
Other ^(Note 6)	2.228	(1.393)	0.835	2.227	(1.387)	0.840
Total	16.132	(10.686)	5.465	16.132	(10.686)	5.446

FOR FURTHER INFORMATION:

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ABOUT KEYBRIDGE CAPITAL LIMITED (ASX: KBC)

KBC is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets including in private equity (US), life insurance (New Zealand), property and funds management sectors and strategic holdings in HHY Fund (ASX:[HHY](#)), Molopo Energy Limited (ASX:[MPO](#)), Metgasco Limited (ASX:[MEL](#)) and Yowie Group Ltd (ASX:[YOW](#)). KBC is also the Investment Manager of HHY.

NOTES:

- (1) Net Asset Backing per share is based on Keybridge's total listed shares on issue and excludes unlisted shares issued under the Company's Executive Share Plan (for further details, refer KBC's [Notice of AGM](#) released on ASX on 30 October 2014 and KBC's ASX announcement dated 19 December 2014: [Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#)).

On [5 December 2017](#), Keybridge announced its intention to undertake an on-market buy-back of up to 14,227,238 shares (being ~ 9% of 158,080,432 total shares on issue) on or before 30 November 2018. During the month, Keybridge bought back nil shares (31 August 2018: nil).

- (2) **Investment in Associated entity:** Keybridge's investment in HHY Fund (ASX:HHY), an Associated Entity (i.e. an entity in which the Company has a [greater than 20% interest](#) and is considered to have 'significant influence' over), is accounted for under the equity method in the consolidated financial statements. Under the equity method, the carrying amount of such investment is cost plus a share of the Associate Entity's net profit or loss (after tax) as provided to the Company by such Associated Entity (refer Note 20 (Investment in Associate entity) on page 73 of the Company's [30 June 2018 Full Year Report](#)).

The Board has determined that where HHY's net tangible asset (NTA) backing is lower than the value calculated under the equity method as at month end, the lower NTA backing value will be adopted as the carrying value instead (based on the Directors' judgement).

As at month end, Keybridge's 25,146,973 units (30.89% interest) (31 August 2018: 25,146,973 units; 30.89%) in HHY have a carrying value of \$0.1010 per unit (\$2.539m) based on the equity method (31 August 2018: \$0.0886 per unit (\$2.228m) based on the equity method); this compares with HHY's last bid price on ASX of \$0.069 per unit (\$1.735m) (31 August 2018: \$0.062 per unit (\$1.556m)) and HHY's NTA backing of \$0.102 per unit (\$2.566m) (31 August 2018: \$0.09 per unit (\$2.263m)), as at month end.

- (3) **Loan Receivables - Private Equity:** Keybridge holds a US\$4.3m a limited recourse promissory note (**Note**) issued by RPE I Investor LLC (**RPE Investor**) (a subsidiary of Republic Financial Corporation (**RPC**), a US private investment company) secured (via collateral pledged) over RPE Investor's ~50% (Limited Partners') (contributed capital) interest in the Republic Private Equity I Limited Liability Limited Partnership, a private equity fund (managed by a related party to RPC) with investments in US based manufacturing/distribution businesses (**RPE Fund**). The principal and accrued interest (at 14.5% pa) under the note has not been repaid on maturity on 29 December 2017 (the parties are in discussions in relation to a mutually acceptable resolution of this matter).

The Note arose out of a restructure in April 2013 where, as part of arrangements to exit legacy aviation investments (made whilst Keybridge was known as Mariner Bridge Investments Limited in 2006/2007) for US\$29.7m cash, Keybridge sold its interest in the RPE Fund for US\$4.3m fully funded by a Keybridge loan with recourse only to that asset sold (i.e. the Note).¹

On 24 August 2017, Keybridge received notice from an RPC Executive (**Republic**) advising that it was 'highly unlikely that the Note will be satisfied on or before its scheduled maturity' (on 29 December 2017) and proposing a 3-year extension of the Note term or a 'buy-out' (retirement) of the Note for US\$0.394m. In light of these matters, the Board reduced the carrying value of the Note (receivable) to US\$0.394m (A\$0.511m). Refer also KBC's ASX announcement dated [25 August 2017: Update – Private Equity Loan Receivable](#).

Since August 2017, Keybridge has also received alternative proposals from Republic to settle the Note liability. As at the date of this announcement, Keybridge has not accepted Republic's proposals and the parties are in on-going discussions in relation to a mutually acceptable resolution of this matter. Additionally, Keybridge is also reviewing its rights under the Note to call upon the collateral pledged as security (ie. RPE Investor's interest in the RPE Fund).

The Board has maintained the carrying value of the Note (receivable) at US\$0.394m (A\$0.542m) as at month end as it believes that the Note is recoverable on the basis that discussions with Republic are on-going and the Board believes that a value of at least the current carrying value will be recouped (31 August 2018: US\$0.394m (A\$0.545m)).

- (4) **Loan Receivables – Insurance:** In [September 2014](#), Keybridge invested NZ\$3.8m (A\$3.4m) (via NZ\$0.109m (10.13%) equity and NZ\$3.691m notes) into Foundation Life, to finance Foundation's acquisition of Tower Limited's life insurance business in New Zealand in 2014. Interest of 9% pa is payable under the note, which is redeemable by noteholders in 50 years (May 2064) or by Foundation (from time to time).

As at month end, the loan balance is NZ\$3.495m (A\$3.2m) (31 August 2018: NZ\$3.47m and A\$3.178m) and Keybridge retains its 10.13% equity interest in Foundation Life valued at cost of NZ\$0.109m (A\$0.1m) (31 August 2018: NZ\$0.109m and A\$0.1m).

- (5) **Loan Receivables – Property:** In September 2014, Keybridge took direct control of loans that were held in a fund (where Keybridge was the remaining sole lender) which invested in first ranking mortgage loans over commercial properties. Keybridge has registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in Manly, Sydney as security for loans, which are owed by private companies (which are in liquidation).

¹ Refer KBC/ASX Announcements dated 1 May 2013: [Sale of Aircraft and Full Repayment of Corporate Debt Facility](#) and 10 April 2013: [Quarterly Update – January to March 2013](#)

As at month end, the loan was carried (based on the Directors' judgement) at a valuation of A\$0.885m (31 August 2018: A\$0.885m) – this was based on an independent valuation received in respect of the lots in May 2016.

- (6) **Loan Receivables – Other:** Includes \$0.44m (31 August 2018: \$0.44m) loan advance to a former Director (in relation to legal costs incurred, pursuant to his Director's Deed); \$0.73m (31 August: \$0.79m) relating to the value of 3.67m MPO shares vested in the Commonwealth (on trust for Keybridge) pending sale; A\$0.323m (€0.2m) (31 August 2018: A\$0.322m (€0.2m)) deferred consideration receivable in August 2019 (18 months after the sale of the Totana Solar Plant asset - refer KBC's ASX announcement dated [30 April 2018: Sale of Totana Solar Plant Assets](#)).
- (7) **Molopo Energy Limited (ASX:MPO):** MPO shares have been suspended from trading on ASX since 25 July 2017.

At month end, Keybridge has adopted a carrying value (based on the Directors' judgement) of \$0.0205 (31 August 2018: \$0.022) per share in respect of its MPO shareholding.

Keybridge notes that the carrying value of the Company's investment in MPO has been assessed based on the Keybridge Board's judgement of MPO's estimated net asset backing having regard to the following matters:

- (a) MPO's gross cash position of A\$15.021m as at 30 June 2018²;
- (b) MPO's C\$8.4m (A\$9.016m³) (31 August 2018: C\$8.4m; A\$8.952m⁴) provision in respect of Canadian litigation matters⁵; and
- (c) MPO's estimated cash outflows for the September 2018 quarter being \$0.9m (of \$0.3m per month)².

Keybridge notes that:

- (a) No value has been ascribed to Molopo's 30% shareholding in Drawbridge Energy Holdings Ltd (**Drawbridge**), which was reported to have gross cash of US\$14.07m, investment and other assets of US\$4.42m, current liabilities of US\$0.29m and net assets of US\$18.2m (A\$25.21m⁶), as at 31 March 2018⁷; and
- (b) Drawbridge's cash outflows for the 6 month period between April and September 2018 have not been taken into account – this was estimated to be US\$6.61m (gross) or US\$1.1m (A\$1.53m⁶) per month⁷.

Keybridge will re-assess the carrying value of its investment in MPO based on further information about MPO's financial position, as released on ASX by MPO.

On 7 July 2017, 3,666,285 shares in MPO (out of Keybridge's total holding of 49,683,828 shares) were vested in the Commonwealth (on trust for Keybridge) under the declaration and orders of the Takeovers Panel in the matter of Molopo Energy Limited 03R, 04R & 05R.⁸ These shares will be sold by ASIC with the proceeds of sale accounted to Keybridge (net of the costs, fees and expenses of the sale). Keybridge remains the second largest shareholder in MPO with 46,017,543 shares (18.478%)⁹.

As these vested 3.67m MPO shares are held on trust for Keybridge pending sale by ASIC, Keybridge continues to recognise the shares as company assets at the same carrying value per share as its holding of 46m MPO shares.

For further information in relation to MPO matters, refer to pages 12 to 21 of Keybridge's [2018 Full Year Report](#) released on ASX on 31 August 2018.

- (8) **Convertible Redeemable Promissory Notes:** (ASX: KBCPA): Keybridge issued 4,956,936 listed Convertible Redeemable Promissory Notes on [30 June 2015](#). The notes have a face value of \$1.00, pays interest at 7% pa and matures on 31 July 2020 (unless redeemed or bought-back by Keybridge earlier). Interest distributions are generally payable quarterly and have a franking credit component under Australian taxation law. Further details are contained in the [Prospectus dated 17 June 2015](#). As at month end, 4,401,047 notes are on issue (31 August 2018: 4,401,047 notes).

2 Refer MPO Quarterly Activities and Cashflow Reports for the quarter ending 30 June 2018 dated 31 July 2018 and released on ASX on 1 August 2018

3 Based on an exchange rate of A\$1.00 : C\$0.9313 (per IRESS) as at 30 September 2018

4 Based on an exchange rate of A\$1.00 : C\$0.9383 (per IRESS) as at 31 August 2018

5 Refer MPO Annual Report for the year ended 31 December 2017 released on ASX on 8 May 2018

6 Based on an exchange rate of A\$1.00 : US\$0.7218 (per IRESS) as at 30 September 2018

7 Refer MPO ASX announcement dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio

8 Refer Takeovers Panel Reasons for Decision dated [22 August 2017: Molopo Energy Limited 03R, 04R & 05R \[2017\] ATP 12](#); Takeovers Panel Media Release No. TP17/37 dated [10 July 2017: Molopo Energy Limited 03R, 04R & 05R - Orders](#); Takeovers Panel Media Release No. TP17/34 dated [30 June 2017: Molopo Energy Limited 03R, 04R & 05R – Declaration of Unacceptable Circumstances](#)

9 Refer KBC ASX Announcement [11 July 2017: Change of Substantial Holder Notice for MPO](#)