

DATE: 13 JULY 2013
PUBLICATION: FOCUS MALAYSIA
SECTION: BUSINESS
HEADLINE: ONE SPAC TOO MANY
CATEGORY: COMPANY NEWS
MEASUREMENT: 969.40 CM²

20 mainstream

July 13-19, 2013

One SPAC too many?

Sona Petroleum IPO comes after that of Hibiscus and CLIQ Energy

→ **WHILE** the underwriters of Sona Petroleum Bhd's IPO are bullish on its prospects, analysts and bankers have mixed views on the timing of the listing of the third special purpose acquisition company (SPAC) on Bursa Malaysia's Main Market.

With liquidity in the Malaysian market gradually easing and the possibility of the US tapering off its quantitative easing coupled with regulators tightening requirements for listing of SPACs, investor appetite for such "blank-cheque IPOs" may eventually wane.

Inter-Pacific Research Sdn Bhd head of research Pong Teng Siew has reservations about the market's ability to support the recent date of listings, especially small-cap stocks.

"It may be a bit late in the party for liquidity-driven ideas in the stock market," Pong says, although he thinks that SPACs are worth a bet. He adds that the liquidity flow in the market now may not support the long-term rally of small-cap stocks.

Betting on reputation and a dream
Some investment bankers and analysts suggest that SPACs are high-risk, high-reward ventures. Indeed, one of the first risk factors listed in Sona's prospectus is the fact that it, like other SPACs, does not have any operating history and track record. This has given rise to the moniker for SPAC listings - blank-cheque IPOs.

"No matter how much [the management] discloses in the prospectus, it is hard to evaluate the company," says Ang Kok Heng, chief investment officer of Singapore-based investment management firm PhillipCapital Management Sdn Bhd.

However, Ang acknowledges that the absence of assets in SPACs does not mean they would not work, particularly if the promoters have the experience to make the business happen. "The company is banking on the expertise of the promoters, but we do not know whether it can deliver [on



By LIM WEY WEN



Photos by SHARIL ANIN ABDUL RAHIM

Sona Petroleum Bhd

Key management

- ▶ Andreas Johannes Raymondus van Strip (chairman)
- ▶ Datuk Seri Hadian Hashim (managing director)
- ▶ Datuk Maznah Abdul Jalil (chief financial officer)

IPO issue price

50 sen

Share allocation

Retail: 141 mil shares (50% bumiputera allocation)

Institutional:

959 mil shares

Total: 1.1 bil shares



From left: Hadian, RHB Investment Bank Bhd chairman Tan Sri Ong Leong Huat, Van Strip and CIMB Investment Bank Bhd deputy CEO Kong Sook Lin during the launch of Sona's prospectus

the acquisitions]," he says, adding that a SPAC's performance could be evaluated only after its first acquisition.

While PhillipCapital Management has not invested in the first two SPACs, Hibiscus Petroleum Bhd and CLIQ Energy Bhd, Ang says the firm is looking into Sona's offering.

Inter-Pacific Research's Pong says while SPAC stocks are speculative, the structure of these companies protects the investors. Under the Securities Commission's (SC) equity guidelines, a SPAC must place at least 90% of its IPO proceeds in a trust account to be set aside for its acquisitions, which require shareholders' approval.

If a SPAC can't complete any qualifying acquisition within 36 months after listing, the company must be liquidated and it is required to distribute the 90% in its trust account to shareholders, albeit at a lower price compared to the issue price.

Moreover, most SPAC shares come with free warrants that shareholders could trade once the company is listed to offset the holding cost of the shares, Pong says. "The downside is limited but the upside is unlimited," he adds.

It may take one or two years for Sona to perform, but given the investor interest there is a possibility of success, says PhillipCapital's Ang.

Lessons from the US
SPACs in the US, which have existed since 2005, have had a less than stellar history. Stefan Lewellen, a SPAC

expert who authored a study on US SPACs at Yale University, was reported recently as saying: "If the historical experience in the US is any indication, it should provide a warning sign that these investments may not turn out to be particularly good ones."

According to the report, there is a long line of examples in the US, where such companies failed to make an acquisition and were forced to delist. Even those that did make a deal, on the whole, have not historically performed well.

US SPACs that declined since completing acquisitions include 57th Street General Acquisition Corp, down nearly 80% from its IPO price, Jaguar Acquisition Corp, down 97.5%, and Ideation Acquisition, down 83%. It remains to be seen whether the SPACs in the Malaysian market will eventually suffer such a fate.

However, the first two SPACs listed on Bursa appear to have done relatively well. Hibiscus raised RM235 mil from its IPO while CLIQ raised RM364 mil. Sona aims to raise RM550 mil.

Hibiscus' share price has almost doubled from its listing price of 75 sen to RM1.46 on July 10, while CLIQ's share price dipped below its IPO price of 75 sen to 72 sen. However, the company's warrants which were given free during the IPO were trading at 40.5 sen on July 10.

Underwriters of the Sona's IPO are naturally bullish on its prospects. At the launch of Sona's prospectus on July 5, CIMB Investment Bank Bhd deputy CEO Kong Sook Lin said the Malaysian market is still very liquid. "There are just not too many good assets and too much money chasing after assets."

Sona managing director Datuk Seri Hadian Hashim highlighted that the other two SPACs are more inclined to work in the exploration and development phase of the oil and gas (O&G) value chain while Sona is more interested in production assets.

"However, once we acquire production assets, there is a possibility that we might venture into the acquisition of exploration and development assets," he said during the prospectus launch.

Currently, Sona's directors come from four countries and have an average age of 61. The international names include chairman Andreas Johannes Raymondus van Strip from the Netherlands and non-independent non-executive directors Myo Thant and Anton Tjahjono from Myanmar and Indonesia, respectively.

Van Strip is a former vice-president (production) at Shell EP International Ltd in Dubai, Myo Thant is a former vice-president for commercial operations and business development at Shell Global Solutions (US), Inc, and Anton was the Indonesian Gas Association president from 2000 to 2010.

Local board members include former DRB-Hicom Bhd executive director Datuk Maznah Abdul Jalil, former MISC Bhd vice-president for offshore business Mohamed Sabri Mohamed Zain, retired Federal Court judge Datuk Seri Panglima Sulong Matjerate, and former Tradewind Corp Bhd president and chief operating officer Datuk Mohamed Khadar Merican.

Hadian started his career in O&G as a well-site petroleum engineer at Sabah Shell Bhd. One of his last executive positions was CEO of Integrated Petroleum Services Sdn Bhd. Most of Sona's directors, except Van Strip, Sulong, and Mohamed Khadar are also part of the management team.

Setting the bar higher
The Sona management is held to a longer moratorium than that of Hibiscus and CLIQ. Sona's prospectus indicates that the management can only sell shares after the company records a one-year unaudited revenue from the commercial production of its qualifying assets. Hadian says that this will "hopefully" set the benchmark for future SPACs.

In contrast, management at Hibiscus and CLIQ would need to wait only until their qualifying acquisition is approved by the SC to sell up to 50% of their shares. The other 50% could be sold after a year.

The tighter rules will bring better commitment and, in a way, protect investors because they would make sure that the promoters are serious about the venture, says Ang.

IPO comparisons among Hibiscus Petroleum Bhd, CLIQ Energy Bhd and Sona Petroleum Bhd

	Hibiscus Petroleum Bhd	CLIQ Energy Bhd	Sona Petroleum Bhd
IPO date	July 25, 2011	April 10, 2013	July 30, 2013 (expected)
Issue price	75 sen	75 sen	50 sen
Share price (July 10)	RM1.46	72 sen	NA
Number of shares offered (with one free warrant each)	200-400 million	200-667 million	11 billion
Target	RM450-500 mil	RM450-500.25 mil	RM450 mil
Raised	RM235 mil	RM364 mil	NA
Institutional investors	No	No	Yes
Acquisitions	Yes	No	No

Source: Bursa Malaysia, prospectus