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Sona Petroleum stokes interest

O&G firm's IPO among the most anticipated this year

Sona Petroleum, which aims to eventually make the transition to an independent E&P company, has already secured commitments from six institutional investors as cornerstone investors, making it the first SPAC to do so.

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EVEN in his suit and tie Datuk Seri Hadian Hashim looks like he would be more at ease in an oil rig out in the middle of the ocean.

A 30-year veteran in oil and gas (O&G), Hadian spent much of the early years of his career as a well site engineer for Sarawak Shell Bhd offshore Sabah and Sarawak.

That experience is paying off for him today. Hadian has banded together with his friends from the industry, most of whom he has either worked with or for, to form Sona Petroleum Bhd, Malaysia's third special purpose acquisition companies (SPAC) to list on the stock exchange in as many years.

For Hadian, clearly an operations man who prefers doing to talking, the track record of Sona Petroleum's management, with 300 years of O&G experience between them, speaks for itself.

"Because SPACs have no operations, you have to rely on the management's expertise. I have compiled an international team with skills in both upstream and downstream, across the exploration and production (E&P) value chain, from drilling, reservoir engineering, field studies, greenfield and brownfield development, to contracting and procurement.

"And not just technical skills, but also banking, legal and corporate finance," the managing director of Sona Petroleum tells *StarBizWeek* in an interview.

It isn't a coincidence that the SPAC's board is populated by international faces which includes chairman Andreas Johannes Raymundus van Strijp, a Dutchman, as well as an Indonesian and Myanmar national.

Datuk Maznah Abdul Jalil, the company's chief financial officer, was a key lieutenant to the late Tan Sri Yahaya Ahmad of DRB-Hicom.

This diversity, Hadian notes, is deliberate. "It will come in handy when we negotiate for assets overseas."

Sona Petroleum is scheduled to make its debut on Bursa Malaysia on July 30 – a day before Ranhill Energy and Resources Bhd's RM753mil initial public offering (IPO), another highly-anticipated listing this year.

SPACs are companies with no operations or income generating business at the point of IPO but undertake a listing for the purposes of acquiring operating companies or assets, termed as "qualifying assets".

Still, this hasn't dented interest in Sona Petroleum.

The IPO, investment bankers say, has been all but a tough sell. *StarBizWeek* understands that overtures were made by high net-worth individuals and several institutions for almost RM3bil worth of shares, far exceeding the RM550mil on offer.

With RM550mil as its fund-raising target, Sona Petroleum is easily the most ambitious of all the SPACs. And if the early indications prove to be true, it may also be the most successful.

The launch of its prospectus yesterday saw not only its bankers in attendance but also other luminaries of the financial world. Notably, Yvonne Chia, one of the most powerful women in finance and until recently the head of Hong Leong Bank Bhd, was front and centre.

Market abuzz

Sona Petroleum, which aims to eventually make the transition to an independent E&P company, has already secured commitments from six institutional investors both local and foreign as cornerstone investors, making it the first SPAC to do so.

They are Hong Leong Asset Management, Hong Kong-based hedge fund Segantii Capital, and investment firm Davidson Kempner, as well as the three banks backing the listing: RHB Investment Bank, CIMB Investment Bank and Kenanga Investment Bank.

The cornerstones, who were not granted a discount to the 50 sen IPO price, have been apportioned 275 million shares out of the 959 million shares for institutions.

Industry observers believe Sona Petroleum's appeal lay in it being one of the few upstream players in a stock market dominated by O&G service providers, in spite of the fact that fund managers typically do not put money into SPACs because of their high-risk, unproven nature.

The 1.1 billion shares to be sold under the IPO comprise 959 million shares for institutional investors and 141 million shares for retail investors at 50 sen apiece. Each share comes with a free warrant.

Book building for the retail shares opened at 10am yesterday and closes on July 12. The institutional offering also began yesterday and closes on July 17.

Post-IPO, the management will hold 20% of the firm's enlarged share base, the public and institutions 78% and initial investors 2%. The identities of the initial investors were not disclosed in the prospectus.

The moratorium imposed on its promoters' shares will also be the strictest so far for a SPAC. The key management is barred from selling any of their holdings in Sona Petroleum until the company generates one year of audited revenue from the commercial production of its qualifying asset.

Hadian isn't worried.

"We think it raises the level of expectation for SPACs and sets a benchmark for the future," he quips.

For him, the opportunity to start a SPAC couldn't have come at a better time.

"Someone pitched the idea, and after looking at the business case, I said yes. I can't name the parties. But it didn't take a lot of convincing to get people on board," Hadian explains.

He says he was encouraged by the two earlier SPACs, which, like Sona Petroleum, are E&P-based.

"The most common route for this kind of business is usually private equity. However, the end game, whether you raise money via private equity or a SPAC, is the same. SPACs give entrepreneurs like us an opportunity to tap the capital market."

Then there are the macro factors, such as the expected uptrend in oil prices; population and income growth, which would drive energy demand; and the ongoing sale of smaller, less lucrative fields by oil majors.

Hadian cites the oilfields being hived off by Newfield and Hess as the sort of assets that have become available in recent times.

Sona Petroleum has expressed interest in smaller fields in shallow waters of not more than 120m in depth.

While it is prepared to invest in all three lifecycles of an oilfield, Hadian says the firm will prioritise assets that are producing as a jump-off point before venturing into earlier-stage wells, which naturally come with higher risk and capital cost.

Fields with reserves of between 5 million and 30 million barrels, with production of 2,000-5,000 barrels per day, are preferred, he adds.

"We intend to acquire a producing asset first, which is more likely to have steady cash flow, a shorter lead time and lower risk because it is in production. With the cash we will replenish our reserves by seeking out development assets. And for future growth, we will look to acquire exploration assets, the most risky of the three.

"Going forward we want a mixed portfolio of assets, but we plan to own more production and development assets in order to bear the higher cost and longer gestation period needed for exploration assets.

"Once we have acquired an asset, the team will begin work on operational improvements. That's how we bring value – by increasing efficiency, conducting additional studies and driving costs down," he explains.

For now, Hadian doesn't give too much away. "If it (an asset) fits our business model and is a good opportunity, why not?"

(From left) Hadian, RHB Investment Bank Bhd chairman Tan Sri Ong Leong Huat, Sona Petroleum chairman Andreas Johannes Raymundus van Strijp and CIMB Investment Bank Bhd deputy CEO Kong Sooi Lin at the launch of Sona's prospectus.