DATE: 8 JULY 2013
PUBLICATION: THE EDGE
SECTION: BUSINESS
HEADLINE: LONGER MORATORIUM FOR SONA PETROLEUM
CATEGORY: COMPANY NEWS
MEASUREMENT: 429.68 CM^2

Longer moratorium for Sona Petroleum

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Sona Petroleum Bhd, the third of the special acquisition companies (SPACs) to be approved by Securities Commission Malaysia (SC), has more stringent moratorium rules to comply with than the two earlier SPACs — Hibiscus Petroleum Bhd and Cliq Energy Bhd.

Under the rules, Sona Petroleum's management cannot trade in the shares of the company until one year of audited revenue from the commercial production of its qualifying asset has been generated. This means the management cannot sell their shares until the qualifying asset acquired with the proceeds from the listing has generated revenue for a year.

As a comparison, the managements of Hibiscus Petroleum and Cliq Energy only had to have their qualifying acquisitions approved by the SC. After approval, the moratorium on 50% of the shares held by the promoters is lifted. The moratorium on the other 50% will be lifted after a year.

"It is good for our investors because it makes sure that the promoters and management are committed right up to when they deliver revenue," says Sona Petroleum managing director Datuk Seri Hadian Hashim.

The requirements for SPACs have been evolving and the decision for such a move was a mutual one, Hadian tells *The Edge* in an interview after the launch of Sona Petroleum's prospectus last Friday.

The rationale for placing these tougher restrictions on Sona Petroleum was in the interest of aligning shareholders and management concerns, he says.

The management of Cliq Energy, which made its debut on Bursa Malaysia on April 10, are bound by the moratorium until the company acquires an asset that is approved by shareholders and the SC. After approval, the promoters can sell, transfer or assign up to 50% of their shares. The moratorium on the remaining 50% stake will be lifted a year after the approval of the asset.

Hibiscus Petroleum, listed on July 25, 2011, saw the same requirements imposed on its management team.

Sona Petroleum is hoping to raise RM550 million from the listing of 1.1 billion new shares at an offer price of 50 sen apiece. Each share has a par value of one sen and comes with a free detachable warrant.

Further distinctions are seen in the structure of such SPAC listings in terms of the warrants issued. For Sona Petroleum, the warrant has an exercise price of 35 sen, which applies to both promoters and shareholders. Cliq Energy had an exercise price of 50 sen, while Hibiscus Petroleum had

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a two-tier exercise price for the warrants — 50 sen for ordinary shareholders and 10 sen for promoters.

The stricter moratorium will not interfere with the company's ability to compete with other SPACs. "There will always be competition. For us, we exist in the same space but we're looking at different assets," says Hadian.

According to Sona Petroleum's prospectus, 70% of its investment will be utilised for production and development assets, which are considered lower risk than exploration assets. Production assets refer to existing oilfields that are already in production, while development assets are newly discovered fields in need of further appraisal.

It may be worth pointing out that Cliq Energy is focusing on the same area as Sona Petroleum. As for Hibiscus, it started out by going into the exploration and production segment of the oil and gas industry, which is more risky but has higher returns. Subsequently, it started looking at production assets.

"The good thing about production assets is that they are much faster in generating revenue than exploratory assets," says Hadian. "What we're looking for is small to medium-sized assets — between 5 million and 30 million barrels in reserves."

However, the downside to acquiring production assets is that the cost is higher while the returns are lower.

Sona Petroleum is looking at Southeast Asia, the Middle East and Africa to make its oil asset purchases, but Hadian declines to provide further details. "The area of interest is actually very wide ... so we have a good chance of getting assets. We have options."

Asked whether he has concerns over the regulatory and political risks in certain regions, he says, "We are looking at countries that have been operated in or are being operated in by multinationals. We will operate under tested systems." Hadian adds that his management team comprises individuals experienced in these regions.

Asked if the company is in talks with any parties for potential acquisitions, Hadian says that it isn't but hopes to begin so soon.

Some RM495 million of the proceeds from the listing will be allocated for acquiring assets within the first three years of listing.

At present, Sona Petroleum is 74.19% owned by Platinum Autumn Sdn Bhd, its management's holding vehicle. The remaining 25.81% is held by initial investors.

Upon listing, Sona Petroleum's shareholding structure will change, in that Platinum Autumn's stake will be diluted to 20%, while that of the initial investors will be 2.03%.

Hadian is the largest shareholder in Platinum Autumn with a 26.9% stake, followed by Datuk Maznah Abdul Jalil, Sona Petroleum's CFO and executive director, who has a 16.81% stake.

As at last Friday, Sona Petroleum had a 35% take-up of cornerstone investors for its initial public offering. The cornerstone portion comes to 275 million shares.

The cornerstone investors include its underwriters CIMB Investment Bank, Kenanga Investment Bank and RHB Investment Bank, as well as three non-deal-related funds — Hong Leong Asset Management, London-based Davidson Kempner and Hong Kong-based Segantii Capital.