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Sona-WA: In-the-money by design



BURSA Malaysia's third SPAC (Special Purpose Acquisition Vehicle) Sona Petroleum Bhd made its debut on July 30. As with other SPACs listed earlier, Sona ended the first day of trading at 44.5 sen, which is 5.5 sen below the IPO issue price of 50 sen. However, due to the one-for-one free warrant IPO investors receive for subscribing to Sona's IPO, they are actually making a decent profit as the warrant (Sona-WA) ended the first day of trading at 26 sen for a total share plus warrant price of 70.5 sen.

Unlike normal listed companies where the total number of warrants cannot exceed 50% of the total number of shares, SPACs are allowed to have the same number of warrants as shares. This allows SPACs to have an easier time raising money because of the special feature which ensures the warrant remains in-the-money before a qualifying acquisition is completed.

A unique investor protection incorporated into SPAC is that a SPAC must place at least 90% of its IPO proceeds in a trust account managed by an independent custodian which is a trust company, licensed bank or merchant bank. Investors are entitled to exchange their shares for a cash sum equivalent to their pro-rata portion then held in the cash trust account (net of any taxes payable and expenses) if they vote against a qualifying acquisition that is subsequently approved and completed, or if a qualifying acquisition is not completed within the three-year timeframe from the date of listing. This effectively makes the IPO a 90%-capital-guaranteed product with a free warrant.

To make the deal sweeter for IPO subscribers, the exercise price of a Sona-WA is only 35 sen, which is 15 sen below the IPO price of 50 sen. Due to the effective capital-guaranteed price of 45 sen (90% of IPO price of 50 sen), Sona-WA is expected to be always in-the-money before a qualifying



by **ALAN VOON**

Sona-WA

Warrant price:	24.5 sen
Share price:	43 sen
Exercise price:	35 sen
Warrant expiry date:	29/7/2018
Premium:	36.9%
Gearing:	1.9
Underlying historical volatility:	Not meaningful
Warrant's implied volatility:	51.5%
Delta:	0.81
Effective gearing:	1.5

acquisition is made.

Following the successful listing of two previous SPACs, Sona Petroleum managed to raise a total of RM550 mil through the public issue of 1.1 billion shares, making it the biggest SPAC on Bursa Malaysia. Sona is effectively a shell company with no operation or sometimes known as a blank cheque company. Sona promises to acquire qualifying assets in the oil and gas industry within 36 months of listing.

Sona-WA is now trading at a premium of 36.9%. Its simple gearing is 1.9 times. After adjusting for a delta of 0.81, the effective gearing of Sona-WA is down to around 1.5 times.

From a normal warrant valuation point of view, Sona-WA is not considered too expensive even though its gearing is not too attractive for a play on the upside.

As Sona's mother share is expected to climb above the "capital-protected" price of 45 sen prior to the completion of qualifying acquisition, Sona-WA is expected to be well-supported even though this is effectively a numbers game for now. **FocusM**

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