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EPF and other funds buy stakes in Reach Energy

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PETALING JAYA: The Employees Provident Fund (EPF), Retirement Fund Inc (KWAP) and Credit Suisse Group AG, which have been mopping up shares in special purpose acquisition company (SPAC) Reach Energy Bhd have accumulated stakes of 3.6%, 1.94% and 3.03% respectively as of Nov 30.

Switzerland-based Credit Suisse has also emerged as a substantial shareholder in another SPAC, CLIQ Energy Bhd, with a 5.024% stake.

Analysts said the funds had invested in Reach, which had yet to make its qualified acquisition (QA), as it had the highest protection clause offered compared to its peers. The stock is also trading below its intrinsic cash value.

Under the Securities Commission guidelines, SPACs are required to place at least 90% of the initial public offering proceeds in a trust account managed by an independent custodian, where it will earn interest.

Among the SPACs, Reach has the highest requirement, at some 94.75% of the IPO proceeds in the trust fund, while CLIQ and Sona Petroleum Bhd have kept it at 90%.

This means that if Reach does not make any acquisition over the next three years, investors will get back 94.75% of their money including interests earned.

This theoretically serves as the base value for SPACs. At Reach's current price of 60 sen, it is trading at a 19% discount to its base value of 71.1 sen.

Managing director Shahul Hamid Mohd Ismail said the company was in talks with a few parties for its QA and was committed to making it happen in 2015.

"The low oil price environment does appear to favour us at the moment. Also compared to the big boys, small producers have a much lower operating cost at US$40-US$50 per barrel. For onshore, it could even be US$20 per barrel," said Shahul.

Shahul said that as most big players operate at a higher cost, the lower oil price situation would render their smaller assets more economically unviable to operate.

"The bigger oil players may look to divest their smaller assets to smaller players with lower operating cost because they can manage it more economically," he added.

Shahul, who has 35 years of experience in the oil industry with stints in Shell and Halliburton, feels that the panic in oil prices has been overdone.

"At some point, oil prices will have to balance out. At oil's current price of US$60, many will feel the pinch. This will especially be apparent among the shale and deepwater players. There could be some shale players who operate at US$40, but at this point and with the current technology available, shale is still expensive for many. There are many complications in drilling for shale oil compared to conventional oil," said Shahul.

Another area Shahul felt that the market had overreacted is the cutting of capital expenditure by oil majors.

"Cutting back capex is a general practice depending on oil prices. Every year, oil majors have what you call a capex ceiling. When times are good, the capex ceiling would be increased and when oil prices are low, the ceiling is brought down."

Shahul reckoned that cutting capex would likely affect players in the exploration phase.

"In a low oil price scenario, you will hold off on your drilling activities as this increases the base cost and companies in the development phase might be affected, depending on the level of work done. If work hasn't started, capex is likely reduced. However, for the production stage, companies would continue producing,"