

Reach Energy proceeds with tightened SPAC rules

BY FATIN RASYIQAH MUSTAZA

Reach Energy Bhd has emerged as the first shell company to submit its draft prospectus after Securities Commission Malaysia (SC) fine-tuned equity guidelines for special purpose acquisition companies (SPACs) late last year.

According to its draft prospectus, Reach Energy, whose initial public offering was originally slated for the first quarter of this year, will be placing 94.75% of the gross proceeds of RM750 million from the IPO in an Islamic trust account.

An industry observer notes that instead of the minimum 90% placement in the trust as required under the guidelines, the company's higher allocation is to give investors an assurance that it is committed to acquiring an asset within the three-year period.

"Of the amount raised, RM710 million will be used for asset acquisition, and the company believes it will be able to acquire an asset within three years," says one source.

He adds that investors are entitled to a refund of money held in the trust account if they vote against the qualifying acquisition (QA) or if the QA is not completed within the three-year timeframe as required under SC's guidelines.

The remaining RM40 million of the proceeds will be used for operating expenditure and payment of salaries and incidental costs incurred in acquiring its first asset.

According to its draft prospectus, Reach Energy will be focusing on a QA within Asia-Pacific, particularly Malaysia, Myanmar, Thailand, Vietnam, Australia, Indonesia and the Philippines, as these countries have a "liberalised" oil and gas sector.

"With a liberalised oil and gas sector, it means that there are a lot of assets available to be acquired in the region," the source explains.

Unlike the other three SPACs listed on Bursa Malaysia — Hibiscus Petroleum Bhd, Sona Petroleum Bhd and CLIQ Energy Bhd — Reach Energy will be focusing only on brownfield assets for its first QA.

The source notes that with a brownfield QA that would be ready for development and production, Reach Energy would be able to break even faster as compared with an asset under exploration. "But, of course, this would also depend on the amount of oil that could be extracted.

"Acquiring a brownfield asset would be pricier, but the risk is lower [because] it's already a proven field."

He says normally, oil and gas companies would allocate 70% of their funds for exploration assets.

A comparison between Reach Energy and listed SPACs

	REACH ENERGY	HIBISCUS PETROLEUM	CLIQ ENERGY	SONA PETROLEUM
IPO proceeds	RM750 million	RM235 million	RM364 million	RM550 million
Issue price	75 sen	75 sen	75 sen	50 sen
Market cap	RM958.37 million (upon listing)	RM913.7 million	RM397.5 million	RM740.6 million
Management's subscription price per share	7.5 sen	1 sen	1 sen	1 sen
Management's investment pre-IPO	RM19.17 million	RM1.05 million	RM1.72 million	RM2.82 million
Target QA	Development and production (brownfield assets)	Exploration, development and production	Development and production	Exploration, development and production
Regions of interest	Asia-Pacific	Asia and Oceania	South Asia, Middle East, East Asia and Oceania	Southeast Asia, Middle East and Africa
Moratorium on securities				
Management team (shares and warrants)	Up to one full year of audited operating revenue	Up to completion of QA	Up to completion of QA	Up to one full year of audited revenue
Initial investor shares	Up to completion of QA	Up to completion of QA	Up to completion of QA	Up to completion of QA
Initial investor warrants	Up to completion of QA	-	-	-

"In Reach Energy's case, its post-QA strategy is to achieve an asset portfolio of 30% exploration assets and 70% production assets.

"The allocation for exploration assets will ensure that the company has higher reserves for future

business operations."

This compares with the other three SPACs whose targeted QAs are in the exploration, development and production stage.

It is worth noting that Sona and CLIQ, which have been listed for

about a year, still do not have their first QA approved by SC. Hibiscus made its first QA in 2012 through an acquisition of a 35% stake in Lime Petroleum plc for US\$55 million (RM168.3 million) cash.

CONTINUES ON PAGE 41

Reach Energy's IPO to be largest for an SPAC

FROM PAGE 28

As part of the new SC guidelines, Reach Energy's moratorium on the shares held by the management team will be in place up to one full year of audited operating revenue. Thereafter, the team would be allowed to dispose of its shares up to a maximum of 50% per annum on a straight-line basis.

This is to ensure that it achieves the SPAC's business objective of creating a company with a sustainable business model and generating value for investors, before it cashes out.

Previously, for Hibiscus and CLIQ, their management teams were allowed to cash out after the completion of their QAs while Sona's management would be able to cash out after one full year of audited revenue.

The new guidelines also state that the management team's shares should be issued at no less than 10% of the IPO price.

With an issue price of 75 sen per share, Reach Energy's management team's subscription price would be 7.5 sen apiece. This compares with the other three SPACs' management teams' subscription price of a mere one sen.

The new guidelines also require promoters of SPACs to be experienced and qualified in the fields that they are in. There is also a 10%

minimum shareholding by the management required in the SPAC, but Reach Energy's management team has committed to a 20% shareholding in the company.

Seeking a listing on the Main Market, Reach Energy's IPO will be the largest for an SPAC to date. Its public offering comprises one billion ordinary shares and one billion free detachable warrants on the basis of one warrant for one public share subscribed. The expiry date of the warrants is eight years after the company's listing or three years if a QA is not completed.

Currently, Reach Energy Holdings Sdn Bhd, which is wholly owned by Reach Energy's management team, holds 92% equity interest in the shell company while Daya Materials Bhd owns the remaining 8%.

Immediately after the IPO, Reach Energy Holdings' stake would be diluted to 20% and Daya Materials' shareholding would shrink to 1.74%. IPO investors will take up the remaining 78.26% of the company's shares.

In July last year, Daya Materials bought its stake in the form of 533,334 redeemable convertible preference shares for RM2.4 million, and 12.44 million ordinary shares with 12.44 million free detachable warrants for RM5.6 million. **E**