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Reach-WA riskier than stated



REACH Energy Bhd, the fourth oil and gas special-purpose acquisition company (SPAC) in the country, made its debut on Bursa Malaysia on Aug 15. As with other SPAC companies' debut, the stock ended the day below its IPO price of 75 sen on the first day of trading, closing at 70.5 sen. However, IPO subscribers still make money as the company warrant (Reach-WA), which was given free to IPO subscribers on a one-for-one basis, ended the first day of trading at 22.5 sen. This gave a combined value of 93 sen which was a gain of 24% over the subscription price of 75 sen. While the price of the mother share has since declined further to 65.5 sen at the time of writing, Reach-WA was still largely unchanged at 22 sen.

SPAC is a type of company which has no operations or income-generating business at the point of IPO but undertakes an IPO with the intention of acquiring operating companies or businesses with the proceeds raised from the exercise. Reach Energy's IPO consisted of one billion ordinary shares offered at 75 sen per share (of one sen par value). It comes with one free detachable warrant for each share. Reach Energy raised RM750 mil and the funds will be used to buy brownfield assets that are ready for development or already producing within the Asia-Pacific region.

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 and shares. This makes it easier for SPACs to raise money because investors get one free warrant for each share subscribed.

A unique investor protection incorporated into these companies is that a SPAC must place at least 90% of its IPO proceeds, and in the case of Reach Energy 94.75%, in a trust account managed by an independent custodian. Investors are entitled to exchange their shares for a cash sum equivalent to their pro-rata portion then held in the cash trust account if they



by Alan Voon

Reach-WA (as at Sept 3)

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|-----------------------------------|----------------|
| Warrant price: | 22 sen |
| Share price: | 65.5 sen |
| Exercise price: | 75 sen |
| Warrant's expiry date: | 12/8/2022 |
| Premium: | 48.1% |
| Gearing: | 2.98 |
| Underlying historical volatility: | Not meaningful |
| Warrant's implied volatility: | 25.8% |
| Delta: | 0.71 |
| Effective gearing: | 2.12 |

Remarks:

The maturity date of the Warrants is as follows:
(a) 5.00pm on the 8th anniversary of the date of Listing if the completion of qualifying acquisition takes place within 36 months from the date of Listing; or
(b) 5.00pm on the 3rd anniversary of the date of Listing if the completion of qualifying acquisition does not take place within 36 months from the date of Listing.

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 94.75% capital-guaranteed product with a free warrant.

The holders of Reach-WA can exercise the warrant only after a qualifying acquisition is completed. This means that the capital protected feature of the share will expire before the warrant can be exercised and if no qualifying acquisition is completed within three years of listing, the company will be wound up and the warrant will cease to be valid for any purpose. Reach-WA is therefore a risky instrument despite its stated expiry being still some eight years away.

At its current premium of 48.1%, Reach-WA is not cheap in valuation although its relatively high gearing will still attract punters looking for quick money should the mother share rebound. **FOCUSM**

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