DATE: 12 JULY 2014
PUBLICATION: THE STAR
SECTION: BUSINESS SECTION
HEADLINE: GLCS TAKE UP STAKES IN REACH
CATEGORY: COMPANY NEWS
MEASUREMENT: 972 CMSQ

Shahul and his team will not be able to cash out their shares even after they have made their qualifying acquisition.

GLCs take up stakes in Reach

New rules open the way for LTH, Felda and Mara to buy into Spac

KEY POINTS

The management of Reach ended up putting in a total of RM20mil for its management shares.

The previous three Spacs – Sona Petroleum, Cliq Energy and Hibiscus – raised RM550mil, RM364mil and RM235mil respectively

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IN a monumental move, government-linked investment companies (GLICs) Lembaga Tabung Haji (LTH), Koperasi Permodalan Felda Malaysia Bhd and Pelaburan Mara Bhd have taken stakes in special purpose acquisition company (Spac) Reach Energy Bhd, which is slated to be listed sometime in August.

LTH will in fact be a cornerstone investor.

Prior to this, GLICs do not have the mandate to invest in Spacs. Spacs are shell companies with no operations or income-generating business at its point of listing.

Spacs undertake the listing for the purpose of raising funds to acquire businesses or assets, otherwise known as the qualifying acquisition (QA).

It appears that LTH, Felda and Mara obtained the mandate to invest in Reach, an oil and gas Spac, after the new guidelines were released earlier this year, as they took comfort mainly in the investor protection clause.

A source says some of the other cornerstone investors include MTD Capital Bhd, Paul Poh and Chua Sai Men.

Poh is a lieutenant of banking tycoon Tan Sri Quek Leng Chan. Quek and Poh have been heavily investing in oil and gas companies. Their most recent investment was in May, when they inked an agreement to buy a 15.35% block in Alam Maritim for close to RM170mil.

Meanwhile, Sai Men is the son of tycoon and savvy investor Tan Sri Chua Ma Yu.

MTD Capital is a listed bumiputra investment holding company with interests in infrastructure development.

As for state-owned Pelaburan Mara, it came into the limelight in April when it bought a 27% stake in shipping firm PDZ Holdings Bhd for RM41mil.

The source adds that the cornerstones make up some 20% of Reach Energy's share base while institutions make up some 15%. The remainder shareholders are made up of corporates and individuals.

Other asset managers that have taken up stakes in Reach Energy include Kenanga Investors, Norway's sovereign fund Norges, Areca Asset Management and Allianz Investment.

"What attracted the bumi funds was the investor protection. Reach was putting in 94.75% of its funds into the trust fund, instead of the stipulated 90%. Should a QA not be executed in 3 years time, the 75 sen per share put in by the investors actually becomes 76 sen, based on the existing interest rate. Furthermore, they could trade their warrants. It was a no-lose situation," said one banking source.

The fact that Reach was a syariah-compliant company, also helps the investing case.

Certainly, Reach is the first Spac to be listed under the Securities Commission's new strict guidelines, with many people touting it to be the safest Spac.

The management of Reach, led by Shahul Hamid Mohd Ismail has put in a significantly higher amount of money than the three previous Spacs – Hibiscus Petroleum Bhd, Cliq Energy Bhd and Sona Petroleum Bhd.

Under the new guidelines, it is stipulated that the management team's shares should be issued at no less than 10% of the IPO price.

The subscription price per share for the management of Hibiscus, Cliq and Sona was 1 sen, while Reach had to put in 7.5 sen based on the IPO price of 75 sen.

"The management of Reach ended up putting in a total of RM20mil for its management shares. That is a lot of money. The management of the other Spacs put in between RM1mil and RM3mil, while is significantly lesser.

"With the kind of money the management of Reach was putting in, there is certainly a greater urgency to make the business work," says the banking source.

Furthermore, Shahul and team will not be able to cash out their shares even after they make their QA. Another new guideline of the SC is that Reach Energy's moratorium on the shares held by management will be in place up to one full year of audited operating revenue. Following that, the management will be allowed to dispose its shares up to a maximum of 50% per annum on a straight line basis.

When *StarBizWeek* contacted Shahul, he declined to comment until after the company's prospectus is launched

Tough competition

In the last few weeks, there has been stiff competition for the allocation of Reach shares. Due to overwhelming demand, there hasn't been enough shares to go round, and many parties ended up getting smaller allocations than what they asked for.

"When Sona was undertaking its placement for the initial public offering (IPO) exercise last year, the placement shares were oversubscribed by some six times. We are having the same sort of situation for Reach," says one banker.

"With Spacs, no one is talking about valuations. Everyone has seen how well the shares of Hibiscus Petroleum, Cliq and Sona have performed. They want to be part of the action," says the banker.

The competition for Reach shares has not only been among investors. Even the banks are tussling for the mandate to place out the shares.

While Hong Leong Investment Bank is the principal adviser, placement agent and underwriter for Reach Energy's IPO, the banker says that Maybank Investment Bank, Kenanga Investment Bank Bhd and RHB Bank Bhd also requested for the mandate to place out the shares.

The banking source says the three banks are made sub-placees by Hong Leong.

The tussle for Spac shares has vastly evolved since Hibiscus, Malaysia's first Spac (now a full-fledged exploration and production company) went for its listing in 2011.

With the listing of each new Spac, the amount of funds raised gets bigger.

The previous three Spacs – Sona Petroleum, Cliq Energy and Hibiscus – raised RM550mil, RM364mil and RM235mil respectively

Reach, which will be the fourth Spac to list on Bursa Malaysia, will also be the largest, as it is raising some RM750mil.

In 2011, with Spacs being a completely new concept, nobody wanted to touch Hibiscus.

"Raising money for Hibiscus and Cliq are vastly different from raising money for Sona Petroleum or Reach. With Hibiscus and Cliq, a lot of convincing and hard selling was required. No asset manager wanted to take up the shares. In Cliq's case, they managed to get one local institution in, but that too, after lots of persuasion," said the banker.

Reach's IPO comprises 1 billion shares at an issue price of 75 sen each. The offer comes with 1 billion free detachable warrants on the basis of one warrant for one share subscribed.

Malaysian oil and gas services firm Daya Material Bhd is only an initial investor in Reach Energy. Daya's ownership will be only 1.74% after the IPO, according to the prospectus.