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SPACs out to raise money

Special purpose acquisition companies on the hunt for investors

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The promoters of special purpose acquisition companies (SPACs) are in overdrive, chasing for investors.

And it's turning out to be a challenging task, no matter all the positive rhethoric that the promoters say.

"We've got committed investments," is what we keep hearing. But detractors say that they will believe it when the see the "money into the bank."

To date, there are three SPACs trying to raise between RM850mil to RM1.17bil. Out of these three, two are already listed and one has been approved to list. There is another group of SPACs which are in various stages of their application with the Securities Commission (SC) who are also looking to raise hundreds million ringgit.

What makes the fund raising exercise for SPACs even tougher is the fact that established institutions and conventional money management companies are generally not keen to invest in SPACs, considering the nascent nature and high risk aspect of SPACs. Many of these funds also don't have the mandate to invest in SPACs.

To recap, a SPAC has no operations or income-generating businesses at the point of its initial public offering (IPO). So, investors are basically giving blank cheques to shell companies with no assets. All these companies have is their management, and the hope of buying a company or asset in time to come.

Hence the typical profile of SPACs are high net worth individuals. But are there sufficient high net worth individuals to raise that amount of money?

What works at a comfort level to SPAC investors, note market observers, is that the SPAC rules entail some levels of protection for investors.

For instance, a SPAC is given a three-year period to secure a qualifying asset. If it isn't able to do so, then 90% of the IPO proceeds must be returned to investors.

On the other hand, if the SPAC does use the money to buy an asset that meets the standards set by SPAC guidelines, there is still the market risk that the asset may not turn out to one that is able to generate the kind of returns that is expected.

"It is a high risk, high return asset class, there's no doubt about it," quips one fund manager.

Interestingly, the share price performance of the two SPACs that have successfully listed have done well, indicating that there have been a fair bit of investor interest.

Hibiscus Petroleum Bhd was the first SPAC to make its debut on the Main Market of Malaysia in July 2011 and it was followed by CLIQ Energy Bhd which was listed in April this year. Both are in oil and gas exploration and production (E&P)-focused SPACs.

Hibiscus raised RM235mil for the listing exercise, above the minimum RM150mil that SPACs need to raise. It is now looking to raise another RM300mil.

Meanwhile, CLIQ raised the bar higher and raised RM364mil for its IPO.

IPO investors of both SPACs are in the money. Hibiscus' mother share was listed at 75 sen, while its warrants were given free.

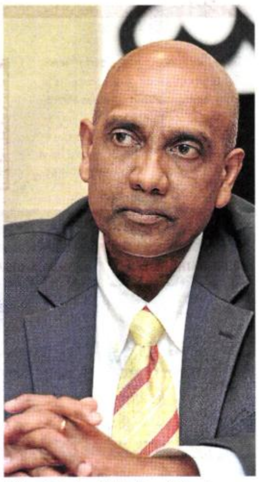
Hibiscus' share price has doubled since its IPO to RM1.48 while its warrants were trading at over 90 sen each.

Since its listing in April, CLIQ has delivered a combined return of 143.33%. In CLIQ's case, its share price has performed exceptionally well, even without making any acquisition yet.

CLIQ has mentioned that it wants to establish itself as a junior, independent, international oil and gas company, specialising in exploration, development and production of oil and gas resources in the Asian and Oceania regions.

CLIQ MD and CEO Ziyad Elias

Sona Petroleum CFO Datuk Maznah Abdul Jalil



Hibiscus Petroleum MD Dr Kenneth Pereira

SPACs wooing big money

SPAC companies	Status	Amount raised (RM mil)	Amount to be raised (RM mil)
Hibiscus Petroleum	Listed	235	300
CLIQ Energy	Listed	364.5	500
Sona Petroleum	Approved, not listed	N/A	550
TerraGali Resources	Not approved, not listed	N/A	150 to 300
Australasia Resources and Minerals	Not approved, not listed	N/A	157.5 to 315
TOTAL		599.5	1,658 to 1,965

"In fact, there are many people who would put their money in SPACs rather than the big IPOs. Big IPOs like Astro Malaysia Holdings Bhd haven't done as well as the SPACs. These big IPOs also don't have protective downside mechanisms unlike the SPACs. Would I put my money in an IPO of an established company but one which is being priced at 30 times (x) 2013 earnings or a SPAC? I might choose the SPAC," said one fund manager.

Both Hibiscus and CLIQ did not receive investments from established financial institutions at the point of their IPO. Subsequently, Hibiscus did receive support from certain high net worth individuals, including a rich tycoon.

Tan Sri Arumugam via his vehicle Sri Inderajaya Holdings Sdn Bhd took up a 8.8% stake, while Ezra Holdings Ltd (a Singapore-listed oil and gas concern) group managing director Lionel Lee Chye Tek bought a 8.9% stake. Arumugan's son Roushan Arumugam is also a director in Hibiscus.

Gaining in appeal but still a challenge to raise money

Sources said that for subsequent SPACs coming into the market, some have received or are close to receiving investments from smaller private financial institutions, as they are encouraged by the success of Hibiscus and CLIQ. Three more Malaysia-based SPACs, TerraGali Resources Bhd, Australaysia Resources and Minerals Bhd and Sona Petroleum Bhd, are looking to list in the coming months.

Of these, Sona Petroleum has gotten the green light from the authorities to list. The company, which was formed to acquire assets in the E&P phases of the oil and gas sector, aims to raise up to RM550mil from its initial public offering.

"After the general election, there appears to be quite a lot of funds and individuals looking for assets. These investors like the oil and gas sector which is buoyant and will be a major hive of activity over the next few years," said one investment banker.

He added that the quality of management is the main selling point of a SPAC, as at IPO point, that is all the SPAC has.

"Plain vanilla type government linked institutions and pension funds will not invest in SPACs. However, the private ones, especially those with higher risk appetite are starting to be more open to investing in SPACs," said one industry observer.

He added that there was an appeal in SPACs, as these were companies that were investing in new sectors which were previously not common in Bursa Malaysia. For instance, Hibiscus and CLIQ are both in the E&P segment, which is still considered a novel sector in the Malaysian listed company context. On Bursa Malaysia, most oil and gas players are service providers.

TerraGali and Australaysia are in the mining sector.

"I would think that moving forward, it actually gets easier to raise funds for the SPACs. People have already seen how well Hibiscus and CLIQ did. This was especially apparent when CLIQ's share price did really well, even without getting an acquisition," said the industry observer.

"In fact, I would say that it was hardest for Hibiscus to raise funds, as it was the first. People were sceptical. Now people understand how it works, and more importantly, they see that the Securities Commission has done a very good job putting in place the protective mechanisms, he said.

On the other hand, one detractor disagrees. He reckons that even though Hibiscus and CLIQ have raised money and their shares have done well, they have yet to show the kind of cash-generating business that will pay off all investors in those SPACs. "The market risk still persists and that's why it isn't a shoo-in even for Hibiscus to raise more money," he said.

A SPAC's IPO scheme is very different from the usual listings. Investors are guaranteed a minimum refund of 90% of the IPO price of 75 sen if the SPAC fails to identify and complete any asset acquisition within three years or if shareholders vote against the proposed acquisitions. This is one of the SPAC's listing requirements.

At least 90% of the IPO proceeds will be placed in a trust account managed by an independent custodian, this is a measure to prevent the mismanagement of funds.

"The proceeds in the custodian account will also be earning interest, so by the end of the three years, if the company fails to make an acquisition, investors will get back nearly their entire principal. The only thing that is lost, is the opportunity cost," said the observer.

Furthermore, to sweeten the deal, the SPACs issue free warrants on the basis of one free warrant for every share subscribed for. Shareholders are free to trade these warrants. As can be seen from Hibiscus' and CLIQ's warrants, it has done extremely well.

Another fund manager said that with the many SPACs coming into the market, the key question to ask was when the saturation point would be.

"At what point would there be oversupply and interest in them starts dwindling ... perhaps if one of the existing SPACs do not deliver. If for example, the drilling programme of one of the SPACs is a failure. Then people may wake up to the reality of investing at such a premature phase," said the fund manager.