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Sona's acid test

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SPAC needs shareholders to approve QA of Stag Oilfield

PETALING JAYA: It is crunch time over the next few days as Sona Petroleum Bhd rallies its investors for the green light on its qualifying acquisition (QA) of the US$25mil Stag Oilfield in Australia, which will be voted on during its EGM on March 30.

Managing director Datuk Seri Hadian Hashim (*pic*) said shareholders should vote for the Stag Oilfield QA as it is immediately profitable and investors are buying an asset right at the bottom of the oil price cycle.

"Production is already ongoing and it is cashflow generating. Our operational cost is at US$30 per barrel with potential upside for further reduction. We also have a 100% ownership and operatorship of the asset," said Hadian.

Sona traded unchanged at 46.5 sen. This is a 2 sen discount to its cash value of 48.5 sen.

Hadian added that Stag's oil also traded at a premium to Brent crude oil due to its low sulphur content. Brent is now trading at US$39.15.

Last November, Sona Petroleum first proposed to acquire a 100% stake in Stag Oilfield assets in Western Australia for US$50mil.

After independent valuers deemed the price tag as too high, Sona managed to cut the purchase price by half to US$25mil.

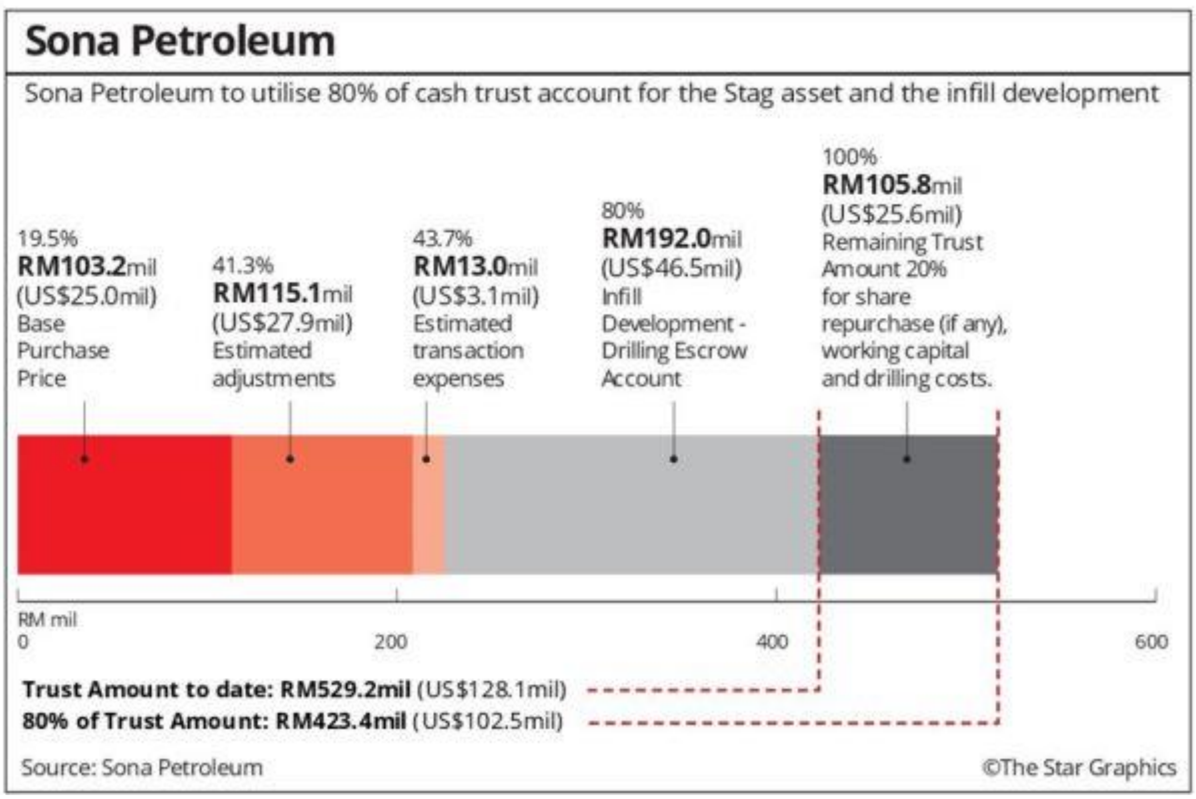
While the acquisition price of US$25mil makes up about 19.5% of Sona's cash in its trust account, approval has been granted by the Securities Commission to include a portion of an infill development (RM192mil) which will increase the amount to be spent to RM423.4mil, meeting the requirement for 80% utilisation of the cash in the trust fund.

Following the infill development (which takes place between 2016 and 2018), Sona will still be left with RM105.8mil in its trust account which can be used for additional working capital or drilling costs.

Thus, the acquisition of the asset along with a portion of the infill development will be funded internally. Any additional funds needed will be financed by the cashflows generated from the existing producing asset.

The Stag Oilfield is currently producing 4,000 barrels of oil per day (b/d). The infill development will bring its production to 4,400 b/d in 2017 and 5,300 b/d in 2018 and 4,700 b/d in 2019.

Hadian further explains that there is a TSA (technical services agreement) put in place with the vendors of Stag Oilfield for a six month transition period, to ensure the smooth migration of the business between the vendors to Sona.



In fact, the existing head of production for Stag Oilfield is already under Sona Petroleum’s payroll.

Shareholder approval is currently the main stumbling block for Sona Petroleum. For the QA to go through, Sona needs 75% of its shareholder to vote “yes”. There are some 30% of institutions who hold Sona shares, with a good number of them being yield investors.

Yield investors are investors who bought into Sona with the intention of profiting from the cash value of the company, rather than investing in the business.

Sona has a cash value of about 48.5 sen. Any shareholder who bought Sona shares at a price lower than the cash value, might vote “no” simply because it is a risk-free investment to profit immediately.

The management of Sona owns 20% of Sona. The largest institution is Credit Suisse Securities Europe with a 10.61% stake, followed by Pacific Alliance Asia Opp Fund which owns 9.73% stake.

The Sona management is in fact showing its commitment by extending the moratorium on its shares from early 2018 to late 2019 Hadian explained that management would not sell its shares until it achieved a few milestones, namely kicking up its production to 5,300 b/d as well as renewing the Stag Oilfield licence which expires in 2018.

Upon expiry, the licence is renewable for a further 21 years.