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Sona seeks institutional shareholders to back QA

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Hadian: There are various spectrums of the investing public. Some want long-term gain; some want short-term gain. ***Photo by Suhaimi Yusuf***

KUALA LUMPUR: Sona Petroleum Bhd, which will seek shareholders' approval for its proposed qualifying acquisition (QA) on March 30, is currently engaging with its institutional shareholders to convince them of the merits of the deal.

The support of the institutional shareholders, who collectively hold a 30% stake in Sona, is critical of the special-purpose acquisition company (SPAC).

The proposed QA is subject to prior approval by a majority in the number of shareholders representing at least 75% of the total value of the issued shares held by those present and voting at the extraordinary general meeting.

"We have been actively convincing our shareholders that they stand to gain from this deal. There are various spectrums of the investing public. Some want long-term gain; some want short-term gain.

"Engagement has been made and they liked the deal, because we are buying at a lower price, that there are rooms for further optimisation, and oil price is trending upwards [now].

"But there are people who are affected by margin calls; there is nothing we can do," said Sona managing director Datuk Seri Hadian Hashim in an interview yesterday.

Sona's share price was mostly hovering between 41 sen and 44 sen in 2015. The stock has climbed to 46.5 sen recently — the highest level since November 2014. It closed at 46 sen yesterday.

Some institutional funds snapped up shares in SPACs after the sharp fall in late 2014 as these stocks, including Sona, were trading below their cash per share. Sona's cash per share in its trust account is 45 sen. The rationale of the investments is to gain from the difference between the cash per share and market value, instead of the prospects of QA. They are aware that investment risks will rise after the QA.

Sona had managed to obtain the Securities Commission Malaysia's (SC) approval for its proposed QA, which had noted that the purchase price was not fair at US$50 million (RM205 million). Later, Sona halved the price to US$25 million, taking into account the crude price crash that has eroded the valuations of oil assets worldwide.

The SC, meanwhile, had rejected Cliq Energy Bhd's QA proposal in January, which led to the liquidation of the SPAC.

To recap, Sona's QA is to buy 100% stake in Stag oilfield located offshore Western Australia. Stag oilfield produced about 4,500 barrels of oil per day (bpd) in 2015, and has a 17.2 million standard barrel of proven and probable (2P) reserves.

"The producing oilfield will provide Sona with sustainable ongoing revenue potential for growth. The current production of around 4,000 bpd will be enhanced to as high as over 5,000 bpd in 2018 by Sona's development plans over 2016 to 2018.

"This reflects the oilfield's potential to deliver long-term value. The first phase of development will cost A$47 million (RM143.78 million), while the second phase will cost A$100 million. Sona plans to utilise its IPO (initial public offering) proceeds and internally generated funds for these development costs," said Hadian.

At the purchase price of US$25 million for 17.2 million standard barrel of 2P reserves, the reserve is valued at US$1.45 per barrel, said Hadian.

According to independent technical and asset valuation expert Gaffney, Cline and Associates (Consultants) Pte Ltd, the operating cost per barrel of the Stag oilfield is estimated at US$30.80 per barrel.

"This is an opportune moment as the current low-price environment provided us with an opportunity to purchase the asset at such a highly competitive price. With oil prices inching up, we are cautiously optimistic that the environment will become more profitable for upstream players soon," said Hadian.