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Sona Petroleum confident shareholders will approve Stag Oilfield deal

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KUALA LUMPUR: Sona Petroleum Bhd, which managed to cut the purchase price for its qualifying acquisition by half, is confident that its shareholders will approve the deal to acquire Stag Oilfield, offshore Western Australia, at an EGM to be held at the end of this month.

In a bid to boost market confidence on the deal, Sona Petroleum managing director Datuk Seri Hadian Hashim said, the company has started a high degree of engagement with institutional investors and analysts.

"I am confident they (shareholders) will consider seriously," he said.

Sona Petroleum, which has until July 29, 2016 to secure its qualifying acquisition, has come under the spotlight following the pending liquidation of its peer, CLIQ Energy Bhd, which failed to obtain approval for its acquisition.

For the deal to pass through, the company must obtain the approval of shareholders representing at least 75% of its issued shares. Once approved, it is expected to be completed in the first half of the year.

Hadian believes the acquisition will bring profitability to the company in the longer term with an internal rate of return of more than 15%, even with the current low oil price environment. "Anything more than US$30 (RM123) is profitable for us," he told a press conference here yesterday.

With a reduction in the acquisition price, Sona Petroleum would only need to fork out US$25 million (RM103.2 million) to acquire Stag Oilfield from Quadrant Northwest Pty Ltd and Santos Offshore Pty Ltd, compared with the initial US$50 million (RM206.5 million). The new price tag is based on a short-term oil price projection of US$30 plus and US$40 plus over the longer term.

Stag Oilfield began production in May 1998. Its production licence will expire in August 2018, but is renewable for another 21 years by applying to the National Offshore Petroleum Titles Administrator of Australia.

On the possibility of a non-renewal of the licence, Hadian sees minimal risk as there are no issues or breaches that could lead to such circumstances, citing that the transparency in the Australian market will help to ease concerns. He opined that there is no reason for the authorities not to renew the licence, as long as the oilfield can be developed economically.

Upon completion of the acquisition, Sona Petroleum plans to carry out the infill development, which is expected to incur drilling expenditures of about A$147.4 million (RM435 million). Together with the acquisition price of RM103.2 million, it works out to a total of RM538.2 million, which is slightly above the RM529.2 million in the cash trust account.

However, Hadian stressed that it won't pose a funding risk to the company as the development plan is divided into two phases, expected to be completed by the first quarter of 2017 and 2018 respectively. "It's a production asset, so there will be internal cash generated, it (development plan) will be financed by cash flow," he explained.

Sona Petroleum's share price was down half a sen to 46 sen yesterday.