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Site Last Updated 8:23 am, Wednesday

Reach Energy's coming IPO to raise funds for O&G assets acquisition

Posted on May 14, 2014, Wednesday

KUCHING: Reach Energy Bhd (Reach Energy) will invest most of the funds it raises from its upcoming initial public offering (IPO) exercise to acquire oil and gas production assets as its qualifying acquisition (QA).

The special purpose acquisition company (SPAC) in its initial prospectus exposure released on Monday outlined that the company will be investing 70 per cent of its investment cost in oil and gas production assets while the remaining 30 per cent in exploration assets.

SPACs are companies which have no operations or income generating business at the point of IPO but undertake an IPO for the purposes of raising money to acquire operating companies or businesses, otherwise known as QA.

Reach Energy which is en route to a listing on Bursa Malaysia soon plans to raise some RM750 million through a public issue of one billion new ordinary shares of 1 sen each together with one billion free detachable warrants representing approximately 78.26 per cent of the company's enlarged issued and paid-up share capital at an issue price of 75 sen per share.

The company said 980 million shares out of the one billion shares, together with 980 million warrants, will be offered to selected investors by private placement while 20 million shares together with 20 million warrants will be made available to the public by balloting.

Upon listing, based on the issue price of 75 sen per share offered, Reach Energy says it will have a market capitalisation of RM958.37 million.

It will also place 94.75 per cent of the gross proceeds raised from the IPO in an Islamic Trust account immediately upon receipt of all the IPO proceeds.

"Our vision to list on the main market is to establish ourselves as an independent Malaysia-based exploration and production company with global and domestic operation.

"There are favourable environment and market conditions for its QA assets to be in the oil and gas industry in the region," it noted in its prospectus.

Reach Energy says it will focus on relatively low-risk development or production assets with an objective to produce oil and gas and generate early revenue within two years from the date of completion of the QA.

Post QA, the company intends to eventually own a balanced portfolio of exploration and production assets with the objective of growing its reserves.

Reach Energy will focus on brownfields in the production phase and fields in the proximity of existing producing areas within the Asia Pacific region, it added.

Furthermore, Reach Energy said it shall complete a QA that enables the company to secure a controlling equity stake which is ownership of more than 33 per cent of the target company or asset with management control where it will control the strategic and financial decisions of the target company or asset.

On another note, the company disclosed that on July 26, 2013, another listed company Daya Materials Bhd (Daya Materials) had entered into a separate subscription agreement and suplemental subscription agreement respectively with the company.

Subsequently this year, Daya Materials and Reach Energy entered into a novation agreement with a supplemental to the novation agreement for the subscription of reedemable convertible preference shares (RCPS).

Reach Energy observed that the subscription by its initial investor, Daya Materials will raise a total proceeds of RM10 million before its IPO.

Its managing director Shahul Hamid Mohd Ismail has more than 30 years of experience in the oil and gas industry having previously led Daya Materials group of companies to develop a portfolio of core oilfield services covering Malaysia, Myanmar, Indonesia, Sri Lanka and Papua New Guinea.

The moratorium period on the securities of the company held by its holdings company will be effective from the date of its listing until the company has start commercial production and generated one full financial year of audited operating revenue.

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