Special Purpose Acquisition Company IPO as an Alternative Tool of Financing to Traditional IPO: Case Studies from an Emerging Market

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Introduction

The introduction of the reverse merger of a company known as Special Purpose Acquisition Company (SPAC) to Malaysian financial market as a means of accumulating funds from investors can be considered as a new trend in the emerging Asia. Some investors would contend this as a form of a non-traditional Initial Public Offerings (IPOs). According to Jenkinson and Sousa (2011), SPAC is established with the intention of asset acquisition, merger, and other business combination. It provides greater liquidity for the flow of fund and trading volume through the stock market, and this financing tool enhances the market efficiency.

As shown in (Exhibit1, next page), new SPACs have been established since 2011, and over the years, this idea has slowly gained popularity. Albeit a small growth from 2011 to 2016, to-date, five SPCAs are listed on the Malaysian stock exchange. The first four SPACs are oil and gas companies while the recent SPAC is in the food and beverage industry.

The first SPAC listed on the Bursa Malaysia is Hibiscus Petroleum Berhad. It was listed on the Main Market on 25th July 2011. The main business activity of Hibiscus Petroleum Berhad is the exploration and production of oil and gas. In 2012, Hibiscus Petroleum had made acquisition of business and asset that would pave the way for the company to become an independent oil and gas exploration and production player in future. It has no income or operation from the business prior to the initial public offering (IPO), and the exposure of risks is higher for underpricing compared to the traditional IPO.

According to the Malaysian Stock Exchange (also known as Bursa Malaysia), SPAC is defined as a company which has no income or operation from business prior to the initial

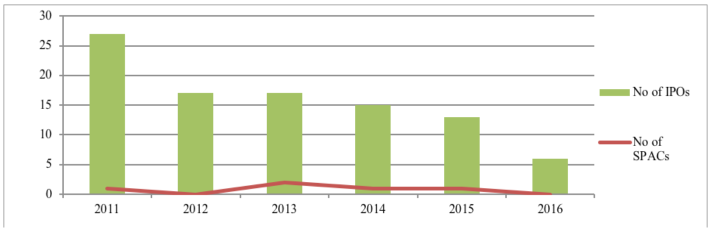

Exhibit 1: Number of Malaysian IPOs Compared to SPAC IPOs
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

public offering (IPO). Under the present guideline, a SPAC must make its initial acquisition (also known "qualifying acquisition") within 36 months from its initiation or IPO, else the SPAC must be liquidated and the proceeds held in a trust account, and be distributed back to the shareholders on a pro-rata basis. It is clearly stated that at least 90 percent of the gross proceeds from a SPAC's IPO must be deposited in a trust account. The listing requitements are stated in Exhibit 2.

It is no doubt that SPAC is a new breakthrough as it provides another alternative tool to raise fund and caters for another segment of investors which have higher risk appetite as compared to traditional IPOs. SPAC attracts the flow of investors' monies into the market and hence increases the market liquidity. However, there has not been any documented study done on SPAC in Malaysia despite its existence since 2011. Hence, this study intends to bridge the gap between the research in this area.

Malaysian SPAC IPO has evolved as an interesting subject to study the financing issue from the perspective of financial management. Firstly, according to Bloomberg, Malaysian stock market has raised a total capital of USD 7.56 billion in 2012 and has grown to be the world's fourth largest market for IPOs.

Secondly, Malaysian SPAC IPO is the pioneer in the Southeast Asia region. It has also recorded some successful transaction for companies such as Hibiscus Petroleum and EcoWorld International. For the former, after the completion of the acquisition of a 35% stake in Lime Petroleum Plc (Norway) in April 2012, Hibiscus Petroleum has become a full-fledged oil and gas exploration and production company.

In addition, Hibiscus Petroleum Berhad is the first company which has been discharged from the SPAC and re-listed to the Industrial Products under the Main Market. For the latter, the first SPAC property proposed by EcoWorld International has also ceased to be SPAC because the company is able to meet the new listing requirement.

The paper aims to account for the recent development of SPACs in Malaysia with respect to the companies listed and their key indicators. In addition, the paper intends to evaluate the usefulness of SPAC as an alternative financing vehicle in an emerging market like Malaysia. The remainder of the paper is organized as follows. Section two reviews the past literature followed by the methodology on how SPAC is listed in stock exchange. Section four discusses a number of SPACs in Malaysia. The last section concludes the study.

Literature Review

SPACs as public listed companies

The past studies on SPAC are sparse; however, it is a successful alternative financing in the recent financial innovation. It becomes one of the important sectors for U.S. IPO market since 2003. In 2008, SPACs achieved one-third of the U.S. IPO market in terms of a number of offerings and fund raised. The fund raised from SPACs is sold through IPO which consists of common stock and a free detachable warrant. As usual, warrants can be traded immediately on the first trading day. The fund raised from IPO is used for business combination.

The main assets for SPAC are the fund raised, experience and skill of the management team. The primary objective of SPAC is to seek for a business combination. With regard to this, the underwriter has obtained financial interest to purchase additional units at a premium to the offer price in SPAC; therefore they assist in advising a business combination.

Aspect	Main Market
Listing Board	SPAC is allowed on Main Market only
Place of Incorporation	Must be incorporated in Malaysia under the Companies Act, 1965 The Securities Commission Malaysia may allow SPAC incorporated in a jurisdiction outside Malaysia the requirements set out under Additional Criteria for Primary Listing of Foreign Companies are complied with
Minimum Fund Raised	RM150 million
Management Team Credibility	Members of its management team have the experience, qualification and competence to:- ➘ Achieve the SPAC's business strategy; and ➘ Perform their individual roles, including understanding of the nature of their obligations and those of the SPAC
Management Team Ownership	Must in aggregate own at least 10% in the SPAC on the date of its listing
Moratorium on Securities	Management team's entire interest from date of listing until completion of the qualifying acquisition Upon completion of the qualifying acquisition, sell down is allowed on a staggered basis over a period of two years
Management of Proceeds	Must place at least 90% of the gross proceeds raised in a trust account and may only be released by the custodian upon termination of the trust account At least 80% of the amount in trust account to be used for qualifying acquisition
Qualifying Acquisition	Must complete qualifying acquisition within 36 months from the listing date

Exhibit 2 Key Listing Requirement of SPAC
Source: Bursa Malaysia (http://www.bursamalaysia.com/market/listed-companies/listing-on-bursa-malaysia/listing-criteria/, accessed 1 June 2016)

SPAC Features

The activity of business combination requires huge capital, SPACs serve as an alternative financial tool for IPO fundraising. It is essential to provide management team a different way to acquire target company, access to potential investors, provide more choices for investor and capitalize on their expertise (Hale, 2007).

Davidoff (2008) describes the distinctive characteristics of SPACs and Sjostrom (2008) studies the legal features of the SPACs. In this regard, Securities Commission of Malaysia is the first to implement a dedicated soft law to SPACs through Bursa Malaysia in 2011. The soft law ensures greater transparency to SPACs' investors in terms of the implementation process, its duration, capital structure and moratorium periods (D'Alvia, 2014). Therefore, it is suggested that the soft law approach is the best guidelines to control economic issues such as to protect the investor from moral hazard and asymmetric information.

The other focal point is, the SPAC's future demand and the prospect can be influenced by asymmetric information such as management skills and staff knowledge. It is essential for SPAC as the business nature is very much relying on the investment and acquisition of assets. According to Jog and Sun (2007), SPAC insiders and public investors without sufficient information about firm's prospects such as management skills and staff knowledge cause the low initial return to investors. On the other hand, Jenkinson and Sousa (2011) mention risk-free investment is defined as the funds allocated to the trust account and SPACs are the combination of risk-free investment with a potential future acquisition.

According to Schultz (1993), Chemmanur and Fulghieri (1997), Garner and Marshal (2005) focus on other aspects such as stakeholders' incentives, institutional structure, SPAC performance, SPAC success factors. Schultz (1993) finds SPAC commits to issue additional stocks during the exercise of the warrant in future. It is because the size of SPAC is relatively small, low earnings, a low value of assets and agency cost problem between managers and stakeholders. Chemmanur and Fulghieri (1997) also agree with Schultz (1993) that SPAC IPOs solve information asymmetry problems in terms of the fair price of SPAC and inherent risks. Garner and Marshal (2005) agree to Chemmanur and Fulghieri (1997), Schultz (1993) results, they find the first-day performance is higher because of SPAC firms allocate the bigger proportion of firm value to its warrants during IPO.

SPACs Performance

The first-day performance is important for the issuers, underwriters, stakeholders, and investors. Most of the studies focus on the issue of IPO pricing. The issue of pricing causes the under-pricing or over-pricing on the first day of trading. Therefore, SPAC is getting substantial attention from investors due to the different listing requirement as compared to traditional IPO. Jog and Sun (2007), Boyer and Baigent (2008), Rodrigues and Stegemoller (2012) show SPACs have a low initial return. They conclude that the poor performance can cause higher uncertainties about SPAC firm's future demand and prospect.

In addition, according to Jog and Sun (2007), they find a lower IPO underpricing with negative post-SPAC IPO return and positive returns for SPAC management. More studies from Jog and Sun (2007) and Boyer and Baigent (2008) find SPAC issue provides a very low average initial return as compared to other traditional IPOs (Ritter and Welch, 2002; Loughran and Ritter, 2004; Gao, Ritter, and Zhu, 2011). This is a norm as the SPACs without stable business income and sophisticated operation prior to the listing; subsequently, it accelerates the uncertainty about the future demand and prospects of the ability to generate profit.

An early study from Rock (1986) shows the information asymmetry of traditional IPO performance that insiders have extraordinary information compared to public investors. However, Jog and Sun (2007) found neither investor has insider information about the SPAC's prospects. They found this is consistent with the little information. First, SPACs performance is slightly underpriced on average; Second, there is a lack of mispricing where the underwriter helps in matching the supply and demand of IPO under the over allotment option.

Boyer and Baigent (2008), and Jog and Sun (2007) report the size of SPACs IPOs is relatively small with average less than $100 million. Moreover, they also report a low asset value and low earning because SPACs are required to acquire new business to grow stronger. Therefore, they conclude SPACs are not experiencing any underpricing on the first day of trading (Chakraborty et al., 2011). This finding is consistent with Lewellen (2009), Thompson (2010), Lakicevic and Vulanovic (2011), and Ignatyeva, et al. (2012) with a substantial sample of SPACs from US and European markets, the results show SPACs do not experience any underpricing. Lewellen (2009) reports a monthly return of negative 2% and Jog and Sun (2007) report an approximately overall performance of negative 22% to those investors who hold common stock of SPACs.

Similar to the performance of post-merger announcement, Tran (2012) reports a low monthly return of 1.7% and Lakicevic and Vulanovic (2011) also report a negative return after the post announcement to common stockholders. It can be explained in the study of Datar et al. (2012), they report that the performance of SPACs is inferior as compared to IPO firms. They explain that SPAC acquires companies which are highly leveraged, smaller in size, lower investment and growth opportunities as compared to IPO firms.

SPACs Volumes

The study of IPO volume is interesting as it reflects the investors' sentiment and behavior of the share movement. Ibbotson and Jaffe (1975) and Ritter (1984) find the traditional IPO volumes is substantial during "hot issue". However, the studies on SPACs volumes still needs more attention.

SPACs Risk

SPAC structure reflects its risky investments, especially dealing with the confiscation of shareholders' fund. However, SPACs are able to mitigate these risks and incorporate some protection for shareholders such as holding funds in trust, a limited time frame for assets acquisition, allowing conversion and shareholders are given voting right on the business acquisition (Securities Act Rule 419).

In relating to the IPO performance, Berger (2008) finds bigger market capitalization of SPACs is harder to identify a larger target for acquisition as it may cause shareholders estimate the firm value inaccurately before the target is announced. Therefore, size, time or conversion limits are the determinants for evaluating a firm's future combination for shareholders.

SPACs' Acquisition

According to Malmendier et al. (2012), the potential of SPAC future acquisition reflects the value added and as well as for both target and bidder firms, it is subsequently brought to the synergies creation. Therefore, the IPO of SPAC is a value creation tool as the business scale can be expanded to the distinct level through international acquisition. Some further studies by Netter et al. (2011), Faccio et al. (2006), and Officer et al. (2009) reported acquisition completion by SPAC is about 63.50 percent as compared to Jacobsen (2014) which reported 92 percent from the acquisition of public and private targets. Malmendier et al. (2012) and Officer (2003) reported as an acquisition of public targets are about 88.7 per cent and 78 per cent.

According to Ljungqvist (2007), the IPO study on SPAC issue attracts less attention as compared to traditional IPOs, especially after the European Debt Crisis in 2011. However, many variables such as IPO demand, IPO type, asymmetric information, board of listed companies have been used to explain the performance of traditional IPO (Yong and Isa, 2003; How et al., 2007; Chang et al., 2011) in various dimensions such as offer-to-close, offer-to-open, offer between the advertising period to closing date and offer between the announcement date to closing date (Ritter, 1991; Ibbotson et al., 1994; Ritter and Welch, 2002; Lowry et al., 2010; Chahine and Saade, 2011). Therefore, the study on IPO SPAC in Malaysia is a new idea that provides a huge opportunity to be added to the extant literature.

Background and Framework of SPACs

Recent development of Malaysian SPACs

SPAC as an alternative means to IPO has attracted investors' attention from leading financial institutions and established sovereign wealth funds, especially in the aftermath of plummeting oil prices. A lot of oil and gas companies which involved in exploration and production are divesting their non-core assets. This new listing framework of Bursa Malaysia has enabled new companies which do not have a track record to be given opportunities to raise fund and subsequently make a qualified acquisition.

With the five SPACs listed in Bursa Malaysia, four are under oil and gas industry and one from food and beverage industry. The former are Hibiscus Petroleum Berhad, CLIQ Energy Berhad, Sona Petroleum Berhad and Reach Energy Berhad while the latter is Red Sena Berhad. There are also some potential SPACs which have been rejected by Bursa Malaysia in the recent times.

From Exhibit 3, the total gross proceeds raised is RM2,299 million with the average deal size of RM1842 million. Among these SPACs IPO, the highest gross proceeds raised is RM914 million in 2013, followed by RM750 million in 2014, RM400 million in 2015, and RM235 million in 2011. Surprisingly, there is no SPACs IPO in the year 2012 as the debt crisis in Europe has affected the

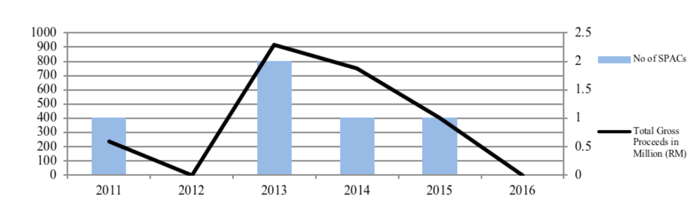

Exhibit 3 Malaysian SPACs: Funds Raised by Period 2011- 2016
Source: Bursa Malaysia, Securities Commission and Yahoo Finance (as at March 31, 2016)

IPO market.

In addition, the proceeds from IPO which are intended for assets acquisition or business opportunity must comply with the new listing requirement strictly regulated by Security Commission Malaysia. Exhibit 4 shows two SPACs are seeking for a new acquisition, two SPACs have announced an acquisition target, and one SPAC has completed the acquisition.

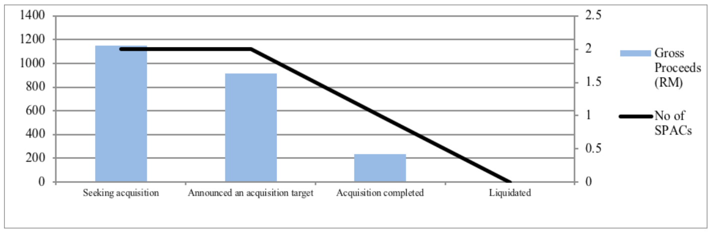

Exhibit 4 Malaysian SPACs Status
Source: Bursa Malaysia, Securities Commission and yahoo finance (as at March 31, 2016)

In the wake of the failure of SPACs to acquire new assets within three years as stated in the statutory requirement, there is liquidation for SPACs. Liquidation is a process to refund the capital to the shareholders. The total guaranteed capital is at least 90 percent of the total proceeds from IPO of which is retained under the IPO trust. The purpose is to reduce the risk exposure to the shareholders as the SPACs companies without financial track record prior to the acquisition.

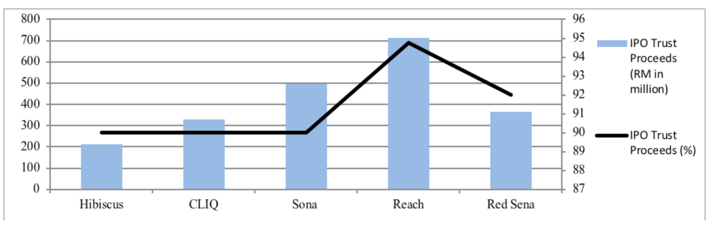

Exhibit 5 Malaysian SPACs with IPO Trust Proceed
Source: Bursa Malaysia, Securities Commission and Yahoo Finance (as at March 31, 2016)

As shown in Exhibit 5, among the SPACs, Reach Energy contributed approximately of 94.75 per cent (equivalent to RM712 million) out of the total proceeds raised from the IPO to the IPO trust. The contribution of IPO trust is the highest amount as compared to Red Sena IPO trust of 92 percent (equivalent to RM364 million), followed by Hibiscus Petroleum Berhad, CLIQ Energy and Sona Petroleum of a total of 90 percent to the IPO trust.

The life cycle of Malaysian SPAC

Exhibit 6 shows the formation and processes of a SPAC. As shown in the exhibit, SPAC must seek the approval from the shareholders to acquire the qualifying asset or else it will face the fate of being liquidated. This could be a form to protect the interest of shareholders but at the same time, this condition restricts the management team's decision to exercise their wisdom. This could also hinder the CEO to exercise his stewardship in implementing the strategy for the survival of the companies.

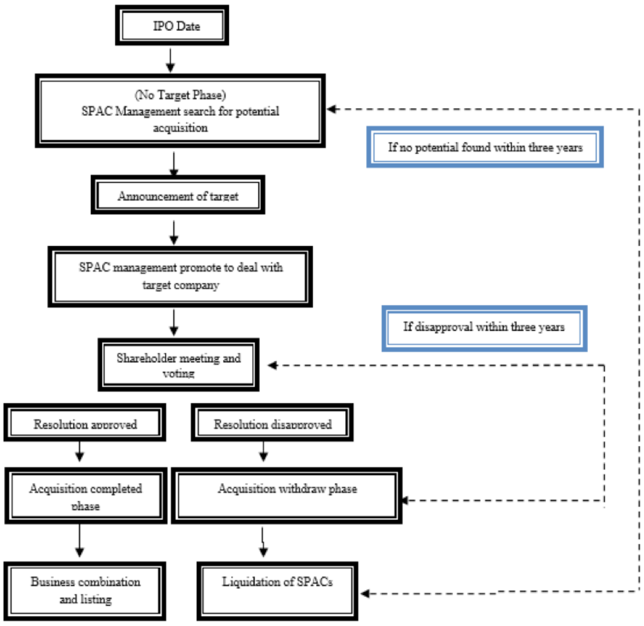

Exhibit 6 The Flowchart on the Formation and Liquidation of SPAC
Source: Authors' own sketch based on information from Bursa Malaysia and Securities Commission

Time frame for the SPAC IPO

Exhibit 7 indicates the timeframe for the IPO of a Malaysian SPAC called Reach Energy Berhad. According to Securities Commission, SPAC is given a maximum time frame of three years to acquire new qualifying asset after IPO. The company was listed on 15 August 2014. The SPAC offer price was RM0.75 with a free detachable warrant, warrant strike price was RM0.75. The total proceeds with more than 90% are capital guaranteed and to be returned shareholder in the event of liquidation.

Case Studies

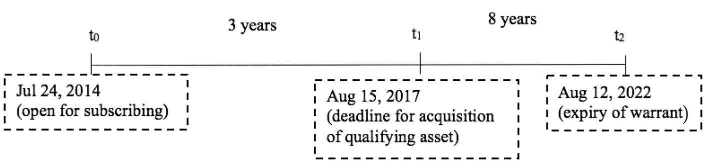

Exhibit 7 A Complete Time Frame for the IPO of a Malaysian SPAC
Source: Authors' own sketch based on information from Bursa Malaysia and Securities Commission

This paper utilizes case study approach in view of the small number of SPACs. Public information, as well as annual reports, are used to analyze the performance of the respective SPACs.

Hibiscus Petroleum Berhad

Hibiscus Petroleum Berhad is the pioneer SPAC in Southeast Asia and listed on Bursa Malaysia under Main Market on 25 July 2011. The IPO of Hibiscus consists of 418 million ordinary shares at the debut price of RM0.75 per share at RM0.01 par value. Successful subscribers obtain one free detachable warrant for each ordinary share subscribed. The total capital raised from the IPO is RM235 million and approximately of the 90% of the capital raised is retained in the IPO trust. The primary aim of Hibiscus is to achieve assets or business acquisition.

The Exhibits on the next page indicate share price performance, the initial return of IPO for the first day of trading is 6 percent; in other words, the closing price on the first day of trading is higher than its debut price. The total IPO trading is near to 26 million volume which is equivalent to about 24.88 percent from the total market trading volume.

Moreover, Hibiscus Petroleum is the first successful SPAC to meet the new listing requirement after the completion of the acquisition of a 35% stake in Lime Petroleum Plc in April 2012. The proposal of acquisition is approved by the Securities Commission and shareholders. Therefore, the company becomes a full-fledged oil and gas exploration and production company.

With the success story of Hibiscus Petroleum, the IPO of SPAC gains higher confidence level from foreign and local investors.

CLIQ Energy Berhad

The second SPAC, CLIQ Energy Berhad was listed on the Main Market on April 10, 2013. The IPO of CLIQ consists of 200 to 667 million ordinary shares at the debut price of RM0.75 per share with the par value of RM0.01. Similar to Hibiscus shareholders, successful subscribers obtain one free detachable warrant for each ordinary share subscribed. The total capital raised from the IPO is RM364 million and approximately 90 percent of the capital raised is retained in the IPO trust. The purpose of CLIQ Energy is to achieve assets or business acquisition within three years set by the Securities Commission.

(Exhibit 10, next page) shows the performance of the share price, the initial return of IPO for the first day of trading is14 percent; in other words, the closing price on the first day of trading is higher than its debut price. As compared to Hibiscus Petroleum, CLIQ Energy provides greater returns on the first-day trading. The total IPO trading is near to 46 million volume which is equivalent to about 33.28 percent of the total market trading volume.

According to Focus Malaysia dated March 11, 2016, CLIQ Energy is unlikely to meet its deadline to secure a qualifying asset before April 9, 2016. However, Securities Commission has refused to extend the time frame for CLIQ Energy to acquire a qualifying asset. There are stringent measures to protect the shareholders. Prior to the failure of acquisition, CLIQ Energy has submitted the potential target to the Securities Commission, eventually failing to get approval for the purchase of energy assets in Kazakhstan due to incomplete information. CLIQ Energy will eventually be liquidated and proceeds will be refunded to shareholders.

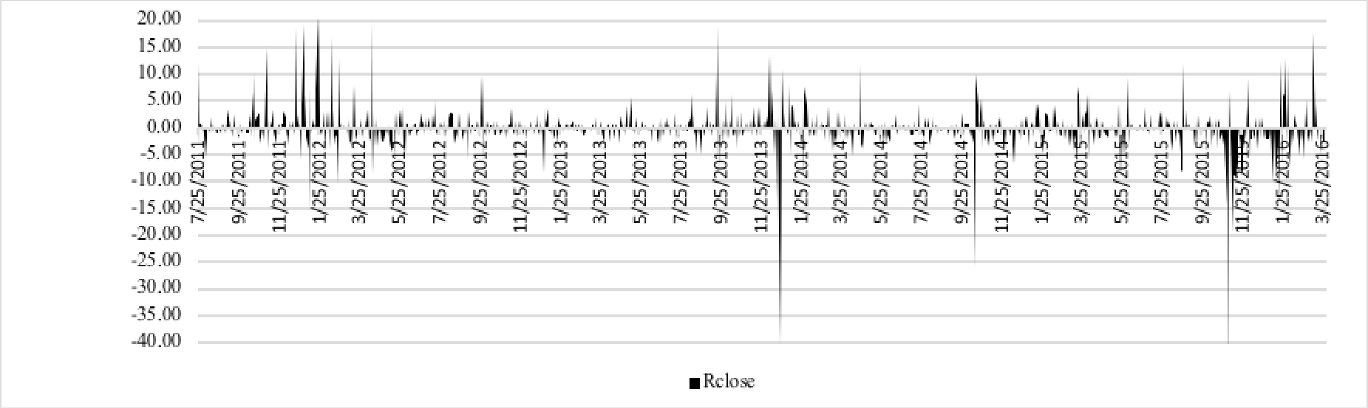

Exhibit 8 Daily Return of Hibiscus SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

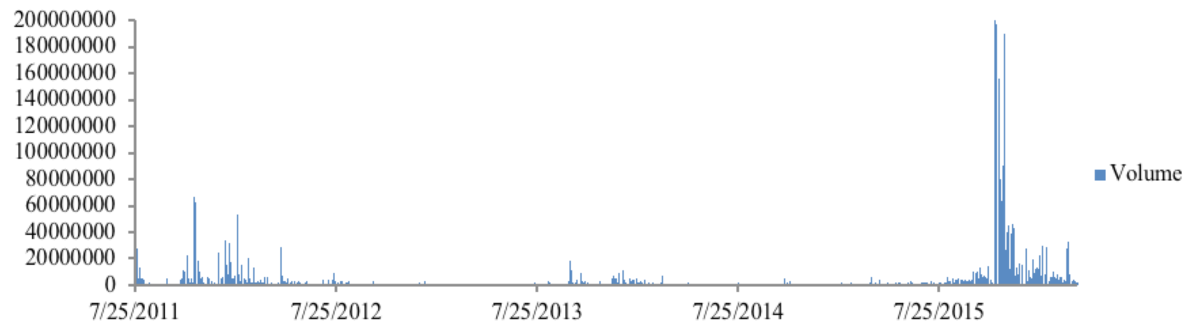

Exhibit 9 Daily Closing Price and Volume of Hibiscus SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

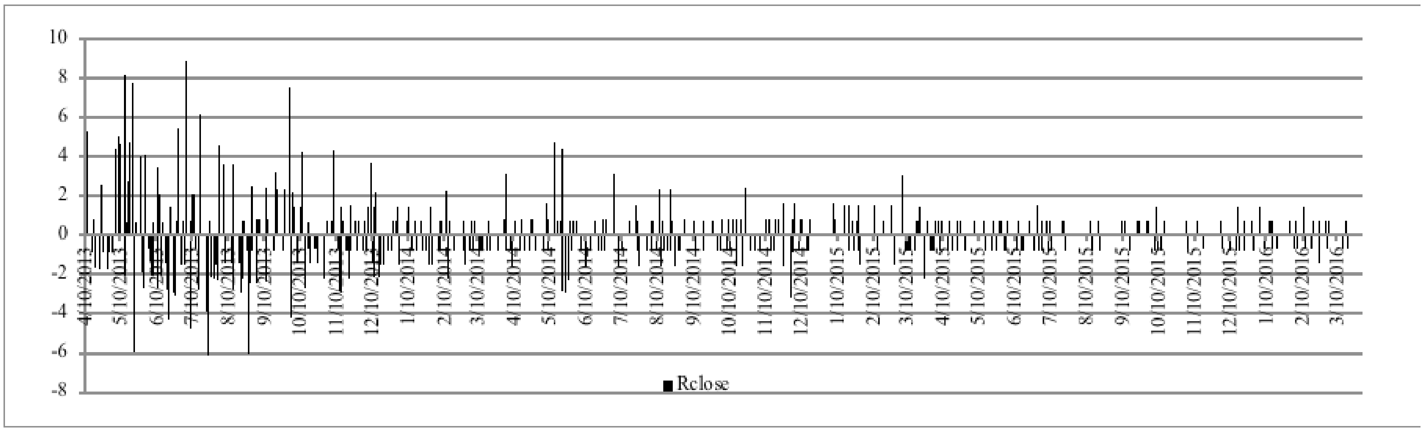

Exhibit 10 Daily Return of CLIQ Energy SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

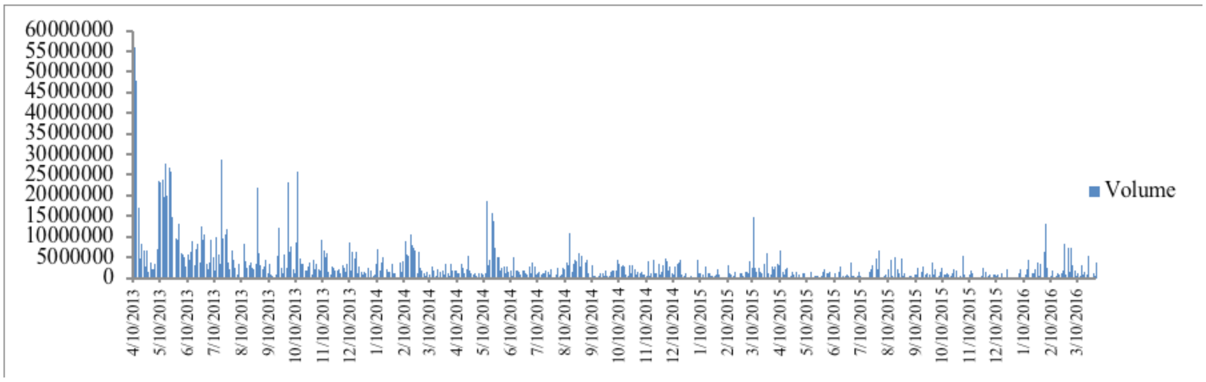

Exhibit 11 Daily Closing Price and Volume of CLIQ Energy SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

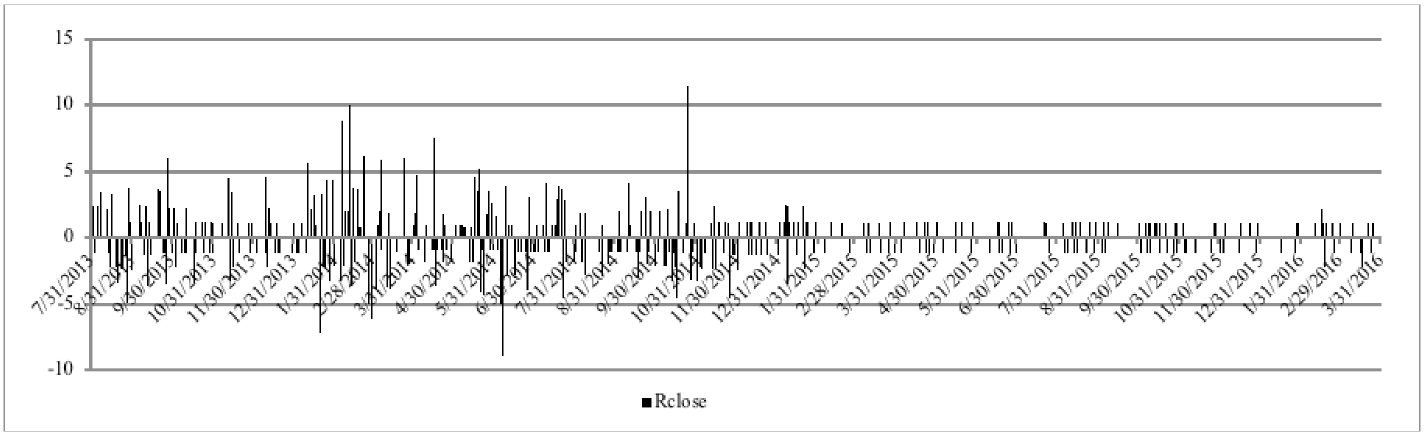

Exhibit 12 Daily Return of Sona Petroleum SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

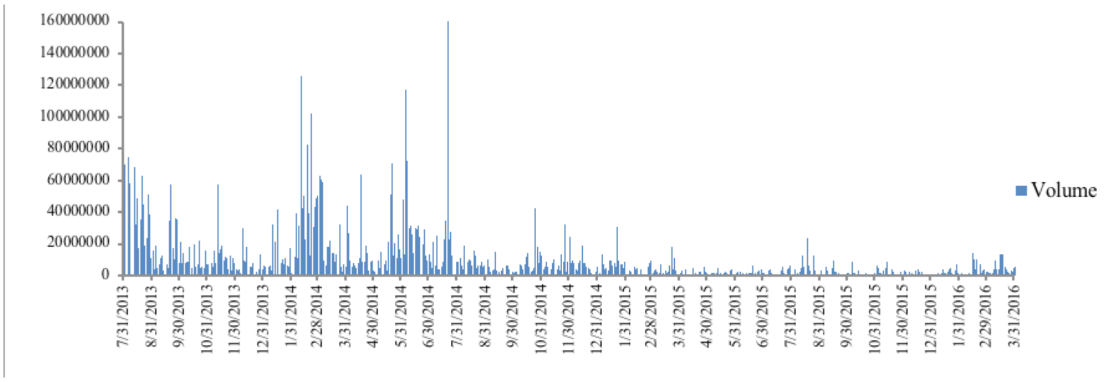

Exhibit 13 Daily Closing Price and Volume of Sona Petroleum SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

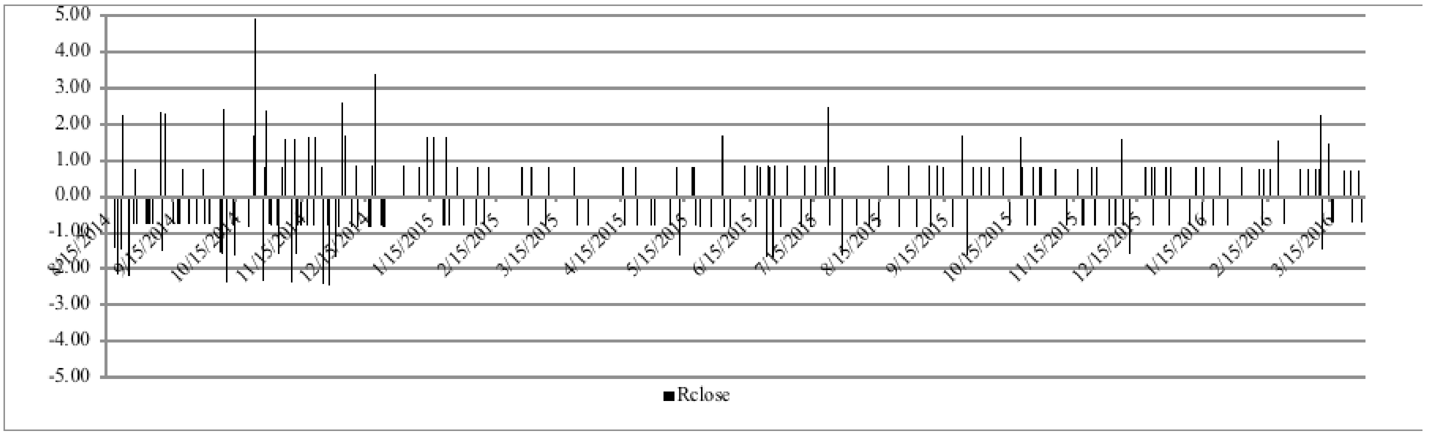

Exhibit 14 Daily Return of Reach Energy SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

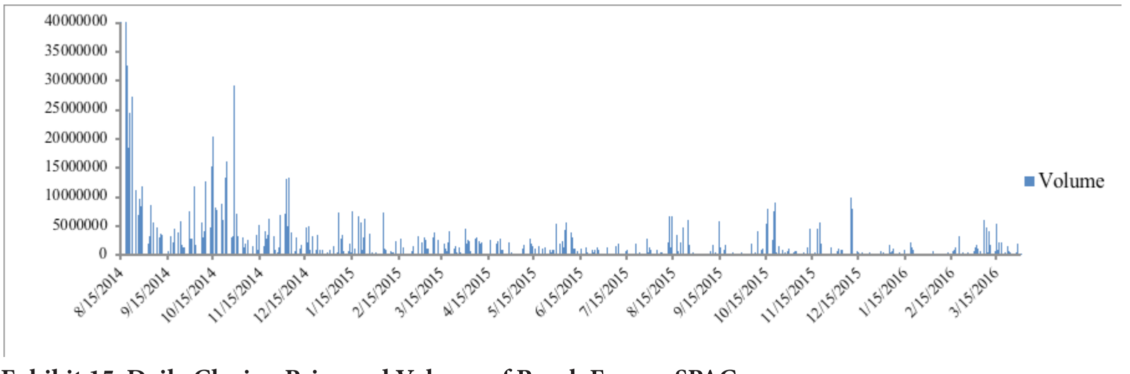

Exhibit 15 Daily Closing Price and Volume of Reach Energy SPAC
Source: Bursa Malaysia, Securities Commission and Bloomberg (as at March 31, 2016)

Sona Petroleum Berhad

The third SPAC named Sona Petroleum Berhad was listed on Bursa Malaysia in Main Market on July 30, 2013. The IPO of Sona consists of 1.1 billion ordinary shares at the debut price of RM0.50 per share with the par value of RM0.01. Interestingly, Sona is the first SPAC to be allowed to issue a huge number of shares. Similar to Hibiscus and CLIQ, successful subscribers get one free detachable warrant for each ordinary share subscribed.The IPO has raised RM550 million funds and 90 percent of the capital raised is retained under the IPO trust.

Exhibit 12 shows the share price performance, the initial return of IPO for the first day of trading -6.67 per cent which is the closing price on the first day of trading is lower than its debut price. As compared to Hibiscus Petroleum, CLIQ Energy provides lesser returns in the first-day trading. The total IPO trading is near to 78 million volume which is equivalent to about 28.20 percent of the total market trading volume.

According to Focus Malaysia dated March 18, 2016, Sona Petroleum Berhad has announced a proposed acquisition of Stag Oilfield at a cost of $25 million. The acquisition of Stag Oilfield is the company second attempt to secure qualifying assets. In 2015, it terminated a deal to buy a stake in two oil and gas blocks in the Gulf of Thailand from London-listed Salamander Energy for US$280 million.

Reach Energy Berhad

On August 15, 2014, Reach Energy Berhad with 1.0 billion ordinary shares at the debut price of RM0.75 per share with par value of RM0.01 was listed on the Main Market of Bursa Malaysia. Reach is the largest SPAC listed in Bursa Malaysia to date and also the second SPAC to allow issue a huge number of shares. Similar to others, successful subscribers get one free detachable warrant for each ordinary share subscribed.

The IPO raised RM750 million and 94 percent of the capital raised is retained under the IPO trust. Prior to its IPO, the business has no financial track record from its business operations but the management team has about 30 years of experience in the oil & gas sector worldwide. Similarly, the objective of Reach Energy is to achieve assets or business acquisition within three years.

	Hibiscus Petroleum	CLIQ Energy	Sona Petroleum	Reach Energy
IPO Proceeds	RM235 million	RM364 million	RM550 million	RM750 million
Issue Price	75 sen	75 sen	50 sen	75 sen
Market Cap	RM913.70	RM397.50	RM740.60	RM958.37
Management's subscription price per share	1 sen	2 sen	3 sen	7.5 sen
Management investment pre-IPO	RM1.05 million	RM1.72 million	RM2.82 million	RM19.17 million
Target of QA	Exploration, development, and production	Development and production	Exploration, development, and production	Development and production
Regions of interest	Asia and Oceania	South Asia, Middle East, East Asia and Oceania	Southeast Asia, Middle East, and Africa	Asia-Pacific
Moratorium on Securities				
Management team (shares and warrants)	Up to completion of QA	Up to completion of QA	Up to one full year of audited revenue	Up to one full year of audited operating revenue
Initial investor shares	Up to completion of QA	Up to completion of QA	Up to completion of QA	Up to completion of QA
Initial investor warrants	-	-	-	Up to completion of QA

Exhibit 16 A Comparison Between Listed SPACs
Source: The Edge Malaysia, May 16, 2014

Exhibit 14 shows the share price performance, the initial return of IPO for the first day of trading -6.00 per cent i.e. its closing price on the first day of trading is lower than its debut price. The total IPO trading is nearly 29 million in volume and about 370% compared to market volume.

According to the press released by Reach Energy on March 2016, Reach management has announced a tripartite conditional agreement with Palaeontol Cooperative U.A. and MIE Holding Corporation for a proposed acquisition of oil and gas producing fields. In addition, MIE Holding Corporation is a corporation listed on the Main Board of the Hong Kong Stock Exchange. The proposal of the acquisition consists of 60% equity interest in Palaeontol B.V for a total acquisition price of USD154.9 million. Palaeontol B.V is a wholly-owned subsidiary of Palaeontol Cooperative U.A.

Conclusion

Weaknesses of SPAC

Exhibit 16 provides the comparison among the current SPACs in Malaysia. Due to the current listing requirement as discussed in section 4, it is evidently clear that there are a few issues which are perceived to be negative factors by investors. Among the issues are:

Firstly, investors should be aware that SPAC is akin to participating in venture equity where unlike traditional IPOs, SPAC IPOs may promise a higher return to investors. However, like other venture capital, the eventual success of IPO listing is not certain.

Secondly, unlike traditional IPOs, SPACs are companies without an adequate financial track record for investors to make a decision. Henceforth, investors rely on the reputation of the management because it serves as a fundamental reference for investors to make a decision.

Thirdly, the recent drop in WTI crude oil price in the World Market from USD100 to USD 30 per barrel poses a great challenge to Oil and Gas companies. Since most of the SPACs are from Oil and Gas industry, it is a question whether they would like to proceed to the stage of making a qualified acquisition. Due to the uncertain macroeconomic environment, there is a higher possibility for companies to meet with financial difficulty.

Fourthly, the time frame of three years set by the Malaysian Securities Commission for the SPAC to make qualified acquisition seems to be too restrictive. There is a greater tendency for the company being forced to purchase new assets at an inflated price due to the time limit. Therefore, the quality of the acquired asset is in a doubt and this increases the risk to the business.

Finally, when a SPAC makes a public announcement that it fails to make the acquisition, its share price will fluctuate. The volatility of share price allows the investors who intend to take advantage of the arbitrage play of the poor performance.

Subsequently, if SPAC fails to acquire new assets, investors will get the refund back from SPAC liquidation. The above problems cause SPAC IPOs to be less attractive to investors. Hence, some measures must be changed to increase the market confidence.

Strength of SPACs

On the other hand, there are built-in mechanisms which can be considered as the advantages of SPACs. Among them are:

Firstly, SPAC provides better investors protection as compared to venture capital as the listing requirement states that a total of at least 90 percent of the capital raised from IPO is retained under an IPO trust. In the event of SPAC liquidation, there is a capital guaranteed fund ready for the shareholders.

Secondly, if subscribers of SPAC successfully obtain the new IPO, investors are rewarded a free detachable warrant for each of the ordinary share subscribed. The purpose of providing a free warrant is to compensate the risk of investing in the SPAC and attract more investors to subscribe IPOs.

Thirdly, SPAC is given a timeframe of three years to acquire new assets which are sufficient for the business. Before the deadline, SPAC has the opportunity to explore different new qualifying asset.

Policy Implications

Unlike Malaysian market, SPAC is more popular in the U.S. as an alternative tool to some of the investors to shift their monies from the hedge fund to SPACs' market where it is originated. As a relative safer product in a low-interest rate environment, US SPAC provides the avenue as an alternative tool to some of the investors to shift their monies from the hedge fund to SPACs.

In the context of Malaysian market, it is pertinent for investors to understand the product as it is different from traditional IPOs. Following the failure of CLIQ Energy and Sona Petroleum, policy makers should review of the term and condition s for the SPACs. If SPACs is liquidated properly, it shows that the SPAC is a workable model for a new listing framework. Shareholders will get back their money and future investors feel comfortable with the fact that the system works.

On the contrary, if policy maker allows an extension for those SPACs which fail to acquire new qualifying assets, it would destroy the market confidence. It is more viable to liquidate if the SPACs are unable to get the deal on time to protect shareholders and not put them at risk by entering into the last minute transaction.

In conclusion, industry players reckon that SPACs still have a bright future through its controlled experiment, stringent measurement and effective built-in mechanism with numerous safeguards to the processes of SPAC IPOs.

Endnotes

Refer to http://www.bloomberg.com/news/articles/2012-11-09/malaysia-ipo-spree-set-to-continue-in-2013-bursa-says, as accessed on October 1, 2015

Refer to http://www.hibiscuspetroleum.com/, as accessed on October 1, 2015.

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