Traders Spectrum

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Sense & Response

Hibiscus Petroleum — Buy
More value for your money

- **1st listed special purpose acquisition company in Malaysia**
- **Cash proxy with theoretical target price of 67sen**
- **Return of 34% over 3 years (10% p.a.) if no acquisition undertaken**

➢ The only SPAC in Malaysia. Hibiscus Petroleum (Hibiscus; Bloomberg: HIBI MK, Market cap RM228m) is the first special purpose acquisition company (SPAC) to be listed in Malaysia. It aims to establish itself as an O&G exploration and production (E&P) company. It has no operations or income generating business at the point of IPO, but the proceeds raised would be utilised to make acquisitions aligned to its objective of becoming a junior independent O&G E&P player in the near to medium term.

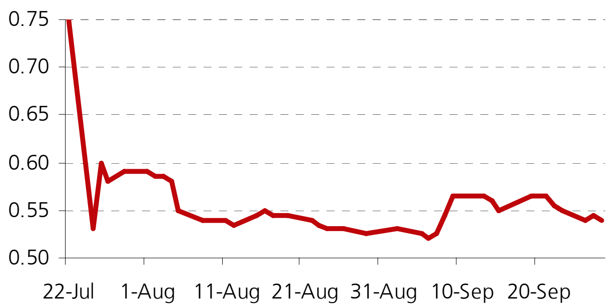
➢ Cash is king. Under the SC's guidelines, Hibiscus must place at least 90% of its IPO proceeds in a trust account that is managed by an independent custodian (Deutsche Trustees Malaysia). This is the most appealing argument for investment amidst the current weak market sentiment, which is unlikely to abate anytime soon given Europe's dire financial health. It also means the current theoretical value of the stock should be equivalent to 90% of its IPO price or 67sen. At 54.5sen currently, it would give decent compounded annual return of up to 10% over a 3-year investment horizon, assuming the trust account earns 3% interest p.a. and there is no qualifying acquisition (QA). Theoretically, there should be limited downside to Hibiscus' current share price simply because it is backed by cash, or more accurately, interest-bearing trust money. On this note, we recommend to buy Hibiscus on share price weakness.

➢ Early exit option. In the event a QA is identified, the acquisition would have to be approved a majority number of shareholders that represent at least 75% of total issued shares, at an EGM (management must abstain from voting). Dissenting shareholders have the option to exit by receiving, in exchange for their shares, a sum equivalent to a pro rata of the amount held in the trust account. This means investors would be eligible for at least 67sen refund (90% of IPO price of 75sen, before related taxes and expenses) with an initial outlay of 54.5sen if shareholders are not in favor of the QA, translating into a whopping 23% gain.

Potential investment return if no QA in 3 years

	Outlay (RM)	Return~ (RM)	Gain/loss (%)
IPO investor*	0.595	0.73	23%
Current share investor	0.545	0.73	34%
Current warrant investor^	0.155	-	-100%

Share price performance since IPO



**Assume warrant is sold at current price; ^Warrant is only convertible upon completion of QA; ~Assume 3% interest p.a.*
Source: DBS Vickers, Bloomberg

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Free money? At 3% compounded annual interest, investment in Hibiscus could yield 34% return after three years, which is also the timeframe for completion of a QA, failing which Hibiscus would be de-listed and liquidated. The only caveat is that the trust money cannot be distributed for three years if there is no QA. That said, Hibiscus seems to be a relatively safe investment given the trust money (cash) and higher theoretical value. Hibiscus has fallen 7% from its IPO price of 75sen (inclusive of warrant). If we strip out the current warrant price of 15.5sen, IPO subscribers' net outlay for Hibiscus mother share is 59.5sen, which is still higher than the current share price. The warrant is not convertible into Hibiscus shares until the completion of a QA, which means it may only be suitable for investors with high risk appetite.

Investor protection. We understand that the management team has low entry price (c. 1sen/ share) for its 20% stake in the company via Hibiscus Upstream, but there is a string of measures to protect investors' interest:

1) No directors' fees until completion of the QA
2) Not entitled to vote at EGM on the QA
3) Their warrants are not listed or tradeable
4) Not entitled to distribution of proceeds from the liquidation of Hibiscus
5) Shares and warrants held are subject to SC share moratorium (50% upon completion of QA, 50% a year later)

SPAC is relatively new in the market. SPAC was introduced by the SC in Malaysia in Aug09, when the SPAC listing guidelines were issued. SPACs were introduced in the US earlier, in 2003, and the number has increased significantly since. Korea listed its first SPAC in Mar10, while Singapore had introduced the proposed listing of SPACs in Jan10. While SPAC is still new to the investment community in Asia, it offers an opportunity to invest at a (theoretically) lower entry price relative to a fully operating business that is likely to fetch a premium. For Malaysian SPACs, investors can ride on the expertise of the management team, which stake in the company will ensure greater alignment of interest between investors and management.

Salient terms of SPAC in Malaysia

Criteria	Details
Interest of management team	Must own at least 10% of the SPAC upon IPO
Management of IPO proceeds	Must place at least 90% of IPO proceeds in a Trust Account immediately upon receipt of all proceeds
Qualifying Acquisition	Must have an aggregate fair market value equial to at least 80% of the amount in the trust account
Shareholders' approval for QA	Majority in number of shareholders representing at least 75% of the total value of shares; management team must abstain from voting
Timeframe for completion of QA	3 years from listing date, failing which the SPAC will be de-listed and liquidated
Custodian	SPAC will secure and maintain custodian arrangements at all times over the monies in Trust Account until termination of the Trust Account
Liquidation	If SPAC fails to complete a QA within 3 years, SPAC is liquidated and amount held in the Trust Account (net of any taxes payable and expenses related to the distribution) is distributed on a pro rata basis

Source: DBS Vickers, Prospectus

Credible management team

Name	Position	Qualification/Experience
Dr. Kenneth Gerard Pereira	Managing Director	- PhD from University of South Australia, MBA from Cranfield University - 21 years of working experience in the O&G industry - Former COO of SapuraCrest Petroleum between 2003-2008
Joyce Vasudevan	Chief Financial Officer	- Member of CPA, MIA, degree in accounting from LaTrobe University - More than 20 years of finance experience in MNCs, investment banks etc - Former head of strategic & operations planning in SapuraCrest Petroleum
Dr. Pascal Josephus Petronella Hos	Head of Petroleum Engineering	- Degree and PhD in Mechanical engineering from Rice University - 10 years of experience in O&G, primarily in reservoir engineering - Former reservoir engineer in Shell, Netherlands and PhD researcher at NASA Johnson Space Center
Ir. Mohd Iwan Jefry Abdul Majid	Petroleum Economist	- Masters in Petroleum engineering from Imperial College of London, Degree in petroleum engineering from Pennsylvania State University - 18 years in O&G industry with extensive regional sub-surface engineering expertise

Source: DBS Vickers, Prospectus

Salient terms of Hibiscus Warrant

Criteria	Details
Entitlement	1 warrant for every Hibiscus share subscribed during the IPO
Expiry date	3 years from the date of issue i.e. listing date
Exercise period	Anytime starting from and inclusive of the date of the completion of QA until the Expiry Date; any warrant not exercised during the exercise period will lapse and cease to be valid
Exercise price	RM0.50 per warrant
Liquidation	Warrant holder has no entitlement to the funds held in Trust Account upon liquidation of the company

Source: DBS Vickers, Prospectus

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