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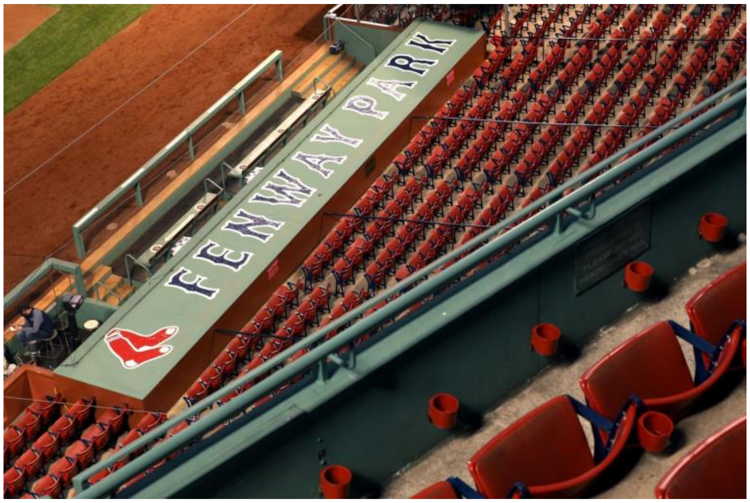
The Daily Dispatch

Friday Special Feature

October 16, 2020

Investors Should Be Wary of SPACs. Also Red Sox Fans.

By: Nir Kaissar—Bloomberg Opinion *(Published on October 12, 2020)*



SPAC fan. *Photographer: Maddie Meyer/Getty Images*

Every few years, investors seem to become enamored with one investment or another. In my adult lifetime, it started with internet companies in the late 1990s, then residential real estate in the mid-2000s, and more recently cryptocurrencies and pot stocks. It always ends the same way, with investors rushing in to get rich only to stumble out disappointed or worse.

Enter the latest obsession: so-called blank check companies, formally known as special purpose acquisition companies, or SPACs. In a sure sign that investors are on the chase, a new exchange-traded fund, the Defiance NextGen SPAC Derived ETF, now offers one-trade access to would-be SPAC investors. It follows a gaggle of big-name figures who are launching SPACs to cash in on the craze, among them hedge fund billionaire Bill Ackman, former U.S. Speaker of the House Paul Ryan and Oakland A's executive Billy Beane, whose SPAC is reportedly in talks on a deal with the owner of the Boston Red Sox.

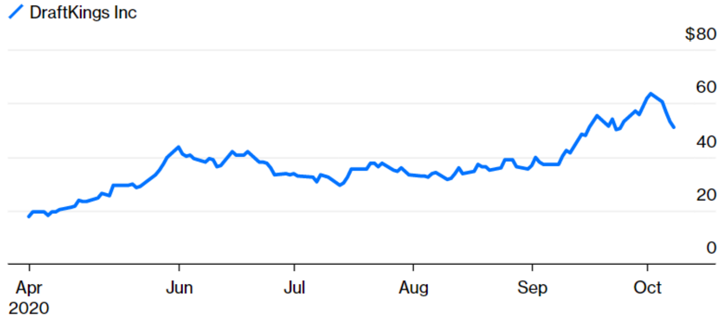
So what's a SPAC? In essence, it's a shell company that attempts to acquire a private business and take it public. Here's how it works: The SPAC raises money from investors in a public offering. It then goes shopping for a business. If a deal is struck, the two merge and the SPAC takes the name of the business, leaving a single public company. Alternatively, if the SPAC fails to acquire a business, generally within two years, investors get their money back.

The best-known example so far this year is probably the deal involving DraftKings Inc., an online sports betting company. Diamond Eagle Acquisition Corp., a SPAC, bought DraftKings for $3.3 billion in April and took its name after the two merged. And just like that, DraftKings is publicly traded. It's also the biggest holding in the Defiance ETF, with a whopping 16% allocation. The appeal to private businesses looking to go public is plain. Merging with a SPAC allows them to sidestep much of the uncertainty, effort, expense and public and regulatory scrutiny that comes with a traditional IPO.

The appeal to SPAC sponsors — the organizers who run it and hunt for businesses — is even clearer. If they strike a deal, they're able to purchase 20% of the business for next to nothing — a gold mine if the share price takes off after the merger, as DraftKings' stock has done since it combined with Diamond Eagle. That's on top of the money promoters make just for showing up.

SPACtacular

DraftKings' stock has taken off since its merger with Diamond Eagle



Source: Bloomberg

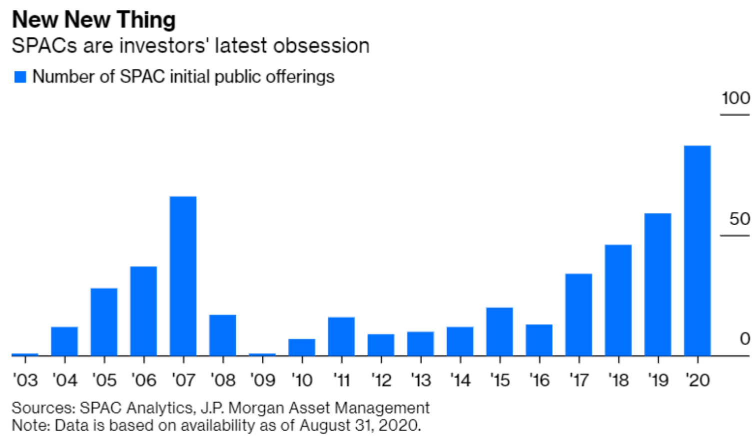
What's in it for investors is less obvious. For one, SPACs don't have a great track record of delivering deals. Of the 313 SPAC offerings since 2015, only 93 have taken a company public, according to IPO research firm Renaissance Capital. And most of those deals have been a bust. "The common shares have delivered an average loss of -9.6% and a median return of -29.1%, compared to the average aftermarket return of 47.1% for traditional IPOs since 2015," Renaissance found. Only 29 of those SPACs produced positive returns through September.

Despite those sobering results, investors may be lured by the exits SPACs offer. In addition to getting their money back if the SPAC fails to find a business to buy, investors can redeem their shares if they don't like the proposed deal. But that doesn't mean rolling the dice on a SPAC is free or without risk. SPACs aren't cheap to operate, and those expenses fall on investors whether they get a deal or not. And if investors want out, there's no guarantee their shares will be worth what they paid for them.

That is, assuming investors can get out. Remember that promoters must find a company to take public if they want a shot at the big payday, so they have every incentive to deliver a deal — any deal. And once promoters have a company in their sights, they're likely to tickle investors' greed with promises of fat profits. It's easy to get carried away in that moment and to waive away the fact that promoters are taking a big chunk of any upside, a load that would make high-priced mutual funds blush.

So far, the money poured into SPACs has mostly come from hedge funds and other institutional investors, but that's beginning to change. Big banks are showing up among the holders, which is often a sign that they're stuffing the investment into portfolios they manage for clients. Ordinary investors are next, if the flood of recent articles about how to invest in SPACs is any indication.

Indeed, SPACs may be most tempting to ordinary investors. Companies are staying private longer than they used to because private capital is abundant and allows them to dodge the scrutiny of public markets. At the same time, securities laws deny ordinary investors access to private markets, forcing them to watch from the sidelines as countless businesses they patronize and admire, such as Airbnb, Instacart, Robinhood and DoorDash, grow from seedlings into multibillion-dollar companies. SPACs offer ordinary investors a backdoor — albeit a very expensive and speculative one — for investing in private businesses before they go public.



So the SPAC boom may just be getting started, and it's already the biggest on record. Unlike internet stocks in their 1990s heyday, and cryptocurrencies and pot stocks more recently, SPACs have been around for decades. And this isn't their first taste of success. In 2007, the number of SPAC offerings swelled to 66 from just one in 2003, according to J.P. Morgan Asset Management, until the 2008 financial crisis crushed demand. So far this year, nearly 90 SPACs have already gone public through August, and more are expected. Thanks to the abundance of big private companies, there's plenty of potential supply to feed the surge in demand for SPACs.

That's not the only difference between SPACs and earlier fads. SPACs have the curious distinction of asking investors to hand over their money without knowing where it will go. With dot-coms, homes, cryptocurrencies and pot stocks, investors knew what they were buying, or at least had the opportunity to find out. That's not even possible with SPACs. Everyone with a bank account has been warned about signing a blank check. The same caution applies to SPACs.

Source:
Nir Kaissar (2020) 'Investors Should Be Wary of SPACs. Also Red Sox Fans.', *Bloomberg Opinion*. Available at: https://www.bloomberg.com/opinion/articles/2020-10-12/investors-even-red-sox-fans-should-be-wary-of-spacs (Accessed 16 Oct 2020)

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TODAY'S TOP NEWS

DoLE: Firms not allowed to defer 13th month pay

The Department of Labor and Employment (DoLE) on Thursday said companies will not be allowed to defer the distribution of the 13th month pay of its workers, even as businesses struggle amid the economic slowdown.

Forex reserves surpass $100B in September

THE COUNTRY'S gross international reserves (GIR) reached a new record, breaching the $100-billion level as of end-September, Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno said on Thursday. The latest GIR level exceeds the BSP's $100-billion projection for the full year.

US firm seeks Philippine LNG projects

The United States-listed New Fortress Energy LLC (NFE) will be screening for investment opportunities in the country for future liquified natural gas (LNG) projects. The state-owned Philippine National Oil Co. (PNOC) and New Fortress signed a memorandum of understanding centered on developing the Philippine LNG industry.

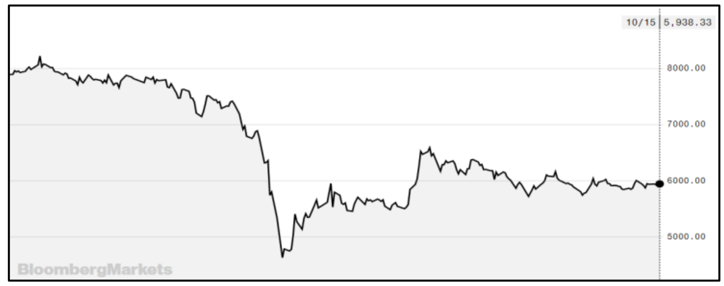
8990 raises funds via corporate notes issue

8990 Holdings Inc. raised P1.3 billion through the issuance of peso-denominated corporate notes. The debt will be enrolled with Philippine Dealing and Exchange Corp and traded through the PDEX starting on October 14. The said debt shall have a fixed interest rate of 4.05 per annum and maturity date of two years from issue date.

CRK expansion completed early

The Clark International Airport expansion has been completed end-September, ahead of its original October target completion date. Its new Passenger Terminal Building (PTB) starts commercial operations on January 2021. Once operational, its passenger capacity will triple from the current 4.2 million to 12.2 million annually.

Philippine Stock Market Update



Previous Close: 5,938.33	**1 Yr Return:** -23.74%
Open: 5,921.34	**YTD Return:** -24.24%
52-Week Range: 4,039.15 - 8,216.92	**Source:** Bloomberg

Foreign Exchange

As of Oct. 15, 2020

US Dollar	Philippine Peso
1	48.63

BVAL Reference Rates

As of Oct. 15, 2020

Tenor	Rate
1Y	1.812
3Y	2.291
5Y	2.648
7Y	2.797
10Y	2.893
20Y	3.918

Daily Quote

"Anyone can see the adversity in a difficult situation, but it takes a stronger person to see the opportunity."

-- Drew Brees

MORE LOCAL NEWS

PhilGuarantee offering P300M loan guarantee

MANILA, Philippines — To aid large businesses badly hit by the pandemic-induced recession, the state-run Philippine Guarantee Corp. (PhilGuarantee) is offering a facility covering as much as P300 million of their bank loans.

PSE: No lifting of Pepsi Cola trading suspension

Constrained by tax regulations, the Philippine Stock Exchange (PSE) cannot lift the trading suspension on local beverage maker Pepsi Cola Products Philippines Inc. (PCPPI) before its delisting, making the exit of small shareholders costlier and more cumbersome.

DMPI delivers higher operating profit of P1.4bn in 1Q

Del Monte Philippines, Inc. (DMPI) generated sales of P7.4 billion in the first quarter ending July 2020 as reported in the company's SEC filing. Close to two-thirds of DMPI's sales are in the Philippines and the balance in the international market.

Grab PH names Grace Vera Cruz as new country head

Grab Philippines on Thursday, October 15, said it has named Grace Vera Cruz as its new country head, months after Brian Cu resigned. Vera Cruz takes over the ride-hailing giant effective Thursday. She was the managing director of Seawood Resources before joining Grab in October.

PayMaya forges partnership with MoneyGram

The country's remittance industry is getting a boost as Paymaya Philippines and MoneyGram International Inc. team up to enable real-time fund transfers through Visa Direct. PayMaya and MoneyGram are introducing a new digital capability that allows customers to send money from the US to the Philippines.

PH set to lose $120m to video piracy in 2020

The industry association of video producers, distributors and aggregators may lose $120 million worth of potential revenues to piracy this year, studies show. The Asia Video Industry Association said incidents of video piracy remained prevalent in the Philippines based on a report of Media Partners Asia.

Malls urged to keep their unpaid tenants running

Mall and other space owners were asked on Thursday not to evict stalls unable to pay their rent and instead extend relief to tenants disproportionately battered by the pandemic. "Sales have plunged to their worst in decades. There has been a cascade of store closures and jobs losses," Benedicto Yujuico, PCCI president, said.

Power spot market prices on the decline

Prices at the wholesale electricity spot market(WESM) have declined in the first half of October as demand for electricity waned due to rains and lower temperatures brought by the La Niña weather phenomenon, the Independent Electricity Market Operator of the Philippines (IEMOP) said.

Smart expands LTE network

Smart Communications Inc. said Thursday it is expanding the capacity of its LTE network and ramping up the strategic rollout of base stations to improve internet services. The company said that as of end-August, the number of its LTE base stations increased by 15 percent to 28,200 from a year ago.

ISOC Holdings still keen on property expansion

ISOC HOLDINGS, Inc. is bullish to expand its property portfolio in the coming years as it looks at the capital market as a viable investment tool in the future. The holding firm of Michael C. Cosiquien, co-founder of listed Megawide Construction Corp., said it launched two real estate projects this year despite the pandemic.

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TODAY'S TOP ASIAN NEWS

Sg sees 3rd straight quarterly GDP contraction

Singapore's economy contracted 7.0 per cent year on year in the third quarter, but grew 7.9 per cent on a quarterly, seasonally adjusted basis. Analysts predict the city state is only likely to see positive economic growth next year, due to the coronavirus pandemic

Uber joins forces with SK Telecom to crack S. Korea

Uber Technologies said on Friday (Oct 16) it will invest over US$150 million (S$204 million) in a joint venture and partnership with South Korea's SK Telecom Co Ltd, which is proposing to split off its mobility business.

Ascott says China operations seeing strong recovery

CapitaLand's wholly-owned lodging business unit, The Ascott Ltd, on Thursday morning (Oct 15) said it is seeing strong recovery in China on the operations front, with apartment revenue in September performing close to 95 per cent of its year-ago level.

TODAY'S TOP GLOBAL NEWS

Sg, Germany partnership to spur digital transformation

Singapore and German companies will have more opportunity to work together thanks to a series of initiatives to help firms from both countries accelerate their digital transformation. Enterprise Singapore and the Asia-Pacific Committee of German Business have signed an agreement to support enterprise development through transformation

BioMed valued at $14.6 billion in deal for sale

Blackstone Real Estate Partners and co-investors have agreed to sell BioMed Realty for $14.6 billion to a group led by existing BioMed investors, Blackstone Group Inc BX.N said on Thursday.

China's online fashion takes on Zara and H&M

China's Shein may be the biggest shopping site you've never heard of. The fast-fashion player is encroaching on the territory of more established rivals like Zara and H&M. It has become the largest, purely online, fashion company in the world measured by sales of self-branded products.

Uber launches medicines delivery in South Africa

Uber Eats' South African unit expanded delivery offerings, launching an app-based over-the-counter medicines service as it seeks to claw market share in the fast-growing online shopping sector in Africa's most industrialised economy. Uber Eats already has a lion's share in South Africa's $600M food dispatching market.

G-20 suspends poor nations' debt payments for 6 mos

The G20 nations agreed on Wednesday to extend the suspension of debt payments by an additional six months to support the most vulnerable countries in their fight against the coronavirus pandemic. The suspension of what the G-20 says could provide relief of $14 billion in debt had been due to expire at the end of the year.

China sovereign bond sale attracts $27b in orders

US institutional investors shrugged off rising tensions between Washington and Beijing, making long-term bets on China in a US$6 billion global offering of sovereign debt.

Fiat Chrysler invest in Canada e-vehicle production

Fiat Chrysler (FCA) has committed to a multiyear investment in assembling electric vehicles in Canada and to add up to 2,000 new jobs, a union representing some of the carmaker's workers announced on Thursday, October 15.