

AVISTA INSIGHTS | April 2022

# Special Purpose Acquisition Companies (SPACs) Warrants Valuation Guide

## Executive Summary

On 18 March 2022, Aquila Acquisition Corporation has been successfully listed on Hong Kong Stock Exchange as the first IPO of a SPAC under Hong Kong Exchanges and Clearing Limited's ("**HKEX**") latest listing regime. Aquila Acquisition Corporation sponsored by the Chinese brokerage firm CMB International Asset Management, raised about HK\$ 1 billion and started trading three weeks ago. The stock closed at HK\$9.68 and recorded a turnover of over HK\$17 million on its first day of trading.

Despite market consensus believes that the SPAC listing rules are relatively more stringent compared with other markets, HKEX still received 11 SPAC listing applications since the new SPAC listing rules came into effect in January 2022. The overwhelming number of SPAC listing applications indicated the enthusiasm and growing trend of this alternative listing route in Asia's financial market.

## List of SPAC Listing Applications in Hong Kong

SPAC Name	Application Date	Promoter	Sponsor	Acquisition Target Sector
<b>Aquila Acquisition</b>	17 Jan 2022	CMB International Asset Management, Rongfeng Jiang, Yao Ling, Di Le, Qian Wu	Morgan Stanley, CMB International	Green energy, life sciences and advanced technology and manufacturing
<b>Tiger Jade Acquisition</b>	28 Jan 2022	Tiger Jade Capital, Dragon Stone Capital	UBS	Healthcare and healthcare related
<b>Interra Acquisition</b>	31 Jan 2022	Primavera Capital, ABC International	ABC International, JP Morgan	Innovative technology, consumer and new retail, advanced manufacturing, healthcare, and climate action
<b>Trinity Acquisition</b>	31 Jan 2022	Li Ning, Lion Rock Capital, Astrapto Capital	JP Morgan, Credit Suisse	Consumer lifestyle
<b>Ace Eight Acquisition</b>	14 Feb 2022	ACE Promoter, Assos Omada Promoter	CMBC Capital	Biotechnology and TMT industries
<b>Vision Deal HK Acquisition</b>	15 Feb 2022	Zhe Wai, DealGlobe, Lishu Lou, Opus Capital	Citi, Haitong International	Smart car technologies, supply chain and cross-border e-commerce
<b>Vivere Lifesciences Acquisition</b>	21 Feb 2022	VMS Asset Management, I-MAB Biopharma	UBS	Healthcare
<b>HK Acquisition</b>	28 Feb 2022	Dr Chan Tak Lam Norman, Ms Tsang King Suen Katherine, Max Giant	Haitong International	Financial services and technology
<b>Pisces Acquisition</b>	2 Mar 2022	OCI Asset Management	CMB International	Healthcare and life sciences, green energy, new models of consumer and retail, advanced technology
<b>A SPAC (Asia) Holdings</b>	15 Mar 2022	A SPAC (Asia) Holdings, ARTA TechFin Corporation, JVSakk Asset Management, JVSakk Asset Management, De Oro Strategics	Haitong International	Consumer
<b>Black Spade Asia Acquisition Co.</b>	20 Mar 2022	Black Spade Assets, BOCHK Asset Management	UBS	Entertainment, lifestyle and healthcare

SOURCE: HKEX, AVISTA Research

In view of the 11 SPAC listing applications in HKEX, all of them will issue their SPAC shares and SPAC warrants simultaneously. Although some retail investors may view the SPAC's financial statements are similar to those of traditionally listed companies, the SPACs financial instruments are much more complicated and more importantly it requires proper evaluation by professionals and valuation specialists. Meanwhile, AVISTA Group is honored to be engaged in offering valuation services to Aquila Acquisition on the first SPAC listing in HKEX.

As a background, each SPAC unit consists of one class A share and a fraction of warrant to buy additional class A shares at its exercise price while each of them is issued and traded separately. In Aquila's case, one listed warrant was issued for every two class A shares purchased in the IPO.

Although SPACs may have different structures and it is hard to make an apples-to-apples comparison, there are two common types of SPAC warrants, either publicly listed warrants or promoter warrants by private placement.

## ➔ Accounting Treatments for the Listed Warrants and Promoter Warrants

The classification of warrants as equity or liability, or compound instruments can be challenging since the ambiguity of definition for equity varies across accounting standards or which standard should be applied (HKFRS 2 Share-based Payment or HKAS 32 Financial Instrument).

For the SPAC IPO application cases to date in Hong Kong, all of them classified class A shares and warrants as liabilities while class B shares and promoter warrants as share-based payment. Therefore, at each reporting period, the fair value of the listed warrants may need to be re-measured as the transaction volume might be too low and not representative enough. In the meantime, the change in the fair value of the liability will be recorded as other income or expense in their income statement.

## ➔ Valuation of SPAC Warrants

Monte Carlo Simulation is commonly used with the inputs derived from the key terms of a specific SPAC warrants such as Class A share price, warrant strike price, risk-free rate, volatility, and the duration to exercise. The simulation specifies a model by the Geometric Brownian Motion, which is technically a Markov process. This means the stock price follows a random walk and is consistent with the weak form of the efficient market hypothesis, past price information is already incorporated, and the next price movement is conditionally independent of past price movements.

Generally, listed warrants are valued with Monte Carlo method and with the consideration of the probability of successful merger. Since the warrants are not exercisable until the stock price trades at or above a threshold price for 20 days in a 30-trading day period, Monte Carlo simulation is able to cater for such path dependent features which is unable to be handled by Black Scholes and Binomial models due to the model limitations.

The value of warrant might fluctuate due to market conditions and more importantly the terms of a particular warrant. Investors should always read the SPAC prospectuses carefully to ensure that they comprehend all conditions relevant to the warrants they are buying.

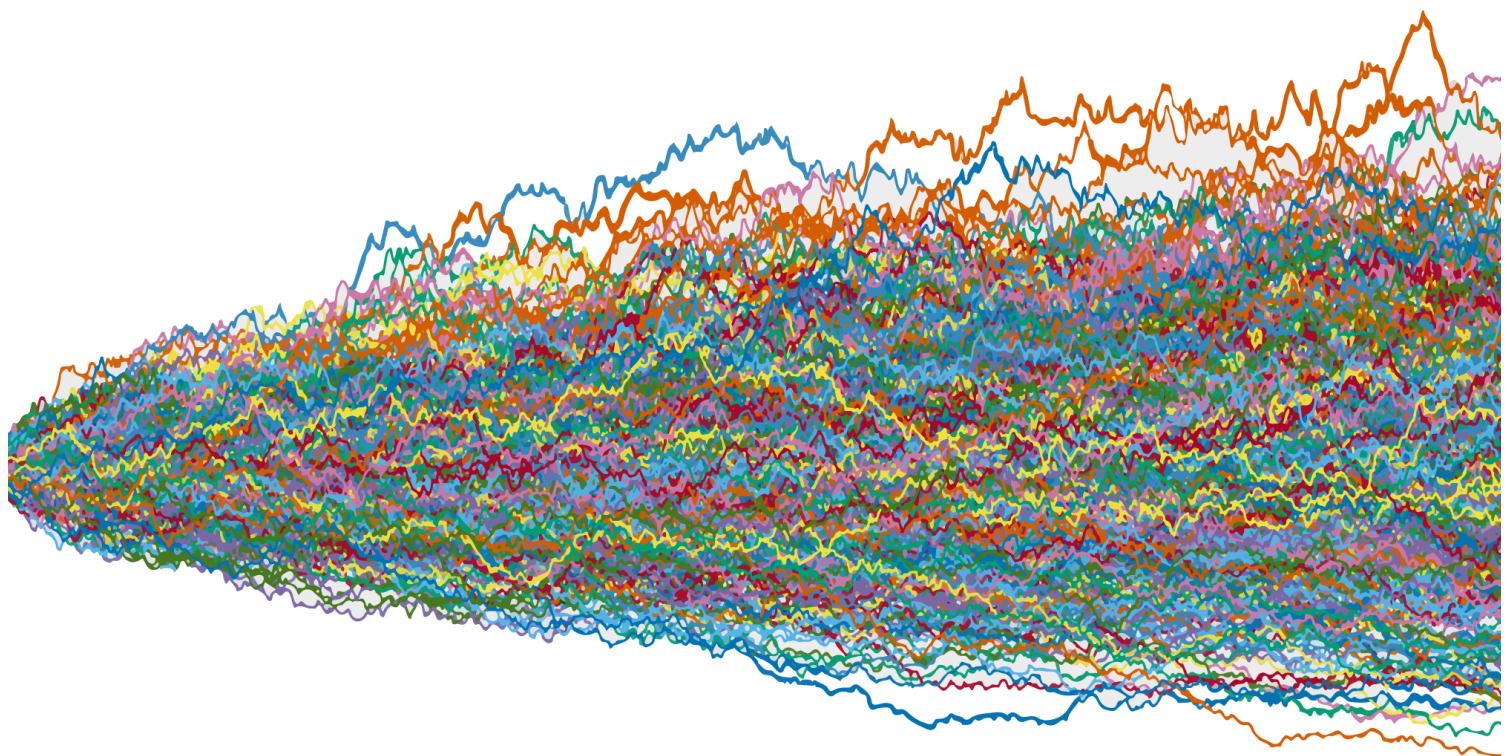




## Key Parameters for SPAC Warrants Valuation

<b>Earliest Exercisable Date</b>	Depending on the terms of the offering, the SPAC warrants will become exercisable 30 days after the completion of the De-SPAC transaction
<b>Expected Promoter Warrants Vesting Date</b>	Depending on the terms of the offering, the promoter warrants are not exercisable until 12 months after the completion of the De-SPAC transaction
<b>Expected Maturity Date of the SPAC Warrants</b>	Depending on the terms of the offering, the SPAC warrants will expire upon the earlier of 5 years after the completion of the De-SPAC transaction or redemption
<b>Risk-free Rate</b>	Refer to the yield of local government bond or note with a maturity equal to the expected time to maturity of the SPAC warrants as of the valuation date
<b>Volatility</b>	The expected volatility is estimated based on historical daily return of relevant stocks or stock index

## Monte Carlo Simulation for Warrants Pricing



SOURCE: Towards Data Science

For further information or enquiries about our SPAC warrants valuation services, feel free to contact our experienced valuation team for more details.

## Contact Us



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## About AVISTA

AVISTA Group ("AVISTA") is a leading professional advisory firm. We are experienced in performing a full range of Valuation Advisory, ESG Advisory and Risk Management Advisory for various purposes.

With a strong presence in the Asia-Pacific region, we are headquartered in Hong Kong, and have offices in Shenzhen, Shanghai and Beijing.

The AVISTA professional team comprises professional consultants with different areas of expertise and detailed familiarity of financial reporting standards and regulatory standards. Our team of experienced professionals come from globally-

renowned valuation firms, consulting firms and international accounting firms with global qualifications such as CFA, CPA, CPV, FRM, MRICS, FCCA, CIA, CISA, ACS and so on.

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