
Roc Oil's Undemocratic Ways

Roc Oil recently announced a 'merger of equals' with Horizon Oil. Horizon shareholders will receive Roc shares in exchange for tipping their assets into the combined group.

Horizon's existing shareholders will control 58% of the combined entity while Roc shareholders get 42%. Maybe the deal makes sense, maybe it doesn't. I'm not following closely enough to hold an opinion.

Roc's chairman [Mike Harding certainly seems excited](#). In an official ASX release he referred to the merger as a 'cracking deal'. But not everyone agrees, including long standing and long suffering 20% shareholder Allan Gray Limited, a large and well-respected fund manager.

A dodgy constitution

Under Roc Oil's constitution, and without breaching any ASX listing rules, the company doesn't require a shareholder vote to approve the transaction. If the company wanted to raise cash via a share issue for more than 15% of its market capitalisation, it would need shareholders' nod. But more than doubling the share count in a scrip merger requires no such formalities.

This is unfair. The ASX should require a vote on such 'company transforming' initiatives. Despite owning 1-in-5 of Roc's shares, almost \$70m worth, Allan Gray has been forced to take an expensive activist approach to have its democratic say. The disagreement is with a board that owns just \$0.8m worth of shares between them.

Firstly, Allan Gray considered attempting a [board spill at Roc Oil](#). But it has instead opted to requisition a [shareholder meeting](#) proposing to adjust the company's constitution. Such a change would ensure that the board cannot issue new shares in excess of 30% of the existing share base without a shareholder vote (a very reasonable proposal). Unfortunately, any such constitutional change requires a 75% majority to pass, a big ask.

It would be the right and proper thing for the board to hold a vote on the merger regardless of the constitution and ASX rules. After all, a 'cracking deal' should pass easily. It would also be admirable for them to not oppose the constitution change, which they're likely to do for self-interested reasons.

And the ASX needs to look long and hard at changing listing rules to prevent this sort of inequality.

Memories of my worst investment

I raise this as an uninvested but far from disinterested observer. While it might be best to let sleeping dogs lie, many of you will remember Roc Oil as the worst recommendation I made in a decade-long career at [Intelligent Investor Share Advisor](#). It was also, by some margin, the worst personal investment mistake I've ever made.

The responsibility for that rests entirely with me. But what's really provoking about the current scuffle is that the same thing has happened before.

In 2008, Roc executed a mostly scrip acquisition of Anzon Australia and Anzon Energy. It resulted in a doubling of the company's share count. And it required no shareholder vote. I thought the deal would prove a terrible one for shareholders.

I implored both the CEO and Chairman to allow a vote, [I vented my spleen](#) in the publication and I pestered the board again at a merger webcast. We didn't have the polling power to try what Allan Gray are attempting. Unfortunately, my pleas fell on deaf ears.

Avoiding another disaster

Anzon's equity cost Roc Oil in the vicinity of \$500m worth of Roc shares (at the time of the merger). It raised a further \$95m in 2009, much of which was spent further developing Anzon's main asset—the Basker Manta Gummy (BMG) project which was supposed to hold 27m barrels of oil. Two years later, the proven and probable reserves were slashed to 3-5m barrels.

The field was sold a few months ago for \$1m, plus a possible contingent consideration of up to \$5m. It was a disastrous investment for Roc. In fact, disastrous doesn't even do it justice.

Shareholders should have had their say beforehand, both then and today.

I feel for today's shareholders. I wish Allan Gray all the best, and, above all else, hope for a change of listing rules. No board should be able to execute such a significant strategic shift without shareholder approval. After all, who owns the company?