

Issue of 8.75% guaranteed sterling notes 2020

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R.E.A. Holdings plc ("REAH" or the "company")
REA Finance BV ("REA Finance")

Proposed issue by REA Finance of up to £40 million nominal of 8.75 per cent guaranteed sterling notes 2020

Introduction

The company announced in the statement made at its Annual General Meeting held on 12 June 2015 that, following informal preliminary discussions with major holders of the group's 9.5 per cent guaranteed sterling notes 2015/17 (the "**existing sterling notes**"), the directors were hoping to improve the maturity profile of the group's indebtedness by replacing a substantial proportion of the existing sterling notes with new sterling notes redeemable in one instalment in 2020. It was contemplated that this replacement would be effected by way of an exchange offer of new sterling notes for existing sterling notes on a £1 for £1 basis. Concurrently with the exchange offer, the group would aim to place a limited number of new sterling notes for cash.

In accordance with this aim, the company now announces that REA Finance proposes to create up to £40 million nominal of 8.75 per cent guaranteed sterling notes 2020 ("**new sterling notes**"), to be issued:

- (a) by way of an exchange offer under which the company, on behalf of REA Finance, will offer to acquire all of the £34.54 million nominal of existing sterling notes for a consideration comprising, for each £100,000 nominal of existing sterling notes, £100,000 nominal of new sterling notes plus an amount in cash equal to (I) £2,000 and (II) the interest accrued but unpaid on £100,000 nominal of existing sterling notes as at the date on which such offer becomes unconditional (the "**exchange offer**"); and

(b) as to the balance, by way of a cash placing at par (the "**placing**")

(the issue of new sterling notes pursuant to the exchange offer and the placing being, together, the "**proposed issue**").

The company further announces that REA Finance has today published a prospectus (the "**prospectus**") in respect of the proposed issue.

Reasons for the proposed issue

The continuing growth of the Indonesian economy and a gradual shift in Indonesian political opinion towards encouraging and potentially mandating increased local ownership of Indonesian palm oil operations has reinforced the long held view of the directors of REAH on the desirability of increasing Indonesian participation in the ownership of the group's oil palm operations through a listing on the Indonesia Stock Exchange in Jakarta of, and public offering of shares in, PT REA Kaltim Plantations ("**REA Kaltim**"), which is the holding company for all of the agricultural operations of the group. Accordingly, the directors of REAH have resumed discussions with advisers on how best to structure a public offering in Indonesia and on the appropriate timing for such an offering. In the meantime, the group is continuing its planned extension planting programme which brings with it a requirement for investment in additional estate buildings, vehicles and equipment.

In the absence of any further purchases of existing sterling notes by a member of the group and cancellation of the same, under the terms of the existing sterling notes, some £9.9 million nominal of the existing sterling notes will fall due for redemption on 31 December 2015. The group has planned to meet this redemption obligation from a combination of internal cash flows and new bank borrowings, supplemented, subject to timing, by cash proceeds from the planned public offering of shares in REA Kaltim and of a placing of shares in REA Kaltim ahead of that offering.

However, the directors of REAH consider it likely that prospective new investors in REA Kaltim would prefer to see the monies subscribed by them for shares in that company being applied in continuing the planned extension planting programme rather than in paying down debt. In addition, the directors believe that an extension in the maturity profile of the group's indebtedness (which would be substantially matched by an extension in the maturity profile of the REA Kaltim sub-group's indebtedness) will be of benefit to the success of the proposed public offering by REA Kaltim by improving perceptions of the financial standing of REA Kaltim. Moreover, the directors believe that it is prudent to work towards establishing a cash cushion to permit continuation of the planned extension planting programme in the event of any unplanned events adversely affecting the future cash flows available to the group.

As the new sterling notes will be redeemable in one instalment on 31 August 2020, rather than in three instalments over the three years to 31 December 2017, the exchange offer will, in effect, give holders of existing sterling notes the opportunity themselves to refinance the existing sterling notes.

Use of cash proceeds of the proposed issue

All cash proceeds of the issue of the new sterling notes will be applied solely in meeting the expenses of the issue of new sterling notes (whether or not issued for cash and whether or not issued at the same time) and otherwise in making loans to REAH, such loans to be applied by REAH solely in making loans to its subsidiary, REA Services Limited ("**REA Services**"), the proceeds of which will be applied by REA Services in making loans to subsidiaries of REAH incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit ("**qualifying subsidiaries**"). Pending the making of any such loans, the cash proceeds of issue of the new sterling notes (net of any expenses of the issue of the same) will be retained on deposit in a bank account charged as security for the sterling notes.

The net cash proceeds of the issue of the new sterling notes on-lent to qualifying subsidiaries will be used by those subsidiaries for the purposes of their respective businesses.

Terms of the exchange offer

REA Finance is offering to acquire all of the outstanding existing sterling notes on the following basis:

for each £100,000 nominal of existing sterling notes, £100,000 nominal of new sterling notes, plus £2,000 in cash and a further amount in cash equal to the interest accrued but unpaid on £100,000 nominal of existing sterling notes as at the date on which the exchange offer becomes unconditional

and so in proportion for any greater or lesser amount of existing sterling notes held, provided that acceptances in respect of less than £100,000 nominal amount of existing sterling notes will only be valid where (a) the acceptance is in respect of the whole of a holder's holding of existing sterling notes and (b) the accepting holder makes a cash top-up payment as described in more detail under the top-up option described below; if the necessary top-up payment is not received, the acceptance will be invalid.

Existing sterling notes acquired by REA Finance pursuant to the offer will be cancelled. Subject to the offer becoming unconditional in all respects, REA Finance will not issue any further 9.5 per cent guaranteed sterling notes 2015/17.

Top-up option

So as to enable qualifying holders to accept the exchange offer, if they should wish to do so, REA Finance is offering qualifying holders who

accept the offer in respect of the whole of their respective holdings the option to top-up the shortfall by means of a cash payment to REA Finance. For this purpose, a "qualifying holder" is a holder of existing sterling notes whose registered holding of existing sterling notes was, as at 5.00 p.m. on 31 July 2015 (being the latest practicable date prior to the printing of this document), less than £100,000 nominal amount of existing sterling notes and "shortfall" means the amount by which the nominal amount of a qualifying holder's holding of existing sterling notes falls short of £100,000.

The amount of cash payable on exercise of this top-up option is £1,000 per £1,000 of the shortfall.

References to the exchange offer in this announcement include, where the context admits, such top-up option.

Placing

At the same time as making the exchange offer, REA Finance is seeking to place up to a further £5,460,000 nominal of new sterling notes for cash at par. The maximum number of new sterling notes to be placed will depend upon take-up of the top-up option described above. To the extent that the top-up option is exercised, the maximum nominal amount of new sterling notes to be placed for cash will be reduced, such that the maximum aggregate nominal amount of existing sterling notes and new sterling notes in issue, immediately following completion of the offer and placing, will not exceed £40,000,000.

The directors of REAH are comfortable that the continuing accretion of shareholder equity from retention of earnings and issues of new shares for cash means that the group can support an addition to its current indebtedness of up to £5,460,000.

To the extent that the full £40,000,000 nominal amount of new sterling notes are not issued pursuant to the offer and placing, the balance will remain available for issue in the future, subject always to compliance with all relevant formalities and the covenants attaching to the new sterling notes, including in particular the covenants as regards borrowing limits and security coverage for the sterling notes.

Guy Butler Limited ("**Guy Butler**") has undertaken to use its reasonable endeavours to place all of the new sterling notes the subject of the placing. The subscription monies payable for the new sterling notes the subject of the placing are payable in full on allotment.

REA Finance has agreed to pay Guy Butler a commission of 1 per cent of the gross proceeds of the new sterling notes issued pursuant to the placing (plus VAT) and to bear all expenses of and incidental to the placing.

Conditions

The exchange offer is conditional upon:

- (a) acceptances being received by not later than 11.00 a.m. on 1 September 2015 (or such later time(s) and/or date(s) as REA Finance may decide, being not later than 11.00 a.m. on 18 December 2015) in respect of not less than £10,000,000 nominal amount of existing sterling notes or such lesser amount as REA Finance may decide, provided that this condition will not be satisfied unless REA Finance will have in issue, at the time that the exchange offer becomes unconditional, at least £10,000,000 nominal amount of new sterling notes (whether issued pursuant to the exchange offer or the exchange offer in conjunction with the placing); and
- (b) the admission of the new sterling notes allotted pursuant to the exchange offer and the placing to the Official List and to trading on the Regulated Market of the London Stock Exchange and such admissions becoming effective on or before 8.00 a.m. on 3 September 2015 (or such later time and/or date as REA Finance may decide, being not later than 5.00 p.m. on 21 December 2015).

The placing is conditional upon:

- (a) there being in issue, at the time that the placing becomes unconditional, at least £10 million nominal of new sterling notes (including those issued pursuant to the offer); and
- (b) the admission of the new sterling notes allotted pursuant to the placing to the Official List and to trading on the Regulated Market of the London Stock Exchange and such admissions becoming effective on or before 8.00 a.m. (BST) on 3 September 2015 (or such later time and/or date as REA Finance may decide, being not later than 5.00 p.m. (GMT) on 21 December 2015)

Both the exchange offer and the placing are also conditional upon the execution of all documentation necessary to create and constitute the new sterling notes and to effect the amendments to the trust deed and existing sterling loans to qualifying subsidiaries (which will include the execution of two supplemental trust deeds effecting certain modifications to the current trust deed requiring, as a pre-condition, the sanction of the holders of existing sterling notes given by way of extraordinary resolution), **and** upon the receipt of the necessary consents from the holders of the existing sterling notes, given by way of the extraordinary resolution proposed to put to the holders of the existing sterling notes at a meeting of the holders of the existing sterling notes convened for 12 noon (CEST) on 27 August 2015.

Informal indication as regards intentions

The directors of REAH have received informal and non-binding indications that holders of in excess of £25 million nominal amount of the existing sterling notes (representing in excess of 70 per cent of the outstanding existing sterling notes) are likely to vote in favour of the

necessary extraordinary resolution and to accept the exchange offer in respect of their respective holdings of existing sterling notes.

Transferability

The new sterling notes will be issued in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof and accordingly will only be transferable in minimum amounts of £100,000 nominal and integral multiples of £1,000 in excess thereof provided that, where the transfer is in respect of part only of a holding, the transferor must retain a minimum holding of £100,000 nominal of new sterling notes. In all other respects, the new sterling notes will be freely transferable.

Rights attached to the new sterling notes

The commercial terms and conditions attaching to the new sterling notes will be substantially the same as those currently attaching to the existing sterling notes save that the new sterling notes will bear interest at the fixed rate of 8.75 per cent per annum payable half-yearly on 30 June and 31 December in each year and will be redeemed at par in one instalment on 31 August 2020. As with the existing sterling notes, the payment of interest and principal and any other monies payable by REA Finance on or in respect of the new sterling notes will be irrevocably and unconditionally guaranteed by each of REAH and REA Services.

The payment of interest and principal and any other monies payable by REA Finance on or in respect of the new sterling notes will be secured in the same manner as are the primary obligations of REA Finance in respect of the existing sterling notes, namely by way of the same first charge over the bank account of REA Finance. The obligations of REA Services in respect of its guarantee obligations in respect of the new sterling notes will also be secured in the same manner as are its guarantee obligations in respect of the existing sterling notes, namely by way of the same first charges over (i) two designated bank accounts of REA Services and (ii) the rights of REA Services in respect of all monies owed to it from time to time by qualifying subsidiaries. The new sterling notes and the existing sterling notes will therefore rank *pari passu* in point of security and will be equally and rateably secured by and upon the bank accounts and receivables referred to above.

Interest will accrue on the new sterling notes issued pursuant to the exchange offer and the placing from (but excluding) the respective dates on which the same become fully unconditional.

Trading update

The prospectus contains information regarding current trading that updates previously announced information as respects trading during June 2015:

Operations

The crop of oil palm fresh fruit bunches ("**FFB**") harvested during the half year to 30 June 2015 amounted to 280,000 tonnes, compared with 310,000 tonnes for the corresponding period in 2014. External purchases of FFB during the period totalled 68,000 tonnes, substantially the same as in the corresponding period in 2014.

The early months of 2015 saw generally lower palm oil production throughout East Kalimantan and East Malaysia, reflecting the combination of unusually high rainfall in February following on from an extended dry period in September and October 2014. Rainfall for the half year to 30 June 2015 averaged 1,505 millimetres across the group's operations, closer to recent historical averages for the equivalent period and ahead of the 1,295 millimetres during the corresponding period in 2014.

Cropping rates are now improving to normal monthly levels whilst crop from smallholder estates continues to make a steady contribution to throughput and revenue.

For the half year to 30 June 2015, FFB processed palm products produced and relative extraction rates, together with the comparative figures for the corresponding period in 2014, were as follows:

	Six-month period ended 31 June 2015:	Six-month period ended 31 June 2014:
FFB processed (tonnes)	344,000	375,000
Crude palm oil (" CPO ") (tonnes)	74,000	81,000
Palm kernels (tonnes)	18,000	17,000
Crude palm kernel oil (" CPKO ") (tonnes)	7,000	6,000
CPO extraction rate (%)	21.5	21.6
Palm kernel extraction rate (%)	4.6	4.4
CPKO extraction rate (%)	33.6	38.3

In the group's two older mills, refurbishment of three out of the four boilers has now been completed. Refurbishment of the remaining fourth boiler is in progress. Other major refurbishment works in the mills are now substantially complete although there is a continuing programme of repair work and maintenance to ensure optimum throughput. Improving mill operation and capacity is being reflected in improving extraction rates. Completion of a new second loading ramp at the group's oldest mill means that it is now possible to grade all third party fruit being purchased by the group and this should, in due course, ensure a reduction in the negative impact on extraction rates of poorer quality third party fruit. Whilst the extent of this impact is difficult to measure precisely, the group's Perdana oil mill, which processes a much higher proportion of third party fruit than the group's Cakra and Satria oil mills, had a CPO extraction rate for the half year to 30 June 2015 of 21.4 per cent as compared with the 23.6 per cent achieved by the Satria oil mill.

Works have been initiated to extend the group's newest oil mill so as to double its capacity in 2016 and thereby, for the foreseeable future, ensure sufficient processing capacity for all crop from the group's estates and from the growing number of maturing smallholder plantings in the vicinity.

During the period from 1 January to 30 June 2015, the CPO price, CIF Rotterdam, has for the most part traded within the range \$650 to \$700 per tonne but with some occasional dips towards the \$600 level. Whilst there have been increasing indications of an El Niño weather event in 2015 and a recent announcement that the US will mandate increased use of biofuels with effect from 2016, CPO prices have been slightly weaker in July 2015. In the opinion of the directors this reflects a general weakness in commodity markets and the current plentiful supplies of soybeans. The previously announced new Indonesian levy on exports of CPO is now being implemented at a level of \$50 per tonne. The planned use of levy proceeds to support increased mandatory blending of biodiesel in fuel sold within Indonesia is likely to improve biodiesel offtake and may well result in some firming in the CPO price in due course.

The average selling price for the group's CPO for the six-month period to 30 June 2015, on an FOB basis at the port of Samarinda and after payment of export duty, was \$542 per tonne (2014: \$711 per tonne). The average selling price for the group's CPKO on the same basis was \$862 per tonne (2014: \$1,034 per tonne). In addition, during the half year to 30 June 2015, the group realised approximately \$339,000 from the sale of green palm certificates with the price for green palm certificates in respect of CPKO currently at \$50 per tonne (2014: \$60 per tonne).

The group considers that good progress is being made with development of its new land areas held by PT Putra Bongan Jaya and PT Cipta Davia Mandiri. Construction of the perimeter bunding required to control flooding in the lower lying areas of PT Putra Bongan Jaya is now substantially complete although water gates have still to be installed. During the half year to 30 June 2015, the area cleared for planting at PT Putra Bongan Jaya increased by 1,160 hectares. With expansion now possible into lower lying areas, the group expects clearing to accelerate rapidly within the further 6,000 hectares that are immediately available to be cleared. At PT Cipta Davia Mandiri, clearing has started on an initial 1,000 hectares.

The group is also working towards completing the long announced swap of land held by PT Sasana Yudha Bhakti for shares in PT Prasetia Utama in the second half of 2015.

The group's pioneering collaboration with the Indonesian state electricity company came to fruition in April 2015 when the group's two capture plants started to supply renewable electricity to local villages. Initially, 14 villages have been connected. The Indonesian state electricity company is now working on completing connections to a further seven villages as well as installing prepay meters in village houses. As further villages are connected and the installed

number of prepay meters increases, power offtake from the group is projected to increase.

The group is working with an international development NGO, SNV, to improve the agricultural practices of smallholders within the group's supply chain who manage their own land so as to optimise their yields and fruit quality in a way that complies with the standards of the Roundtable on Sustainable Palm Oil. The scheme is designed so that farmers, upon completion of training, will be in a position to train other smallholders within the same cooperative.

In support of the group's continuing commitment to produce palm oil in a responsible manner, the group published its second sustainability report in June 2015, produced in accordance with the Global Reporting Initiative. The purpose of this report is to provide stakeholders with detailed information about the group's performance on all material environmental and socio-economic issues that is more comprehensive than the information provided in the 2014 annual report. The report is available to download from the group's website: www.rea.co.uk.

The group is continuing to seek a "cornerstone" third party stone offtake agreement to underpin the investment needed to upgrade the access road to the group's stone concession which will be a necessary preliminary to commencing extraction operations at the concession. The group's coal mining activities remain suspended.

Finance

As stated in the 2014 annual report, the directors of REAH intend that, when market conditions permit, existing shorter dated debt should be repaid and replaced with preference share capital or debt of a longer maturity to meet the group's financing objectives. In line with this intention, on 1 July 2015, the company issued 4,221,000 new 9 per cent cumulative preference shares for cash at par. Such new preference shares rank *pari passu* in all respects with the existing issued preference shares. In addition, as noted above, the group is proceeding with the exchange offer and placing.

The directors continue to work towards implementing their previously announced intention of effecting a public offering of a minority shareholding in the group's principal operating subsidiary, REA Kaltim, combined with a listing of REA Kaltim shares on the Indonesia Stock Exchange in Jakarta. The possibility of a placing of REA Kaltim shares in advance of such a listing is also being explored.

Outlook

With CPO prices at depressed levels, the group is making great efforts to reduce costs and improve operating efficiencies. In this, it is making good progress and is being helped by the continuing weakness of the Indonesian rupiah. With extension planting gathering momentum, the group should remain a low cost producer of CPO and,

as such, well placed to weather the current low period in the CPO price cycle and to ensure that any upturn in prices (of which the first signs may now be visible) flows through directly into profit.

Further information

Copies of the prospectus will shortly be submitted to the National Storage Mechanism and will be available for inspection at www.hemscott.com/nsm.do. Copies of the prospectus may also be obtained free of charge from the company at its registered office, First Floor, 32-36 Great Portland Street, London W1W 8QX and are also available to download from the company's website at www.rea.co.uk.

Expected timetable

A meeting of holders of existing sterling notes has been convened for 27 August 2015 to consider a resolution to approve, amongst other things, various amendments proposed to be made to the trust deed constituting the existing sterling notes, necessary to allow the new sterling notes to be constituted pursuant to the trust deed supplemental to the existing trust deed, as a separate series of notes.

It is expected that the results of the proposed exchange offer and placing will be announced on 2 September 2015 and that dealings in the fully paid new sterling notes issued pursuant to the exchange offer and the placing, for normal settlement, will commence on 3 September 2015.

Click on, or paste the following link into your web browser, to view the associated PDF document.

http://www.rns-pdf.londonstockexchange.com/rns/9072U_-2015-8-3.pdf

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