

Trading update & possible iss

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R.E.A.Hldgs PLC
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Trading update and new developments concerning R.E.A. Holdings plc (the "company") and its subsidiaries (together the "group") including the proposed acquisition of PT Prasetya Utama and a possible issue of further 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V.

Crops

The crop of oil palm fresh fruit bunches ("FFB") harvested during the six months to 30 June 2008 totalled 231,102 tonnes. This was well ahead of the crop of 165,000 tonnes achieved in the corresponding period of 2007 and some 30,000 tonnes ahead of budget. As noted in previous crop updates, year to year variations in the monthly phasing of crops are normal and it should not be assumed that the crop for 2008 as a whole will necessarily be over budget.

Crude palm oil ("CPO") and palm kernel production for the six months to 30 June 2008 amounted to, respectively, 53,770 tonnes (2007: 40,700 tonnes) and 10,476 tonnes (2007: 7,000 tonnes) reflecting extraction rates of 23.0 per cent for CPO (2007: 24.5 per cent) and 4.5 per cent for kernels (2007: 4.2 per cent). Production of crude palm kernel oil for the period amounted to 4,154 tonnes (2007: 3,042 tonnes) with an extraction rate of 40.3 per cent (2007: 43.5 per cent).

CPO market

The CPO market has been firm during 2008 to date. Prices rose from the beginning of the year, reached a peak in March 2008 at a price in excess of \$1,300 per tonne, CIF Rotterdam, and have since levelled off at around \$1,200 per tonne. CPO currently stands at a significantly higher discount to the price of soybean oil than has historically been the norm. This suggests that the CPO price is being supported by the strength of demand for other vegetable oils rather than an imbalance within the CPO market itself and this view is supported by the increases in CPO stocks in recent months. Nevertheless, the directors believe that it is likely that the group can look forward to good CPO prices for the remainder of 2008.

New land and extension planting

The necessary regulatory consents for the previously announced acquisition of PT Putra Bongan Jaya ("PBJ") have now been obtained. PBJ holds a land allocation of some 20,000 hectares (subject to survey) and has development permits covering significant areas within that allocation. The land is located some 70 kilometres to the south of the core land areas held by the group. PBJ continues to work towards completion of outstanding legal formalities with a view to obtaining a full hak guna usaha title to the land that it holds.

In addition, the group has recently entered into a non-binding memorandum of understanding involving the acquisition of the whole of the issued share capital of PT Prasetya Utama ("PU") for a consideration of some \$7.3 million, such acquisition to be made as to 95 per

cent by the group and 5 per cent by a local Indonesian investor. The consideration of \$7.3 million will be satisfied in cash as to 50 per cent on signature of a binding sale and purchase agreement and as to the other 50 per cent on completion of the acquisition following receipt of necessary Indonesian regulatory approvals. PU holds a full hak guna usaha land title to an area of some 9,000 hectares that is almost contiguous with the northern component of the core land areas held by the group. PU otherwise has no assets and no liabilities other than in respect of shareholder loans (the rights as regards which will be assigned by the current shareholders of PU to the group on completion of the acquisition without additional consideration).

With the addition of the PBJ land, the group's extension planting programme, which was resumed in May 2008, is now proceeding apace on three sites. The target development programme for 2008 and 2009 remains at 6,500 hectares per annum and, in addition, the group will aim to catch up the uncompleted balance of 5,000 hectares from the 2007 development programme. This will involve the group in major capital expenditure.

Financing

At the current level of CPO prices, the group's operating activities are producing significant positive cash flows. If maintained, these cash flows, coupled with the cash resources already held by the group, could be expected to fund a substantial proportion, if not all, of the development expenditure currently planned. However, there can be no certainty that the group will continue to enjoy revenues from its CPO sales at current levels.

Every hectare of new oil palm planted brings with it a need to finance not only the immediate cost of planting but also the further costs of upkeeping the newly planted area over the three year period to maturity, of providing the infrastructure, buildings and equipment needed in connection with the new area and of establishing the additional processing capacity required to mill the extra crop that the new area will eventually produce. The directors believe that, in committing the group to new development, they should endeavour to ensure that the group maintains cash reserves that can reasonably be expected to be sufficient to complete all works associated with the development in the event that cash flows from operational activities projected to be available for development do not fully materialise. This means that the group will require some additional funding. The directors believe that if the current level of CPO prices is maintained and the group in due course finds itself with greater cash reserves than the directors consider necessary for current development plans, good use can be made of surplus funds in accelerating or expanding those plans.

In order to maximise the equity returns from its oil palm operations, the group needs to meet a prudent proportion of its capital requirements with debt. The percentage of the group's total equity represented by net debt fell over 2007 from 57.4 per cent at 31 December 2006 to 35.0 per cent at 31 December 2007. The directors therefore consider that the group's current equity base can comfortably support additional debt and that it is sensible to meet the present requirement for additional funding with debt.

The directors continue to believe that the group's interests are best served if the group's borrowings are structured to fit the maturity profile of the assets that the borrowings are financing. Since oil palm plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield, the directors aim to structure the group's borrowings so that shorter term bank debt is used only to finance working capital, with debt funding for the group's development programme being sourced from issues of medium term listed debt securities and borrowings from development institutions.

The group already has outstanding two issues of listed debt securities, namely \$30,000,000 nominal of 7.5 per cent dollar notes 2012/14 issued by the company ("dollar notes") and £22,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's Dutch wholly owned subsidiary, REA Finance B.V. ("REAF"). The latter ("sterling notes") are irrevocably and unconditionally guaranteed by the company. The directors believe that it is currently preferable that any further issue of medium term listed debt securities be made as an addition to one of these two existing issues rather than as a separate issue. This is likely to involve lower administrative costs and, by increasing the nominal amount of the relevant notes in issue, may improve the liquidity of such notes.

The directors have found that many European and Asian investors in the dollar debt markets regard the group as too small for them to be able to consider an investment in the group's debt securities. Thus, the directors believe that, in current markets, it would be difficult for the company to issue further dollar notes. By contrast, the directors hope that a further issue of sterling notes would allow the group to access those UK based institutional investors who invest mainly in sterling denominated securities and whom the group has previously found (as with the issue of the existing sterling notes) to be more willing to invest in debt securities of smaller companies than investors in markets for dollar denominated debt securities. Moreover, the sterling notes have the advantage of being of longer tenor than the dollar notes.

Borrowings from development institutions may be available to the group at a lower effective interest rate than would be payable in respect of a further issue of sterling notes. However, listed debt securities offer greater flexibility than borrowings from development institutions. The directors intend to continue discussions with those development institutions who have indicated interest in lending to the group but, together with REAF, have concluded that the group should give priority to seeking additional funding by way of an issue of further sterling notes.

To this end the group is currently contemplating the creation of a further £28 million nominal of sterling notes with a view to issuing an initial tranche of up to £15 million nominal of such further notes. The creation of such further notes would be conditional upon, inter alia, the passing of a resolution at a meeting of the holders of the existing sterling notes to sanction certain amendments to the existing terms and conditions of the sterling notes, being amendments that the directors and REAF consider pre-requisite to the issue of any further sterling notes.

New initiative

It was noted under the "Review of the group" in the company's 2007 annual report that the directors had been tentatively considering a possible investment by the group in coal mining. The group has now established a small office in Jakarta to pursue this possibility. The office, which is staffed and operated quite separately from the group's plantation operations, has secured for the group a short term arrangement to source coal from Kalimantan and supply it to a power station in Sumatra. Profits from this arrangement are expected to cover the costs of the office. More importantly, by involving itself in the arrangement, the group is obtaining a better understanding of the Indonesian coal market and of the opportunities open to foreign investors in coal mining in Indonesia.

With the experience gained from this initial activity, and with assistance from the group's long standing local connections in East Kalimantan, the group has been able to consider a number of opportunities for the acquisition of land areas in East Kalimantan with potential for open cast mining of coal. One such opportunity is currently being actively pursued. This would involve the acquisition by the group, for a consideration of about \$3.5 million (to be satisfied in cash), of mining rights in respect of a concession area with existing permits for coal mining and geological

reports confirming proven coal reserves suitable for open cast mining. A final decision as to whether to proceed with this acquisition should be made in the near future.

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