R.E.A. Holdings plc: Trading Statement

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

Trading update

Highlights

- Total FFB up 14 per cent in 2017 to 644,570 tonnes (2016: 566,423 tonnes)
- Group FFB up 13 per cent in 2017 to 530,565 tonnes (2016: 468,371 tonnes)
- Stronger extraction rates in second half of 2017: CPO at 23 per cent (first half 2017: 22 per cent) and CPKO at 39 per cent (first half 2017: 37 per cent)
- Negotiations around the divestment of certain outlying plantation assets progressing well with indicative proposals expected in February
- Plans to reopen the coal concession at Kota Bangun progressing well, with anticipated acquisition of adjacent mine and associated permits expected to lead to subsequent sale of existing 16,000 tonne stockpile

Agricultural operations

Key agricultural statistics for the year to 31 December 2017 (with comparative figures for 2016) were as follows:

	2017	2016
FFB crops (tonnes):		
Group harvested	530,565	468,371
Third party harvested	114,005	98,052
Total	644,570	566,423
Production (tonnes):		
Total FFB processed	630,600	560,957
CPO	143,916	127,697
Palm kernels	29,122	26,371
CPKO	11,052	9,840
Extraction rates (percentage):		
CPO	22.8	22.8

Palm kernel	4.6	4.7
CPKO	38.0	34.7
Rainfall (mm):		
Average across the estates	3,620	3,449

Production showed a marked improvement in 2017; the recovery which started in the middle of 2017 continued into the second half. This is particularly encouraging following the harvesting and transportation difficulties experienced at the end of 2016 and into the first half of 2017. Cropping was up 18 per cent to 342,000 tonnes of FFB from 290,000 tonnes of FFB in the first half, notwithstanding that the outcome for the last quarter of the year was more muted than had been envisaged. This was partly because the remedial action required across the group's estates in both the field and infrastructure took longer than expected to complete and partly because of the number of harvesting days disrupted by rain during the traditional peak cropping period.

Mill extraction rates also improved in the second half of the year, averaging consistently above 23 per cent for CPO and 39 per cent for CPKO, compared with 22 per cent and 37 per cent in the first half.

Development work at PBJ was hampered by the weather conditions throughout 2017 as extension planting, planned to occur predominantly in lower lying areas in the north west section, had to be postponed until consistently drier weather would permit bunding to control flooding to be completed. As weather conditions become more favourable and with certain land issues in respect of the remaining pockets of immediately plantable land in PBJ now resolved, clearing and planting of PBJ will accelerate over the coming months.

Towards the end of 2017, the group conducted a review of the development programme for CDM. As a consequence of this review, the planting of 1,000 hectares originally planned in CDM has been cancelled in order to concentrate on larger, near contiguous blocks within this estate with a view to completing this development in the most cost-effective manner while at the same time protecting the important conservation reserves in the wetland area.

Delays in the PBJ planting and the review of the CDM development programme meant that the previously announced target of completing 3,000 hectares in PBJ and CDM combined in 2017 was not achieved. The balance of the targeted 3,000 hectares has been carried over to 2018 and, following completion of this, extension planting in 2018 is now expected to be concentrated on PU and areas of PBJ2 contiguous with SYB.

Actual development in 2017 was as follows:

Hectares	2017
Cleared, not yet planted at 1 January 2017	1,581
Cleared during the period	780
Cleared, not yet planted at end of period	(1,200)
Planted during the period	1,161

Pricing

The CPO price, CIF Rotterdam, had a strong start to the year rising from $790 per tonne at the beginning of January to $857 per tonne by the middle of the month on the back of generally lower production. Thereafter, with stock levels increasing and expectations of significant production growth in the second half of the year, the price declined, reaching a low point of $645 at the end of June and ending the year at $670. Prices are currently at $667.50 per tonne and expectations are that they will be stable around this level at least for the first half of 2018, as growing consumption in India and Asia continues to absorb the projected supply increases in the early months of the year.

CPKO maintained high premia over CPO throughout 2017. The price peaked at $1,860 per tonne, CIF Rotterdam, in late January, reflecting concerns at the continued inadequacy of supplies of coconut oil for which CPKO can be a substitute. As concerns about supplies of alternatives abated, prices drifted down to end the year at $1,242 per tonne. They are currently stable at around this level, nearly double the price of CPO.

Divestment

Negotiations for the divestment of certain outlying plantation assets, as noted in the group's half yearly report in September 2017, are progressing well. A number of potential purchasers have registered their interest and indicative proposals for the purchase of the assets concerned should be received in February.

Stone and coal operations

The limestone quarry adjacent to the group's PBJ property commenced operations in May 2017 delivering stone to the crushing facility that has been established on PBJ land. Crushing operations commenced in September and crushed stone is now being used for road hardening in PBJ. The balance of stone not required by PBJ will be sold to third parties.

The group has commenced discussions with a third party interested in establishing a joint venture to develop and operate the group's andesite stone concession. The discussions are at an early stage, but it is contemplated that the third party would operate the quarry, market the crushed stone production and provide the development funding required in exchange for a share of future profits.

Plans to reopen the coal concession at Kota Bangun are progressing well. The group expects shortly to complete the acquisition of an adjacent mine and the relicensing of the established loading point on the Mahakam River, together with a coal conveyor that crosses the group's concession and runs to the loading point. This will permit completion of the sale of the existing coal stockpile at the concession of some 16,000 tonnes, followed by dewatering and recommencement of mining.

Outlook and publication of results

After a difficult two years, the group has made positive strides in turning round its operations. Whilst it has taken time to address the consequences for field disciplines of a shortage of skilled harvesters and infrastructure deficiencies, the more robust and experienced estate management team now in place is working to restore the group's operations to their previous high standards.

Building on the stronger production in the second half of 2017, the directors remain optimistic about the outlook for the group in 2018 with FFB production expected to be materially ahead of the 530,000 tonnes in 2017 and 468,000 tonnes in 2016.

In line with the timetable adopted in previous years, it is expected that the final results for 2017 will be announced, and the annual report in respect of 2017 published, at the end of April 2018.

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End of AnnouncementEQS News Service

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