

Issue of 7.5% dollar notes 2022

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

Proposed issue of up to \$37.5 million nominal of 7.5 per cent dollar notes 2022 and trading update

Introduction

The company stated in its half yearly report that, given the prospective maturity during 2017 of a significant proportion of the group's dollar and sterling notes and the current momentum in the group's extension planting programme, further funding would be required. The company has been considering several financing alternatives designed to meet the group's requirements and, in particular, to defer debt repayments until after the extension planting programme has been completed.

The company now announces that it is today despatching to holders of the \$34,011,003 nominal of outstanding 7.5 per cent dollar notes 2017 (the "**existing dollar notes**") an offer inviting such holders to exchange their holdings of existing dollar notes for 7.5 per cent dollar notes 2022 (the "**new dollar notes**") (the "**exchange offer**").

The new dollar notes would have, in commercial terms, terms and conditions substantially the same as those attaching to the existing dollar notes save as regards the redemption date and save that the new dollar notes would be issued and transferable in minimum denominations of \$120,000 and integral multiples of \$1 in excess thereof.

The exchange offer includes a top-up option exercisable by those holders of existing dollar notes whose registered holding of existing dollar notes, as at 5.00 p.m. on 4 November 2016 (being the latest practicable date prior to the printing of the exchange offer document), was less than \$120,000 nominal of existing dollar notes and who wish to accept the offer in respect of the whole of their respective holdings,

being an option to top-up, by means of a cash payment, that element of the subscription price of \$120,000 nominal of new dollar notes that would not be met by acceptance of the offer. The purpose of this option is to enable all holders of existing dollar notes to accept the offer, should they wish to do so.

So as to ensure that all elections to exercise the top-up option could be met in full, the company will create \$37,500,000 nominal of new dollar notes (the maximum amount of new dollar notes that would be required were the offer to be accepted in full and the top-up option to be exercised by all persons entitled so to do being \$37,446,883).

To the extent that new dollar notes are not taken up by holders of the existing dollar notes pursuant to the exchange offer, the company proposes to place up to \$10,000,000 nominal of new dollar notes with its wholly owned subsidiary, R.E.A. Services Limited ("**REA Services**") (the "**placing**"), with the intention that any notes so subscribed by REA Services would then be sold, over time, as third party purchasers are found.

The company further announces that it is today publishing a prospectus (the "**prospectus**"), comprised of a registration document and a securities note, in connection with the proposed issue of new dollar notes pursuant to the exchange offer and the placing (the "**proposed issue**").

Reasons for the proposed issue

The group currently holds land titles or land allocations in respect of 108,215 hectares of land in the East Kalimantan province of Indonesia. Of this, 37,097 hectares had been planted with oil palms at 31 December 2015. The group estimates that, taking into account sustainability constraints and an Indonesian requirement that any extension planting by the group is accompanied by development of land for local cooperatives, this established oil palm hectareage should be extendible by a further 23,000 hectares to take the group's total planted oil palm hectareage to close to 60,000 hectares. Extension planting is currently going well and the group expects to meet its target of planting a further 6,000 hectares during 2016. The rate at which it will be able to plant thereafter will be dependent upon the speed at which necessary permitting and land compensation obligations can be processed and settled but the group's aim is to complete extension planting within its existing land bank by the end of 2020.

Every hectare planted brings with it a requirement for investment in additional estate buildings, vehicles and equipment. Attainment of the targeted 60,000 hectares will also require the construction of two further oil mills. Implementation of the group's planned development programme will therefore mean continuing capital expenditure at a high level until 2020. Thereafter there should be a steady reduction to lower levels as the extension planting programme is concluded and

the concomitant requirement for buildings, plant, equipment and processing facilities met. As capital expenditure levels decline, so crops from the much expanded planted areas should increase and this increase can be expected to bring increasing cash flows subject to the normal cyclicity of prices within the vegetable oil complex.

Against this background, the group would prefer to defer debt repayments until after the extension planting programme has been completed and, in the interim, to rely on the additional equity that should be generated by such planting to keep the group's leverage within acceptable bounds. As capital expenditure levels decline into the 2020s and the group's operations mature, the progressively higher cash flows can be utilised to repay debt.

Accordingly the group wishes to refinance the two principal components of its debt that mature during 2017, namely the \$34,011,003 nominal of existing dollar notes which fall due for repayment on 30 June 2017 and the £8,324,000 nominal of 9.5 per cent sterling notes 2015/17 which fall due for repayment on 31 December 2017. To this end, the group has for several months been in discussion with an international development institution and local Indonesian banks with a view to securing the necessary finance. The discussions are proceeding well with the group currently focusing on obtaining additional mezzanine funding of \$30 million from the development institution and additional bank funding from the Indonesian banks for current and planned extension planting.

The group, however, recognises that the existing dollar notes have been a useful and flexible source of funding for the group. Many existing holders of the existing dollar notes have been longstanding supporters of the group's debt securities and the group would welcome a continuing relationship with such holders. Moreover several holders have indicated informally that they would be willing to roll over at least a part of their holdings of existing dollar notes for an extended period. The exchange offer provides an opportunity for them to do so.

The exchange offer will, in effect, give holders of existing dollar notes the opportunity themselves to refinance their notes. To the extent that they do so, the group will scale back the funding that it has been seeking from the financial institutions with which it is currently in discussions.

The exchange offer

The company is offering to acquire all of the outstanding existing dollar notes on the following basis:

for each \$120,000 nominal of existing dollar notes:

\$120,000 nominal of new dollar notes

plus \$300 in cash

plus a further amount in cash equal to the interest accrued but unpaid on \$120,000 nominal of existing dollar notes as at the date on which the exchange offer becomes unconditional

and so in proportion for any greater or lesser amount of existing dollar notes held, provided that acceptances in respect of less than \$120,000 nominal amount of existing dollar notes will only be valid where (a) the acceptance is in respect of the whole of a holder's holding of existing dollar notes and (b) the accepting holder makes a cash top-up payment.

This means that in order to participate in the exchange offer and to acquire new dollar notes, a holder of less than \$120,000 nominal of existing dollar notes must exercise the top-up option, as described in more detail under "Top-up option" below.

Subject as provided above as regards acceptances in respect of holdings of less than \$120,000 nominal of existing dollar notes, the exchange offer can be accepted in respect of all or any part of a holding of existing dollar notes. Holders of existing dollar notes who do not wish to accept the exchange offer, whether in whole or in part, may retain all or any of their existing dollar notes. The company will continue to comply with the terms and conditions attaching to such notes.

Existing dollar notes acquired by the company pursuant to the exchange offer will be cancelled and will not be available for re-issue or sale by the company. The company will not issue any further 7.5 per cent dollar notes 2017.

Top-up option

So as to enable qualifying holders to accept the exchange offer, if they should wish to do so, the company 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 the company. For this purpose, a "qualifying holder" is a holder of existing dollar notes whose registered holding of existing dollar notes was, as at 5.00 p.m. on 4 November 2016 (being the latest practicable date prior to the printing of the exchange offer document), less than \$120,000 nominal amount of existing dollar notes and "shortfall" means the amount by which the nominal amount of a qualifying holder's holding of existing dollar notes falls short of \$120,000.

The amount payable on exercise of this top-up option is \$1 per \$1 of the shortfall, to be paid in cash in dollars on exercise of the option.

If a qualifying holder makes the requisite cash top-up payment, he will receive, pursuant to his acceptance of the exchange offer (and assuming that the exchange offer becomes unconditional), \$120,000

nominal of new dollar notes plus the cash premium element of the consideration (namely \$300) and the payment in lieu of accrued interest in respect of his holding of existing dollar notes (but not in respect of the shortfall).

If all holders of existing dollar notes were to accept the exchange offer (and accordingly all qualifying holders were to exercise the top-up in full), the maximum nominal amount of new dollar notes issued pursuant to the exchange offer would be \$37,446,883 (an increase of \$3,435,880 over the \$34,011,003 nominal of existing dollar notes in issue).

Proposed placing with REA Services

To the extent that \$34,011,003 nominal of new dollar notes are not taken up by holders of the existing dollar notes pursuant to the offer, the company proposes to place up to \$10,000,000 nominal of the new dollar notes comprised in such shortfall (or, if less, all of the new dollar notes so comprised) with its wholly owned subsidiary, REA Services, with the intention that any notes so subscribed by REA Services would then be sold, over time, as third party purchasers are found.

Such placing would be at par, with the subscription monies payable by REA Services funded by way of an interest free loan from the company to REA Services. REA Services would apply the proceeds of sale of any new dollar notes that it so subscribes in or towards repayment of such loan.

Increase in group indebtedness

The exercise by holders of existing dollar notes of the top-up option will increase group indebtedness in respect of dollar notes by the aggregate nominal amount of the new dollar notes subscribed for cash (being up to a maximum of \$3,435,880).

In addition, the sale by REA Services of new dollar notes subscribed by it, if effected prior to the maturity of the existing dollar notes on 30 June 2017, will increase group indebtedness in respect of dollar notes by the nominal amount of the new dollar notes sold but such increase will remain outstanding only until redemption of the existing dollar notes on 30 June 2017 and will, in any event, not exceed \$10 million.

The directors are comfortable that the group can support any such additions to its current indebtedness.

Balance of the unissued new dollar notes

To the extent that the full \$37,500,000 nominal of new dollar notes are not issued pursuant to the offer and/or to REA Services, the balance will remain available for issue in the future, subject always to compliance with all relevant formalities and, amongst other things, all

borrowing restrictions and other covenants included in the terms and conditions attaching to the dollar notes and to the sterling notes issued by the company's subsidiary, REA Finance B.V.

Use of proceeds

All cash proceeds from the top-up option and the sale by REA Services of new dollar notes subscribed by it will be applied by the company in purchasing or redeeming existing dollar notes or otherwise in reducing group indebtedness. Pending such application, such cash proceeds will be applied, on a short-term basis, in augmenting the group's working capital resources.

Commission

The company has appointed Guy Butler Limited ("**Guy Butler**") to provide general assistance to the company in connection with the exchange offer. In consideration of such services, the company has agreed to pay Guy Butler a commission equal to 1.5 per cent of the nominal value of the existing dollar notes in respect of which valid acceptances of the exchange offer are received, subject to the exchange offer becoming unconditional.

Conditions

The exchange offer is conditional upon acceptances being received by not later than 11.00 a.m. on 21 November 2016 (or such later time(s) and/or date(s) as the company may decide, being not later than 11.00 a.m. on 29 December 2016) in respect of not less than \$10,000,000 nominal of existing dollar notes (or such lesser amount as the company may decide, provided that this condition will not be satisfied unless the company will have in issue, at the time that the exchange offer becomes unconditional, at least \$15,000,000 nominal of new dollar notes (whether issued pursuant to the exchange offer or the exchange offer in conjunction with the proposed placing with REA Services of new dollar notes as referred to above).

The placing with REA Services is conditional upon there being in issue, at the time that the placing becomes unconditional, at least \$15,000,000 in nominal amount of new dollar notes (including those issued pursuant to the exchange offer).

Admission

Application for the admission of the new dollar notes to the Official List and to trading on the Regulated Market of the London Stock Exchange is expected to take place on 23 November 2016, and dealings in the fully paid new dollar notes issued pursuant to the exchange offer and the placing with REA Services, for normal settlement, are expected to commence on 24 November 2016.

Particulars of the new dollar notes

The new dollar notes will be created and issued pursuant to resolutions of the board and will be constituted by a trust deed. Holders of the new dollar notes will be bound by, and be deemed to have notice of, all of the provisions of the trust deed

The new dollar notes will be issued in registered form in minimum denominations of \$120,000 and integral multiples of \$1 in excess thereof and may be held in uncertificated form in CREST. They will be admitted to the Official List and traded on the Regulated Market of the London Stock Exchange.

The new dollar notes will bear interest at the rate of 7.5 per cent per annum, payable half yearly in arrear on 30 June and 31 December of each year.

To the extent not previously purchased by the company and cancelled, the new dollar notes will be redeemed at par in one instalment on 30 June 2022.

Holders of new dollar notes may elect to receive payments of interest and redemption monies due in respect of their holdings of new dollar notes in pounds sterling. Where any such election has been made and remains in force, the amount of each dollar payment that, absent the election, would be due to the electing holder in respect of the new dollar notes held by that holder will be converted to pounds sterling by the company shortly ahead of the due date of the payment and the resultant conversion proceeds will be paid to the holder in lieu of the dollar amount that would otherwise be payable. Any election to receive payments in respect of the new dollar notes in pounds sterling may be revoked by not less than 30 days' notice in writing to the company's registrars ahead of any date upon which a payment of interest or redemption monies will fall due.

The new dollar notes will represent unsecured obligations of the company. The trust deed will not contain any restrictions on further borrowings by the company ranking in priority to or *pari passu* with the new dollar notes save that the company will covenant to procure that the overall borrowings of the group do not exceed an amount equal to 1½ times the share capital and reserves of the group (as defined in the terms and conditions attaching to the new dollar notes).

Informal indications as regards intentions

The company has received informal and non-binding indications that holders of existing dollar notes are likely to accept the offer in respect of holdings of existing dollar notes amounting, in aggregate nominal amount, to not less than \$12,000,000 (representing in excess of 35 per cent of the outstanding existing dollar notes).

Operations update

The prospectus contains information regarding the business of the group that updates previously announced information:

Agricultural operations

Key agricultural statistics for the 10 months to end October 2016 (with comparative figures for the corresponding period of 2015) were as follows:

| | 10 months to 31 October 2016 | 10 months to 31 October 2015* |
|--------------------------------|------------------------------------|-------------------------------------|
| FFB crops (tonnes): | | |
| Group harvested | 367,495 | 485,697 |
| Third party harvested | 76,286 | 114,791 |
| Total | 443,781 | 600,488 |
| Production (tonnes): | | |
| Total FFB processed | 440,023 | 592,168 |
| CPO | 101,510 | 130,316 |
| Palm kernels | 20,784 | 27,391 |
| CPKO | 7,770 | 9,926 |
| Extraction rates (percentage): | | |
| CPO | 23.1 | 22.0 |
| Palm kernel | 4.7 | 4.6 |
| CPKO | 33.8 | 34.3 |
| Rainfall (mm): | | |
| Average across the estates | 2,759 | 1,705 |

* The 2015 comparative figures have been restated as the new information system that was implemented in 2015 allows for data collection in real time so that production can be reported on an actual month basis.

The severe dry periods experienced in both 2014 and 2015 have had a significant negative impact on the group's current year crop production alongside that of other oil palm plantations in East Kalimantan and a number of other areas of South East Asia. Whilst the impact continued into the second half of 2016, daily cropping rates started to recover in September and the recovery continued strongly into October. Updated bunch censuses indicate that the recovery should continue and the directors continue to expect that crops should return to more normal levels in 2017.

Recent weeks have seen some fluctuation in the price of CPO CIF Rotterdam, with the price falling from \$777 per tonne at the time of publication of the 2016 half yearly report on 27 September 2016 to a low of \$692 before recovering to its current level of \$757.5. The recovery being seen by the group in daily cropping rates mirrors the reported experience of other oil palm growers. With the resurgence in

production, CPO stocks at origin have increased but are still at below historical averages suggesting that prices may well remain stable at current levels and could increase during 2017.

The group remains on target to achieve 6,000 hectares of extension planting by the end of 2016. Cumulative development to 31 October 2016 is detailed below:

| | Ten months to 31 October 2016 Hectares |
|--|--|
| Cleared, not yet planted at 1 January 2016 | 2,691 |
| Cleared during the period | 4,402 |
| Cleared, not yet planted at end of period | (1,785) |
| Planted during the period | <u>5,308</u> |

Good progress is being made in satisfying the remaining conditions of the agreement finalised late in 2015 to swap land held by PT Sasana Yudha Bhakti for land held by PT Prasetia Utama. The directors expect this to be completed by the end of 2016.

Stone and coal operations

The recovery in coal prices reported in the 2016 half yearly report has continued with the RB Coal Index having reached a current level of \$94, up from \$66 at the time of publication of the report on 27 September 2016 and \$50 at the beginning of 2016. This increase has been accompanied by a recovery in prices for Indonesian semi-soft high calorie coal such as the group has in its PT Indo Pancadasa Agrotama ("**IPA**") concession near Kota Bangun. Arrangements are already in place for the mining of this concession by a third party on a basis that will provide for an income stream to the group based upon prevailing coal prices but with an agreed floor. The group is now in active discussions with the third party concerned with a view to resumption of mining operations once arrangements have been put in place for rehabilitation of the mine and for the evacuation and sale of coal produced.

Following exploratory drilling at the group's Liburdinding concession by another third party, the group had hoped to agree an arrangement similar to that at IPA with the third party concerned. This has not proved possible but the group has now opened discussions with other parties expressing interest in such an arrangement.

The group is moving forward with its plans to purchase crushed stone from a third party contractor who would extract the stone from a limestone quarry located near the PT Putra Bongon Jaya ("**PBJ**") property and then crush the stone on a site within the PBJ property. The resultant crushed stone would be utilised for hardening roads on PBJ and for sale to third parties.

DSN transaction

The agreements between the group and PT Dharma Satya Nusantara Tbk ("**DSN**") remain conditional on receipt by REA Kaltim of the approval of the Indonesia Investment Coordinating Board (*Badan Koordinasi Penanaman Modal*). Such approval is expected to be received imminently and completion of the transaction is scheduled to follow shortly thereafter. On completion, subsidiaries of DSN will acquire, by a combination of subscription for new shares and the acquisition of existing shares, a 15 per cent equity interest in REA Kaltim. The overall consideration payable for the interest to be acquired amounts to the equivalent of \$15 million in cash, with up to a further \$850,000 payable depending upon the recovery by REA Kaltim of certain overpaid tax amounts prior to 1 January 2018.

Concurrently with completion of the acquisition, a subsidiary of DSN will also provide dollar and sterling loans to REA Kaltim of, respectively, \$10 million and £3.9 million on terms mirroring the terms of existing dollar and sterling loans from the company to REA Kaltim. Discussions are continuing between the group and DSN regarding further proposed loans by subsidiaries of DSN to subsidiaries of REA Kaltim.

Temporary advances previously made by subsidiaries of DSN to REA Kaltim pending completion of the agreements between DSN and the group will be repaid on completion, with repayment effected by set off against the amounts due by subsidiaries of DSN on completion.

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

It is expected that the results of the proposed exchange offer and placing will be announced on 21 November 2016 and that dealings in the fully paid new dollar notes issued pursuant to the exchange offer and the placing, for normal settlement, will commence on 24 November 2016.

Click on or paste the following link into your web browser to view the associated PDF documents:

http://www.rns-pdf.londonstockexchange.com/rns/5175O_-2016-11-7.pdf
http://www.rns-pdf.londonstockexchange.com/rns/5175O_1-2016-11-7.pdf

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