R.E.A. Holdings plc: AGM Statement

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R.E.A. Holdings plc (“REA” or the **“company”)**

AGM statement

The company will hold its AGM at 10 a.m. today when the chairman will give the following statement to shareholders.

Agricultural operations

Key agricultural statistics for the period 1 January to 31 May 2024 (with comparative figures for 2023) were as follows:

	2024	**2023**
Fresh Fruit Bunch (FFB) crops (tonnes):		
Group harvested	276,682	282,930
Third party harvested	82,222	77,579
Total	358,904	360,509
Production (tonnes):		
Total FFB processed	342,993	331,348
FFB sold	15,336	29,169
CPO	76,243	72,792
Palm kernels	17,566	16,313
CPKO	6,845	6,777
Extraction rates (percentage):		
CPO	22.2	22.0
Palm kernel	5.1	4.9
CPKO*	40.8	39.8
Rainfall (mm):		
Average across the estates	1,209	1,630

*Based on kernels processed

Agriculture

Group FFB for the period was in line with budget and slightly below that harvested during the same period in 2023 as a result of the reduction in hectarage due to replanting in the mature areas.

CPO production was some 3.5 per cent higher compared with last year as the group was able to process more of its own FFB than in the corresponding period in 2023.

The CPO extraction rate for the period averaged 22.2 per cent against the 22.0 per cent rate for the same period in 2023.

Replanting and extension planting are proceeding in line with previously announced programmes for 2024 of, respectively, some 1,300 and 1,000 hectares.

Prices

CPO prices have remained firm in the first five months of 2024, trading in a relatively narrow range of between $925 and $1,100 per tonne, CIF Rotterdam and currently standing at $1,030 per tonne.

The average price realised from sales of CPO by the group during the period January to May 2024, including premia for certified oil but net of export levy and duty, adjusted to FOB Samarinda, was $757 (average for the year 2023: $718). The average selling price for the group's CPKO, on the same basis, was $824 per tonne compared with $749 per tonne in 2023. Local prices for CPO and CPKO are currently above the average prices to date.

ESG

Works are progressing on separating the supply chain of the group's Cakra oil mill from the supply chains of the group's other two mills so as to permit CPO production from the Cakra oil mill to be sold as segregated CPO. Such CPO, if certified as sustainable, normally commands an enhanced price.

In particular, the group is focusing on installing processes and control systems that will comply with the requirements of the EU Deforestation Regulation ("**EUDR**") that comes into effect at the end of 2024. The group intends to test compliance with EUDR with a trial shipment in the final quarter of the year. EUDR will prevent sales of non-compliant vegetable oils in the EU and the group believes that this is likely to lead to higher prices for EUDR compliant CPO.

In parallel, the group is working with smallholder suppliers to increase the certified component of the group's overall supply chain to promote sustainable palm oil production. Some 78 per cent of the group's current CPO production is RSPO certified.

DSN share subscription and CDM

Following closing in March 2024 of the DSN group's subscription of further shares in REA Kaltim, the group's ownership of REA Kaltim was diluted from 85 per cent to 65 per cent and DSN's ownership increased from 15 per cent to 35 per cent.

Following the recent completion of the local audit of REA Kaltim and its subsidiaries, the group has provided the DSN group with its calculation of the final subscription price. Once this is agreed, the group will receive the balance of the subscription monies payable.

In the meanwhile, discussions have continued with the DSN group concerning its priority right to purchase CDM. Whilst no formal notice has been received from DSN regarding this right (which, following the extension agreed in April, will expire at the end of June 2024), DSN has indicated informally that it does not now expect to exercise the right. Another unrelated party has offered to purchase CDM but at a price that the directors consider too low. The directors believe that the party concerned has made a low offer because it is over-estimating the further investment needed to resolve certain outstanding matters affecting CDM. Specifically, CDM's FFB yield per hectare needs to be increased and its obligation to provide oil palm plantings to village cooperatives needs to be settled. The group believes that this will require only modest further investment and that, rather than trying to convince a potential buyer that this is the case, it will better serve the interests of the group and the local community if REA Kaltim resolves the outstanding issues and further negotiation for the sale of CDM is deferred until it has done so.

Accordingly, the group now intends, for the time being at least, to retain CDM. Whilst further work on upkeep standards and bunding is required, improvements made in the past two years are already being reflected in increasing FFB yields. Moreover, CDM has recently reached agreement in principle with local villages to settle plasma obligations to those villages by transferring to village cooperatives some 900 hectares of as yet untitled planted areas (on which no value was placed in the discussions with DSN and the potential alternative purchaser) at a value of approximately $4,500 per hectare, payable in instalments from the cash flows of the areas transferred. It is expected that the formalities in respect of this agreement can be completed within the next few months.

Pursuant to the agreement for the DSN group's subscription of additional shares in REA Kaltim, the former agreed that, if a sale of CDM had not occurred by the time that the final subscription price for the shares of REA Kaltim had been determined, loans made by the company's subsidiary, REAS, and the DSN group to CDM would be rebalanced so as to be owed 65 per cent to REAS and 35 per cent to DSN group (in line with the new split of ownership of REA Kaltim). Accordingly, the DSN group will on payment of the balance of the subscription monies due to REA Kaltim, advance a further loan to CDM of $10 million which monies will then be applied in repaying $10 million of existing REAS loans.

Although retention of CDM will not produce the reduction in net debt that exercise by the DSN group of its priority right, or a sale of CDM at an equivalent value, would have produced, the group expects that the cash proceeds that would have resulted from such event can to an extent be replaced by bank borrowings against CDM's assets. Such additional borrowings should be less than the borrowings that are concurrently falling due for repayment so that net debt will continue to fall.

Stone, sand and coal interests

Changes to the structure of the group’s interests in ATP, the stone concession holding company, and MCU, the sand concession holding company, are moving forward. The group has received legal advice that, whilst formal regulatory approvals are needed, there is no longer any legal impediment to the exercise of its longstanding right to acquire 95 per cent ownership of ATP. Application is being made for the necessary approvals and it is expected that the acquisition of 95 per cent ownership will become effective later in 2024. The outstanding licences for sand mining are close to being finalised whereupon, as planned, the group will acquire a 49 per cent participation in MCU.

Two contractors are quarrying in ATP and commercial sales have now started. To date some 30,000 tonnes of stone have been produced and delivered to a stockpile for onward sale in satisfaction of the first purchase order. Once a blasting licence has been secured in the coming weeks, quarrying and crushing can be scaled up. Local demand for crushed stone is brisk and ATP is concluding offtake agreements with several purchasers.

Commercial production of silica sand is also now starting. IPA’s coal mining contractor, who already has equipment on site, has been appointed to mine the MCU silica sand on terms similar to those that applied to mining coal at IPA, with profits from sales of silica sand to be shared between MCU and the contractor in the approximate proportion 70:30.

The position as respects the group’s coal interests remains unchanged.

Dividends

Following the DSN share subscription becoming unconditional, the directors declared a dividend on the preference shares in respect of all arrears then outstanding on those shares and this was paid in April 2024.

The directors announce today that the fixed semi-annual dividend on the company’s preference shares arising on 30 June 2024 will be paid on that date to holders of preference shares registered at the close of business on 14 June 2024, with an ex-dividend date of 13 June 2024.

Subject to no material adverse change in the financial performance of the group, the directors intend that the dividend arising on the preference shares on 31 December 2024 will be paid on the due date.

Outlook and results

The outlook for the group is encouraging. Global CPO production is now growing at a lower rate than global vegetable oil consumption and, with limited availability of plantable land and increasing regulatory restrictions constraining expansion of oil palm hectarage, this situation is likely to continue. Accordingly, CPO prices may reasonably be expected to remain at remunerative levels for the foreseeable future.

Improvements to and expansion of the group’s core oil palm operations, together with increasing sustainability premia on the group’s oil sales, and reducing financing costs as borrowings reduce, should lead to improving cash flows from the core agricultural operations. Coupled with increasing contributions from the group’s ancillary interests in stone and sand, this should facilitate further reductions in group net indebtedness.

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