

# R.E.A. Holdings plc: Trading update

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01-Feb-2023 / 07:00 GMT/BST

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## R.E.A. Holdings plc (“REA” or the “company”) - Trading update

REA, whose principal business is the cultivation of oil palms in the province of East Kalimantan in Indonesia and the production and sale of crude palm oil (“CPO”) and crude palm kernel oil (“CPKO”), is pleased to announce a trading update for the year ended 31 December 2022.

David Blackett, chairman of REA, commented:

The group’s improving operational and financial performance is encouraging. Generally, firm CPO prices have largely offset inflationary pressures on costs albeit that prices have been restricted by the Indonesian government’s efforts to constrain the local price of cooking oil from rising above an affordable level. With extension planting now re-started, the commencement of replanting of the oldest mature areas and cash flowing from further repayments of loans made to the Indonesian stone and coal concession companies, REA expects that the group’s fortunes will continue to improve.

## Agricultural operations

Key agricultural statistics for the year to 31 December 2022 (with comparative figures for 2021) were as follows:

	2022	2021
Fresh Fruit Bunch (“FFB”) crops (tonnes):		
Group harvested	765,682	738,024
Third party harvested	248,969	210,978
<b>Total</b>	<b>1,014,651</b>	<b>949,002</b>
Production (tonnes):		
Total FFB processed	981,010	933,120
FFB sold	33,169	18,369
CPO	218,275	209,006
Palm kernels	46,799	44,735
CPKO	18,206	17,361
Extraction rates (percentage):		
CPO	22.3	22.4
Palm kernel	4.8	4.8

CPKO*	39.8	39.5
Rainfall (mm):		
Average across the estates	3,837	3,650

\*Based on kernels processed

Group FFB increased by some 3.7 per cent in 2022 despite periods of high and prolonged rainfall and the loss of crop from the oldest areas where replanting commenced during the second half. Overall, rainfall for the year was 23 per cent higher than the historic average for the last ten years. Compounding this, the number of rain days, when harvesting had to be cancelled and evacuation was interrupted, was significantly higher than historic averages.

Although excessive rainfall and periodic flooding presented logistical challenges for crop evacuation throughout the year, continuing investment in expanding the group's transport fleet and improving group infrastructure had a positive impact on logistical efficiencies as the year progressed. 2023 should see further benefit from this investment and, with a consequential improvement in the speed of FFB evacuation, some enhancement of extraction rates.

Expansion of the group's third oil mill at Satria ("**SOM**"), doubling its capacity, was successfully completed in the first half of 2022. Together with the approaching completion of the repairs to the boiler at Perdana oil mill ("**POM**") that was damaged in 2021, this not only ensures ample processing capacity for the group's own FFB production and that of third party suppliers but also provides additional resilience in the event of temporary shutdowns for essential maintenance and repairs. It should also give the group sufficient processing capacity to allow it to separate the processing of fully certified sustainable FFB from other FFB. This should permit the sale of the CPO produced from the sustainable FFB as segregated sustainable CPO which normally commands a price premium.

As planned, in the final quarter of 2022, the group commenced land preparation at the group's newest estate at PT Prasetia Utama ("**PU**") It is expected that an initial oil palm extension area of 2,000 hectares can be planted by the end of 2023.

Each year the group participates in the Sustainable Palm Oil Transparency Toolkit ("**SPOTT**") assessment by the Zoological Society of London ("**ZSL**") which assesses palm oil producers, processors and traders on their disclosures regarding their organisation, policies and practices with respect to environmental, social and governance ("**ESG**") matters. In the 2022 assessment, published in November, the company's score increased from 84.4 per cent to 87.0 per cent, compared with an average score of 45.4 per cent, ranking the group tenth out of 100 palm oil companies assessed.

A surge in CPO prices early in 2022, in line with generally higher commodity prices, was dampened by a range of measures introduced by the Indonesian government in June 2022, aimed at supporting the local availability of cooking oil at an affordable price. These measures, which were periodically revised through the rest of the year, included an initial short ban on exports, the introduction of domestic market obligations and changes to the export tariff structure. The initial impact of the measures was a dramatic fall in the net prices receivable by the group for its produce but the later revisions to the measures saw such net prices return to, and stabilise at, a remunerative level.

The CPO price, CIF Rotterdam, opened the year at \$1,350 per tonne, closed at \$995, after peaking at \$1,990 in early March, and currently stands at \$1,030 per tonne. Whilst CPO production is recovering from the negative impact of Covid, demand remains strong. In particular, the relaxation of Covid restrictions in China is likely to lead to increased Chinese offtake. Mandated biodiesel

usage in transport fuel in Indonesia also provides a valuable support for the Indonesian CPO domestic market.

The average selling price for the group's CPO for 2022, including premia for certified oil but net of export levy and duty, adjusted to FOB Samarinda, was \$821 per tonne (2021: \$777 per tonne). The average selling price for the group's CPKO, on the same basis, was \$1,185 per tonne (2021: \$1,157 per tonne). These higher average selling prices served to offset inflationary pressure on costs.

## **Stone and coal interests**

Following the recommencement in late 2021 of operations at the coal concession held by PT Indo Pancadasa Agrotama ("**IPA**"), to which the group has made loans, mining from IPA's southern pit continued throughout 2022 at the rate of approximately 30,000 tonnes per month. A total of 11 shipments were made during the year totalling some 346,000 tonnes at selling prices averaging \$258 per tonne (delivered FOB vessel). In addition, small volumes of third party coal started shipping through IPA's port during 2022.

Towards the end of 2022, IPA's mining contractor completed exploratory drilling of the northern pit (which was previously mined some years ago) and commenced dewatering and some limited mining in this section of the concession.

IPA's coal production is projected to continue during 2023 at the same average rate as that achieved in 2022. With production coming predominantly from the northern pit, where the coal is mainly high calorie thermal coal rather than the semi-soft coking coal found in the southern pit, the average price achievable will be very dependent upon thermal coal prices. These may be less supported than coking coal prices if there is any fall off in current coal demand from Europe for re-opened coal fired power stations.

Plans to commence quarrying of the andesite stone concession held by PT Aragon Tambang Pratama ("**ATP**"), to which the group has also made loans, continued to be progressed during 2022. After extended discussions with potential contractors, ATP concluded that it should own its own crushing equipment rather than rely on access to equipment provided by an external contractor. The group agreed to finance ATP's purchase of the required equipment at a cost of approximately \$1.5 million and the equipment is scheduled for delivery in the next few weeks, after which stone production can start. There continues to be good demand for stone from third parties in the neighbourhood of the stone concession as well as for the group's infrastructure projects.

Recently concluded investigations of the sand contained in the overburden overlaying the coal at IPA have indicated that this sand should have a commercial value. PT Millenia Coalindo Utama ("**MCU**"), a company owned by the group's partners in IPA, has applied for the permits required to mine this sand and the group has recently concluded agreements under which, conditional upon such permits being secured, it will acquire a 49 per cent shareholding in MCU. IPA's coal mining contractor has indicated interest in extending its existing coal mining contract with IPA to cover mining of IPA sand with a similar profit sharing arrangement to that agreed for coal and on the basis that the contractor would finance initial set up costs including the purchase of a required washing plant.

It remains the directors' intention that the group should withdraw from its coal interests as soon as practicable. The continuing extraction of coal at IPA and the imminent commencement of quarrying at ATP encourages an expectation of a full recovery of group loans in due course.

## **Finance**

In the first half of 2022, the group secured an extension to the repayment date for the 7.5 per cent dollar notes from 30 June 2022 to 30 June 2026. In addition, a working capital facility equivalent to \$5.3 million was repaid to PT Bank Mandiri Tbk (“**Mandiri**”) and, upon completion of the extension of SOM, a further Indonesian rupiah denominated term loan equivalent to \$6.3 million was drawn from Mandiri. Subsequently Mandiri refinanced loans, amounting in total to the equivalent of \$2.4 million, that had previously been made by the group to two smallholder plasma schemes.

The group is currently discussing with Mandiri the possibility of Mandiri refinancing group loans to other plasma schemes and providing a development loan to fund the extension planting at PU. The group remains committed to reducing its indebtedness and intends that such further funding arrangements, if concluded, will moderate the speed of debt reduction but still leave the group with a falling level of overall net debt. Moreover, it is expected that the development of PU will enhance underlying value and profitability and thus, of itself, improve the group’s leverage.

2022 saw significant declines in the values of sterling and the Indonesian rupiah against the US dollar with exchange rates falling from, respectively, £1=\$1.3499 to £1=\$1.2056 and Rp14,269=\$1 to Rp15,731=\$1. As a consequence, the group’s results for 2022 will reflect significant exchange gains on the group’s sterling and rupiah borrowings. A proportion of the rupiah gains is likely to be reversed in 2023 as the rupiah has strengthened since 31 December 2022 from Rp15,731=\$1 to a current level of Rp14,979=\$1.

The semi-annual dividends arising on the preference shares in June and December 2022 were paid on their respective due dates. In addition, a payment of 10p per share of arrears of dividend on the group’s preference shares was paid at the end of 2022. Provided that operational performance and cash flows continue at satisfactory levels, the directors continue to plan for the elimination of all arrears of dividend on the preference shares by the end of 2023.

## **Outlook**

The group’s operational and financial position is steadily improving and the directors hope to see further improvement during 2023, supported by CPO and CPKO prices that are projected to remain at current remunerative levels and by further loan repayments from the stone and coal concession holding companies.

## **Publication of results**

In line with the timetable adopted in previous years, the final results for 2022 are due to be announced, and the annual report in respect of 2022 published, at the end of April 2023.

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ISIN: GB0002349065  
Category Code: TST  
TIDM: RE.  
LEI Code: 213800YXL94R94RYG150  
Sequence No.: 219772  
EQS News ID: 1548045

End of AnnouncementEQS News Service

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