

Trading update

RNS Number : 9346Z
R.E.A.Hldgs PLC
16 December 2014

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

Trading update

Agricultural operations

The crop of oil palm fresh fruit bunches ("FFB") harvested during the eleven month period to the end of November 2014 amounted to 578,556 tonnes, compared with 523,993 tonnes for the corresponding period in 2013. External purchases of FFB totalled 136,192 tonnes, compared with 88,796 tonnes for the corresponding period in 2013.

For the same period, processing of the group's own FFB production and the externally purchased FFB, together totalling 705,613 tonnes (2013: 612,224 tonnes), produced 154,723 tonnes of crude palm oil ("CPO") (2013: 133,680 tonnes), 32,437 tonnes of palm kernels (2013: 27,957 tonnes) and 11,826 tonnes of crude palm kernel oil ("CPKO") (2013: 10,249 tonnes). These production figures reflect extraction rates of 21.9 per cent for CPO (2013: 21.8 per cent), 4.6 per cent for kernels (2013: 4.6 per cent) and 38.1 per cent for CPKO (2013: 36.6 per cent).

Rainfall to the end of November averaged 2,233 millimetres across the group's operations (2013: 3,030 millimetres). Although the widely predicted recurrence of an El Nino has not materialised, the level of rainfall throughout 2014 to date has been consistently below monthly averages in 2013 and below the average for the preceding six years. Production levels are comfortably ahead of 2013 levels, but after a period of steady improvement in operations, several weeks of particularly dry weather during September and October resulted in serious disruptions to transport logistics delaying

sales of CPO and CPKO and temporarily setting back the recovery. The return of heavy rains in mid November brought welcome relief and the group is working to recover the backlog on CPO and CPKO deliveries by year end.

As part of the programme of improvements to address engineering and operational deficiencies in the group's three oil mills, one of the two boilers in each of the two older mills have been undergoing refurbishment in recent months. As soon as both boilers are fully back in service, the two remaining boilers in the mills in question will also be refurbished. The deterioration in the condition of these two boilers has resulted in a temporary reduction in throughput, restricting the volume of fruit that the group has been able to process. Because of this, the group is to an extent delaying harvesting so as to keep the volume of fruit being delivered to the mills within manageable levels. As a result, crops reported to end November were lower than they would otherwise have been. The group estimates the carry-over of fruit that would normally have been harvested by end November at some 30,000 tonnes although continuing processing restrictions may mean that not all of this carry over will ultimately prove recoverable.

Whilst the processing inefficiencies that have resulted from the necessary refurbishment of boilers distort comparisons, it is clear that the continuing focus on the mills is starting to have a positive impact on extraction rates. Further progress should be made in 2015. In addition, the group is now proceeding with the proposed expansion in 2015 of the third, newest oil mill at Satria to double its capacity to 80 tonnes of FFB per hour. This will provide further resilience in meeting the growing processing requirement for both group and smallholder fruit.

The CPO price remained steady during the first quarter of the year, but since then has generally been on a downward trend. After a peak in March at just below \$1,000 per tonne, CIF Rotterdam, it now stands close to a low for the year of \$675 per tonne. Particular bearish factors have been a record soybean crop in the US and a falling petroleum oil price that has reduced the competitiveness of bio-diesel manufactured from vegetable oil. Predicting commodity prices in the current uncertain world economic context is not easy but some professional forecasters of vegetable oil prices now foresee some recovery in the first half of 2015. The directors believe that demand for CPO is price elastic and that the current lower price is likely to stimulate additional consumption in the major markets of China and India.

The CPKO price continues to stand at a premium to the CPO price, although this has narrowed to around \$240 per tonne, compared with over \$600 per tonne seen earlier in 2014.

The lower CPO and CPKO prices, coupled with the effect of holding larger than normal stocks in a falling market because of the transport problems caused by the period of exceptional dry weather, is negatively affecting the group's profitability in the second half of 2014. Some relief is being afforded by the reduction in October to nil in the rate of Indonesian export duty on CPO and CPKO at current price levels.

Development of the group's newer land areas, held by PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri ("CDM"), has proceeded at a slower pace than the group would have wished owing, in the case of PBJ, to delays in reaching final agreement with a few villagers regarding compensation payments and community development programmes as well as in the allocation of land for smallholder cooperatives, and, in the case of CDM, to further work undertaken to delineate conservation reserves and preserve wetlands. It has also been necessary to establish the methodology for the control of flooding in the lower lying areas.

These issues are now largely resolved, but the group is having to contend with legislation recently enacted by the Ministry of Forestry that requires plantation companies to conduct a complete analysis of any land containing standing timber rather than extrapolating from analyses of small sample areas. The group is working quickly to satisfy this new requirement so that land development can accelerate as planned in the first half of 2015. Once satisfaction of the new requirement has been completed, the areas immediately available for development at PBJ and CDM stand at respectively 7,000 and 1,000 hectares.

The group has recently secured two further land allocations, one for PBJ, adjacent to existing PBJ land areas, and the other for PT Kartenegara Kumala Sakti ("KKS"), adjacent to existing CDM areas. The group is now initiating the process of obtaining full title to these new areas, which together total 7,600 hectares. When PBJ and the combined CDM / KKS areas are eventually fully planted, the resultant planted areas will form larger and more efficient contiguous units than was previously the case.

Efforts continue to bring to a conclusion the swap arrangement in respect of the land currently held by PT Sasana Yudha Bhakti (and the subject of overlapping coal rights) for land held by PT Praesetia Utama ("PU"). This remains subject to renewal of the requisite licences in PU.

Measures continue to be put in place to address health and safety matters across the group's operations with a view to securing OHSAS 18001 certification by the end of 2015. No occupational fatalities occurred on the estates during 2014.

Regrettably, a local villager was seriously injured in late November 2014 in an encounter with army personnel based on the estates. The incident is subject to an official military police investigation.

Ancillary projects

The Indonesian state electricity company, PLN, has now completed installation of the infrastructure required to supply villages local to the group's estates with power supplied by the group's methane capture plants. Commencement of supply to PLN awaits completion of negotiations with certain district authorities regarding relevant permits following recent changes by the Ministry of Energy to national regulations and tariffs for power producers.

The group has now obtained the operating licence required to establish a quarry on the group's stone concession with a view to producing stone for the group's agricultural operations and for sale to third parties. Contractual arrangements for the provision of quarry services are being put in place and upgrading of the access road to the quarry is expected to commence in 2015.

Coal mining projects and cooperation arrangements with third party contractors remain suspended pending an improvement in international coal prices. The recent fall in petroleum oil prices is likely to be beneficial to coal extraction costs and resumption of mining is therefore now likely to require a lesser improvement in coal prices than was previously the case.

Subject to satisfactory confirmation of preliminary costings, the group plans to proceed with a project to convert its vehicle fleet to run on a bio-methane and diesel mix and to provide the bio-methane from the surplus generated by the methane capture plants. This project has the potential to reduce diesel consumption in the group's vehicles by some 70 per cent.

Redemption of 7.5 per cent US dollar notes 2012-2014 ("2014 dollar notes")

All of the 2014 dollar notes that remain outstanding, being some \$6.3m nominal, will be redeemed at their principal amount on 31 December 2014 and cancelled forthwith in

accordance with the terms and conditions of the trust deeds in respect of such dollar notes.

First interim dividend

In the company's half yearly report for the six months ended 30 June 2014, the directors stated their intention, in the absence of unforeseen circumstances, to declare a first interim dividend in respect of 2014 for payment in January 2015 at the rate of 4 pence per ordinary share.

In line with that intention, the directors have today declared a first interim dividend for the year ending 31 December 2014 of 4 pence per ordinary share to be paid on 23 January 2015 to shareholders on the register at the close of business on 5 January 2015.

Listing

The directors have previously announced their intention that the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim") should seek local Indonesian minority participation in its ownership by making a public offering in Indonesia of its shares combined with a listing of those shares on the Indonesian Stock Exchange in Jakarta.

The group has now commenced discussions with advisers on how best to structure such an offering with a view to effecting the offering during 2015.

Enquiries:
R.E.A Holdings plc
Tel: 020 7436 7877

This information is provided by RNS
The company news service from the London Stock Exchange

END

TSTEASAKFEELFFF