

R.E.A. Holdings plc: Trading statement and deferral of preference dividend

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

Key agricultural statistics for the year to 31 May 2019 (with comparative figures for 2018) were as follows:

	2019	2018
FFB crops (tonnes):		
Group harvested	275,000	260,000
Third party harvested	78,000	63,000
Total	<u>353,000</u>	<u>323,000</u>

Production (tonnes):		
Total FFB processed	346,000	318,000
CPO	79,300	72,700
Palm kernels	15,400	15,200
CPKO	4,500	5,900

Extraction rates (percentage):		
CPO	22.9	22.9
Palm kernel	4.5	4.8
CPKO*	40.0	40.3

Rainfall (mm):		
Average across the estates	1,664	1,542

* Based on kernels processed

As noted in the annual report of the group for the year ended 31 December 2018, which was published on 29 April 2019, the production recovery that began in 2017 and continued through 2018, is being maintained. Group FFB production is up 6 per cent for the first five months compared with the same period in 2018.

Monthly phasing of crops varies from year to year but fruit set for the forthcoming months is encouraging and supports the view that production for the year overall will be comfortably ahead of

2018 with a budgeted FFB crop of some 900,000 tonnes. Continuing focus on evacuation and processing is beginning to show results with a significant improvement in CPO extraction rates in May to 23.4 per cent (against the average for the year to-date, as shown above, of 22.9 per cent).

Progress is also being made by the Kota Bangun coal concession company in agreeing the appointment of a contractor to recommence mining of the concession.

The group's strong operational performance is encouraging but the impact of continuing low CPO prices remains challenging. Having fallen by some 17 per cent in 2018 to reach a 10 year low of \$439 per tonne, CIF Rotterdam, in November 2018, prices appeared to be on the road to recovery at the start of 2019 rising to \$571 per tonne in early February. Unfortunately, since then the recovery has to an extent stalled and the increase in the supply deficit that is widely anticipated later in 2019 has not yet translated into a sustained reversal of the recent price weakness.

The average selling price for the group's CPO for the five months to the end of May 2019, on an FOB basis at the port of Samarinda, net of export levy and duty, was \$444 per tonne (2018: \$554 per tonne). The price differential between CPO and CPKO has also narrowed substantially with plentiful supplies of products competing with CPKO. The average selling price for the group's CPKO, for the same period, was \$571 per tonne (2018: \$979 per tonne).

With current CPO prices still at depressed levels, capital expenditure is focused almost entirely on works that will ensure resilience and availability of sufficient capacity in the group's mills. Recommencement of expansion of the group's undeveloped land bank remains on hold pending a sustained recovery in the CPO price.

Measures are also in hand to reduce costs, without compromising operational performance, particularly by slimming down administrative and support departments and maximising efficiencies throughout the group. Such measures are facilitated by the concentration of estate operations in one locality following the sale in 2018 of PT Putra Bongan Jaya and by the lower staffing level that deferral of the expansion programme permits. To this end, the directors have recently initiated closure of the regional office in Singapore and this will be completed before the end of 2019. In addition, various operational economies are being implemented in Indonesia, including a gradual reduction over the coming months in the number of temporary workers employed for remedial upkeep as the work undertaken by these workers is progressively completed.

The steps being taken aim to reduce costs to a level at which the group will be cash positive on a revenue basis at current low CPO prices. However, such cost reductions cannot be expected to result in material savings until 2020 and, in the meanwhile, the group needs to conserve cash to ensure that it can withstand the negative impact of current prices. The directors have therefore concluded that the half yearly payment of dividend on the group's preference shares due on 30 June 2019 should be deferred pending an improvement in CPO prices. The directors recognise the importance of dividends to holders of preference shares and intend to make up the resultant arrears of preference dividend as soon as they feel that the group can prudently afford to do so.

The rate of growth in demand for vegetable oils is now exceeding the rate of growth in supply and this situation is expected to continue as the expansion of oil palm hectareage is increasingly constrained by sustainability concerns while growth in the use of bio-diesel in vegetable oil producing countries continues to grow. CPO stocks are being absorbed and this should lead to an improvement in the CPO price. Once prices do recover, there should be an immediate impact on the group's underlying profitability and cash flows.

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