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

Trading update

Agricultural operations

Key agricultural statistics for the year to 31 December 2018 (with comparative figures for 2017) were as follows:

	2018	2017
FFB crops (tonnes):		
Group harvested	800,050	530,565
Third party harvested	191,228	114,005
Total	991,278	644,570
Production (tonnes):		
Total FFB processed	969,356	630,600
CPO	217,721	143,916
Palm kernels	45,425	29,122
CPKO	16,095	11,052
Extraction rates (percentage):		
CPO	22.5	22.8
Palm kernel	4.7	4.6
CPKO*	40.2	38.0
Rainfall (mm):		
Average across the estates	2,934	3,620

* Based on kernels processed

Building on the restorative measures implemented in 2017, the group saw a marked further improvement in operations in 2018. Crops were up more than 50 per cent on the previous year, surpassing the group's previous highest level of FFB harvested and producing a yield per mature hectare of some 23.1 tonnes per hectare compared with 15.6 tonnes per hectare in 2017.

The continuing recovery in crop reflected the combined effect of the enhanced fertiliser regime introduced late in 2016, tighter disciplines in upkeep management, the improved field access afforded by the upgrading of the road network and expansion of the truck fleet to provide greater evacuation capacity, as well as more favourable weather conditions. However, the surge in crop during the second half of the year brought certain challenges for harvesting, collection and processing in the group's mills. As a result, CPO extraction rates fell short of the levels to which the group aspires.

As previously reported, development and planting in 2018 was concentrated on completion of the areas required at PBJ to maximise the proceeds from the sale of PBJ, with some additional areas planted at CDM to round off certain, near contiguous blocks so as to optimise the efficiency of the CDM development.

Significantly higher CPO production in Indonesia generally and increasing stock levels at origins, exacerbated by certain short term factors including destocking in India and China as well as a temporary increase in Indian tariffs on imported CPO, led to a steady weakening in the CPO price throughout most of 2018. The price declined from $677 per tonne, CIF Rotterdam, in January to reach a low in mid November of $439 per tonne, before recovering slightly during December to close the year at $506 per tonne.

Although consumption of vegetable oils has for many years grown at a steady rate and can be expected to continue doing so for the foreseeable future, 2017 and 2018 saw very material increases in supply, particularly as respects CPO. Current projections suggest that the growth in supply in 2019 and the years immediately thereafter will be at a significantly lower rate, which should result in a supply deficit. January and the first few days of February have seen a further recovery in CPO prices to a current level of $554, CIF Rotterdam. The group believes that prices may well recover more through 2019, as stocks at origin are absorbed and India and China move to restock.

CPKO prices were similarly affected in 2018, opening at $1,260 per tonne, CIF Rotterdam, declining to a low of $651 per tonne in November 2018 and starting to recover in December to end the year at $783 per tonne.

In late November 2018, responding to the depressed CPO prices then prevailing, the Indonesian authorities announced changes to the export levy regime. As a result, the levy is no longer payable when the CPO CIF Rotterdam price is below $570 per tonne. At prices between $571 and $619 per tonne, the levy is imposed at $25 per tonne; at prices above $619 per tonne, the levy reverts to its previous level of $50 per tonne.

Coal operations

Work to reopen the group's principal coal concession interest at Kota Bangun is progressing following the sale of the coal stockpile in 2018. Dewatering is almost complete in preparation for further drill testing and evaluation before recommencement of mining. Further work is also underway to complete the refurbishment of the port, loading point and coal conveyor.

The Kota Bangun concession holding company (owned by the group's local partner) has been served with an arbitration claim by two parties (connected with one another) with whom the concession holding company previously had agreements to, amongst others, fund the development and operate the concession. The concession holding company believes that these agreements did not become effective as respects the concerned counterparties because, inter alia, certain pre-conditions were never satisfied. The concession holding company, therefore, considers the claim to be without merit.

Financing

As noted in the group's half yearly report published in September 2018, two new rupiah bank facilities, equivalent in total to some $32.5 million, were arranged and drawn in August 2018 and certain existing certain facilities, amounting to $10.2 million, were repaid. Subsequently, to align better the repayment profile of the group's bank loans with projected future cash flows, two further new rupiah loans, equivalent to some $82.2 million, were arranged and drawn and existing, shorter dated facilities of some $59.4 million were repaid.

Results

Although the results for the second half of 2018 will reflect the major increase in crops referred to above, the benefit of that increase will be reduced by the fact that the CPO produced during the peak cropping months of July to October had to be sold when the CPO market was at its weakest. Also, financing charges in the second half will be significantly higher than in the first half because the Indonesian rupiah rallied in November and December to end 2018 at close to its level at 30 June. As a result, the exchange gains of the first half (which provided a significant offset to interest costs) did not recur in the second half.

The group expects to report a loss of some $8 million on the sale of its shareholding in PT Putra Bongan Jaya ("PBJ"). That loss reflects the fact that the carrying cost of the PBJ estates had previously been written up under the former provisions of IAS 41 on a basis that assumed that the estates would be retained for the long term. Additionally, the group was unable to obtain value for areas of PBJ that had not yet been planted although significant costs had previously been incurred in titling and compensating such land areas.

Outlook

The increased production seen in 2018 is continuing into 2019 with a crop for January 2019 of some 60,000 tonnes, comfortably ahead of the January 2018 crop of 44,000 tonnes.

There remains much to be done this year to ensure that the group realises its full potential. It will be particularly important to maximise FFB collection and optimise evacuation and processing. To this end, capital expenditure will be focused on works that will ensure resilience and availability of sufficient capacity in the group's mills, including the expansion of the newest mill to 90 tonnes per hour.

The group currently has available an estimated 6,000 hectares for the next phase of its oil palm extension planting programme. However, the directors intend to start this further development only when the CPO price has fully recovered and they feel confident that the recovery will be sustained. In the meantime, nurseries are being established to ensure availability of seedlings for the planned further development as soon as such seedlings become needed.

The directors are optimistic about the operations and prospects for the group in 2019. The sale of PBJ and the reorganisation of the group's bank financing arrangements has put the group on a firmer financial footing, while the continuing improvement in operating performance and the upward trend in the CPO price bode well for the group going forward.

Publication of results

In line with the timetable adopted in previous years, it is expected that the final results for 2018 will be announced, and the annual report in respect of 2018 published, in the second half of April 2019.

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