

R.E.A. Holdings plc (RE.)

R.E.A. Holdings plc: Further investment by DSN in REA Kaltim

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

FOR IMMEDIATE RELEASE

2 November 2023

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

Proposed further investment by PT Dharma Satya Nusantara Tbk ("DSN") in PT REA Kaltim Plantations ("REA Kaltim"), sale of PT Cipta Davia Mandiri ("CDM") and rationalisation of REA's group structure (the "Transactions")

Highlights

- Proposed further investment of approximately \$50 million* (net of associated costs) in REA Kaltim, the company's principal operating subsidiary, to increase DSN's participation in REA Kaltim from 15 per cent to 35 per cent
- Potential sale of CDM, a wholly owned subsidiary of REA Kaltim, valuing CDM's business at \$25 million*
- Net proceeds of up to approximately \$75 million resulting in a reduction of net debt to approximately \$110 million and a strengthened REA group balance sheet
- Increased cash resources following completion of the Transactions allowing for the payment of all arrears of dividends then outstanding on preference shares and ensuring the availability of funds to meet the repayment of group's £30.9 million nominal of 8.75 per cent guaranteed sterling notes falling due for repayment on 31 August 2025
- Opportunity being taken to rationalise certain REA group subsidiaries, permitting the group to focus on remaining core plantings and leading to operational efficiencies
- Transactions to result in REA achieving 100 per cent ownership of PT Prasetia Utama ("PU") and its extension planting programme (currently 85 per cent held)
- Proposals in respect of the further investment in REA Kaltim, CDM and PU to be subject to shareholder approval

** Based on the REA group's consolidated management accounts (unaudited) as at 31 August 2023 and net debt position at that date*

Proposed further investment by DSN in REA Kaltim Plantations

The company is pleased to announce that it has reached an agreement with DSN pursuant to which, subject to the satisfaction of certain conditions, PT Agro Pratama ("**AP**"), a wholly owned subsidiary of DSN incorporated in Indonesia, will subscribe for further shares in the capital of REA Kaltim (the "**DSN subscription**"). The DSN subscription will increase the investment of the DSN group in the share capital of REA Kaltim from 15 per cent to 35 per cent.

REA Kaltim is the principal operating subsidiary of the company, incorporated in Indonesia and currently owned as to 85 per cent by the company and 15 per cent by the DSN group. REA Kaltim is engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil and crude palm kernel oil.

DSN is an Indonesian plantation and natural resources company listed on the Indonesia Stock Exchange in Jakarta and has been an investor in REA Kaltim for the past seven years. The DSN group's current investment in REA Kaltim is held through AP (which currently holds 5 per cent of the current issued share capital of REA Kaltim) and a sister company to AP, PT Swakarsa Sinarsentosa ("**SWA**") (which holds 10 per cent of the current issued share capital of REA Kaltim).

The principal conditions to which the DSN subscription is subject are the receipt by the company of shareholder approval as required by the Listing Rules of the Financial Conduct Authority and the receipt of consent from PT Bank Mandiri Tbk as lender to REA Kaltim.

The subscription monies due from AP for the DSN subscription will be payable in cash and will be calculated by reference to the consolidated net assets as at 31 December 2023 of REA Kaltim and its continuing subsidiaries (being all of REA Kaltim's existing subsidiaries other than PT Cipta Davia Mandiri ("**CDM**"), PT Kartanegara Kumalasakti ("**KKS**"), PT Persada Bangun Jaya ("**PBJ2**") and PU (together the "**excluded subsidiaries**") which, as detailed below, are proposed to be divested by REA Kaltim (REA Kaltim and its continuing subsidiaries being the "**continuing REA Kaltim group**").

In valuing the net assets of the REA Kaltim group for the purposes of the DSN subscription, the plantation and related assets will be valued at: (a) \$10,500 for each planted hectare owned by the continuing REA Kaltim group (some 31,000 hectares), subject to certain minor exclusions and to a deduction of \$6,000 per hectare in respect of 515 hectares to reflect the prospective release of such hectare to an unrelated third party for coal mining; and (b) \$12.5 million in respect of the net present value of future economic benefits from the two biogas plants owned by REA Kaltim. The valuation of \$10,500 per hectare includes the value attributed to related property, plant and equipment, including the continuing REA Kaltim group's three oil mills and the transshipment terminal. The shareholdings in the excluded subsidiaries will be valued at the expected net proceeds from the proposed divestment of these companies by REA Kaltim and the balance of the assets and the liabilities of the continuing REA Kaltim group will be reflected at book value. Certain other minor adjustments will be made.

The DSN subscription is estimated at \$52 million based on an implied value of the continuing REA Kaltim group of \$170 million as derived from the REA group's consolidated management accounts (unaudited) as at 31 August 2023 with the final subscription price to be determined as detailed below.

In connection with the DSN subscription, AP has agreed to advance \$10 million to REA Kaltim within 7 days following execution on 2 November 2023 of the share subscription agreement, by way of a pre-closing loan guaranteed by the company. AP's obligation to make such loan is not conditional on the Transactions completing. If the DSN subscription does not become unconditional or is otherwise terminated, the pre-closing loan will be repayable in cash together with interest at 5.75 per cent per annum.

The pre-closing loan will facilitate satisfaction of conditions to the DSN subscription, including the intended rationalisation of subsidiaries of REA Kaltim as described below.

Provided that the DSN subscription becomes unconditional, REA Kaltim will repay the pre-closing loan to AP in cash, together with interest at 5.75 per cent per annum, on completion of the issue of the new shares in REA Kaltim to AP. At the same time, AP will pay to REA Kaltim an amount equal to 90 per cent of an estimate of the subscription price on account of the final subscription price. The final subscription price will

then be determined by reference to the audited balance sheet of REA Kaltim as at 31 December 2023, which balance sheet is expected to be available by 30 June 2024. Following the determination of the final subscription price, AP will pay the excess of the final subscription price over the aggregate amounts paid by AP on account (or, should such be the case, REA Kaltim will reimburse the shortfall).

As soon as practicable following the issue of the new shares in REA Kaltim to AP, the DSN group will increase its shareholder loan to REA Kaltim by refinancing a proportion of the company's shareholder loan to REA Kaltim, such that, following such refinancing, the aggregate balance of the shareholder loans owed by REA Kaltim will be owed as to 65 per cent to the company and as to 35 per cent to the DSN group. At the relevant time, the outstanding shareholder loans are expected to be \$23.2 million, provided as to 85 per cent (\$19.7 million) by the company and 15 per cent by the DSN group (\$3.5 million). On that basis, the DSN group would advance, and the company would be repaid, \$4.6 million to adjust the loan balances to \$15.1 million from the company (65 per cent) and \$8.1 million from the DSN group (35 per cent).

In connection with the DSN subscription, the company has acknowledged that the DSN group may gradually, over the period to 30 June 2028, seek to increase its participation in REA Kaltim to an eventual level of 49 per cent. Any such proposed increase will be subject to agreement of the price and other terms at the time and subject to the receipt of all necessary consents and approvals, including the approval of REA shareholders, to the extent required.

Potential sale of CDM

The company is seeking to sell CDM and has granted the DSN group a priority right to acquire CDM (the "**potential CDM sale**").

CDM, a wholly owned subsidiary of REA Kaltim, is engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia.

The sale of CDM would relieve the continuing REA Kaltim group of the further investment that would be required to take CDM to full maturity and permit the group to focus its efforts on its remaining plantings which are more concentrated within a single geographical area. The CDM estate is the most outlying estate within the REA Kaltim group.

If the DSN group exercises its priority right, the price to be paid pursuant to the potential CDM sale will be based on a valuation of the business of CDM calculated by reference to the net assets of CDM as at the close of business on 31 December 2023, attributing a value of \$8,000 to each planted hectare of CDM (some 2,800 hectares overall) excluding some 925 hectares that are not fully titled and that have been designated for transfer to a local cooperative scheme. The non-plantation related assets and the liabilities of CDM (excluding a loan from the DSN group and intra-group balances) will be reflected at book values. The resultant valuation based on REA group's consolidated management accounts (unaudited) at 31 August 2023 is estimated at \$25 million.

The actual price to be paid for the equity of CDM will be calculated after adjusting the valuation of CDM's business for the amounts of the DSN group's loan and intra group balances. It is expected that such calculation will result in the equity of CDM being valued at a negative amount. REA Kaltim will pay to CDM an additional capital contribution equivalent to the amount by which such value is negative and the CDM equity will be sold for a nominal amount. The group will effectively recover the value of CDM's business by recovery of certain intra group balances and reduction of indebtedness.

To achieve this, on completion of the potential CDM sale, (a) the DSN group will procure the repayment by CDM of all loans owed by CDM to the REA group, and (b) REA Kaltim will repay the debt owed by REA Kaltim to CDM. To assist with the funding of the repayment by REA Kaltim of the debt owed by REA Kaltim to CDM, the company and AP will advance further shareholder loans to REA Kaltim, as to \$19.5 million by the company and as to \$10.5 million by AP. The balance of the debt owed by REA Kaltim to CDM will be funded from the proceeds of the DSN subscription.

If the potential CDM sale does not complete by 31 May 2024, all rights of the DSN group to purchase CDM will lapse, in which event the company intends to pursue a sale of CDM to an unrelated third-party buyer.

If a sale of CDM has not occurred by the time that the final subscription price to be paid by AP for the new shares in REA Kaltim has been determined, the DSN group will increase its shareholder loan to CDM by refinancing a proportion of the shareholder loan owed by CDM to the REA group, to the effect that, following such refinancing, the aggregate balance of the shareholder loans owed by CDM will be owed as to 65 per cent to the company and as to 35 per cent to the DSN group. At the relevant time, the outstanding shareholder loans are expected to be \$60 million, provided as to 85 per cent (\$51 million) by the REA group and 15 per cent by the DSN group (\$9 million). Therefore, the DSN group will advance, and the REA group will be repaid, \$12 million to adjust the loan balances to \$39 million from the REA group (65 per cent) and \$21 million from the DSN group (35 per cent).

Further rationalisation of subsidiaries of REA Kaltim

In addition to the Transactions detailed above, the company and DSN have agreed a further rationalisation of subsidiaries of REA Kaltim. It is intended that this rationalisation be completed as promptly as possible.

The rationalisation comprises: (a) the sale of PU to a new wholly owned UK subsidiary of the company (such that the DSN group will no longer hold an indirect interest, through REA Kaltim, in PU); (b) the sale of KKS and thus also its subsidiary PBJ2 (which two companies have nominal gross assets) to an unrelated third party for a nominal consideration; and (c) the purchase by the REA Kaltim group of the remaining five per cent minority interests in those of its subsidiaries that are not already wholly owned by it (such minority interests originally being required by Indonesian law, but no longer so required).

Gross assets of PU, as included in the consolidated REA group financial statements as at and for the year ended 31 December 2022, amounted to \$10.6 million. The profit before tax for the year amounted to \$48,000.

Key employees

It is intended that the President Director and Vice President Director of REA Kaltim will continue in their present positions under their current terms of appointments following completion of the DSN subscription and potential CDM sale.

Shareholder approval

The DSN subscription and the potential CDM sale constitute a Class 1 transaction under the UK Listing Rules.

Additionally, and for the purposes of the UK Listing Rules, by virtue of DSN being entitled, through AP and SWA, to exercise more than 10 per cent of the votes capable of being cast at a general meeting of REA Kaltim, DSN is, indirectly, a "substantial shareholder" (as defined in the Listing Rules) in REA Kaltim and thus a related party of the company. Therefore, the Transactions collectively (as they relate to the DSN subscription, CDM and PU) constitute a related party transaction for the purposes of the Listing Rules.

Completion of the DSN subscription, potential CDM sale and intra group sale of PU are therefore conditional on the adoption of an ordinary resolution by the company in general meeting to approve the Transactions. Accordingly, a circular containing further details of the Transactions, notice of a general meeting, and a recommendation by the directors of the company will be published in due course.

Timetable

The DSN subscription is to be completed by no later than mid July 2024 and the potential CDM sale, should it proceed, by 31 May 2024. In practice, it is expected that the DSN subscription will complete by the end of February 2024.

Financial information

Gross assets of REA Kaltim, as included in the consolidated REA group financial statements as at and for the year ended 31 December 2022, amounted to \$526.7 million. Net assets of REA Kaltim, as included in those financial statements, amounted to \$171.4 million and profit before tax for the year amounted to \$36.8 million.

Gross assets of CDM, as included in the consolidated REA group financial statements as at and for the year ended 31 December 2022, amounted to \$104.1 million. Net assets of CDM, as included in those financial statements, amounted to \$24.6 million and the loss before tax for the year amounted to \$5.2 million.

Based on the REA group's consolidated management accounts (unaudited) at 31 August 2023 and, in particular on loan balances with REA Kaltim and CDM at that date, the cumulative cash effect on the REA group of the DSN subscription and the potential CDM sale, following an exercise by DSN of its priority right to acquire CDM, as detailed above, should be broadly as follows:

<u>Proposed further investment by DSN in REA Kaltim</u>	\$'m
Proceeds of share subscription	52.0
Additional loan by AP to REA Kaltim (to be repaid by REA Kaltim to the company)	4.6
Subtotal	<u>56.6</u>
<u>Potential sale of CDM</u>	\$'m
Additional loan by AP to REA Kaltim	10.5
Additional capital contribution to CDM	(2.0)
Repayment of loan owed by REA Kaltim to CDM	(43.2)
Repayment of loan owed by CDM to the REA group	60.3
Subtotal	<u>25.6</u>
Further rationalisation of subsidiaries	(2.0)
Total net cash impact of the Transactions	<u>80.2</u>

On the same basis, the group's net debt of \$185 million as at 31 August 2023 would be reduced on a pro forma basis to \$135 million by the DSN subscription and further to \$110 million if DSN exercises its priority right to acquire CDM.

The DSN subscription will dilute the interest of the company in REA Kaltim from 85 per cent to 65 per cent so that, going forward, a reduced proportion of the profits and losses of REA Kaltim and its subsidiaries will be attributable to the company.

If DSN exercises its priority right to acquire CDM, it is estimated that the REA group will report an aggregate loss on the sale of CDM and the rationalisation of other subsidiaries of REA Kaltim of approximately \$26 million.

Reasons for the proposed Transactions and use of proceeds

The object of the Transactions is to strengthen the financial position of the REA group and to provide cash resources to pay the arrears of dividends on preference shares outstanding on completion of the Transactions and ensure availability of funds to meet the repayment of the £30.9 million nominal of 8.75 per cent guaranteed sterling notes issued by REA Finance B.V. (a wholly owned subsidiary of the company) falling due for repayment on 31 August 2025.

The net cash proceeds from the Transactions will be earmarked for those purposes. The remaining balance will be applied in augmenting the REA group's working capital.

The overall effect of the Transactions would be to leave REA with a 65 per cent interest in the 31,000 planted hectares owned by REA Kaltim and a 100 per cent interest in the 4,000 hectare extension planting programme on land owned by PU.

The person responsible for this announcement is Carol Gysin, Managing Director.

Enquiries:

David Blackett
Chairman
R.E.A Holdings plc
Tel: 020 7436 7877

Carol Gysin
Managing director
R.E.A. Holdings plc
Tel: 020 7436 7877

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018. On the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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Certain figures included in this announcement have been subjected to rounding adjustments. References in this announcement to "\$" are to US dollars.

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