R.E.A. Holdings plc (RE.)
R.E.A. Holdings plc: Trading update - correction

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R.E.A. Holdings plc ("REA" or the **"company") - Trading update - correction**

Correction to statement regarding CPO reference prices
An effect of the changes is that, at reference prices between **$770** and **$1,000** per tonne, an exporter of Indonesian CPO receives, after deduction of export duty and levy, substantially the same net price per tonne.

Agricultural operations

Key agricultural statistics for the year to 31 December 2020 (with comparative figures for 2019) were as follows:

	2020	2019
FFB crops (tonnes):		
Group harvested*	785,850	800,666
Third party harvested	185,515	198,737
Total	971,365	999,403
Production (tonnes):		
Total FFB processed	948,261	979,411
CPO	213,536	224,856
Palm kernels	47,186	46,326
CPKO	16,164	15,305
Extraction rates (percentage):		
CPO	22.5	23.0
Palm kernel	5.0	4.7
CPKO**	39.5	40.7
Rainfall (mm):		
Average across the estates	3,061	3,057

* Group harvested FFB for both years includes crops from areas that are currently being reallocated to plasma and which will be excluded for group crop reporting purposes going forward
**Based on kernels processed

The group achieved a satisfactory FFB outturn for the third consecutive year at 785,850 tonnes, a yield exceeding 22.5 tonnes per mature hectare. After a strong start to 2020, cropping slowed in the middle of the year with ripening delayed in common with other plantation companies in the region. Following on from this slowdown, peak production in the latter months of the year clashed with a combination of excessively wet weather, that hindered both harvesting and crop evacuation, and a shortfall in the availability of harvesters who were unable to travel to the estates due to the Covid-19 pandemic.

Continuing work on modification and upgrading in the group's three mills was also limited by supplies of spare parts and the availability of contractors needed to complete the scheduled works. This led to some processing delays during the peak crop months in the last quarter of 2020 which in turn put pressure on extraction rates during this period.

CPO prices

After an initial firm start to 2020, CPO prices fell away from $860 per tonne, CIF Rotterdam, on 1 January to a low for the year of $510 per tonne in May. Prices then staged a steady recovery from the middle of the year through to the end of 2020 to close at $940 per tonne. These stronger prices have continued into the first weeks of 2020 with CPO, CIF Rotterdam, currently at $1,030 per tonne.

The higher prices now prevailing are materially beneficial to the company although, as for all Indonesian palm oil companies, the extent of the benefit is reduced by two imposts chargeable on exports of Indonesian CPO: export duty and export levy. Both export duty and export levy are calculated on sliding scales by reference to a CPO reference price (recently increased from $870.77 to $1,027 per tonne with effect from February 2021) that is set periodically by the Indonesian government on the basis of CIF Rotterdam and other recognised benchmark CPO prices.

Following the rise in the CPO price in the second half of 2020, the Indonesian government announced changes to the export levy scale. An effect of the changes is that, at reference prices between **$770** and **$1,000** per tonne, an exporter of Indonesian CPO receives, after deduction of export duty and levy, substantially the same net price per tonne.

Although CPO produced by the group is generally sold in the Indonesian local market, which means that group sales are not subject to export duty or export levy, arbitrage between the Indonesian local and international CPO markets normally results in a local price that is broadly in line with prevailing international prices after adjustment of the latter for delivery costs and export duty and levy.

The application of monies raised by the export levy to subsidise Indonesian producers of biodiesel should permit Indonesian biodiesel to remain competitive with regular diesel oil and thereby underpin biodiesel offtake of CPO. In addition, CPO markets should be supported over the coming months by a general reduction in supplies of vegetable oils combined with continuing demand growth as economies start to recover from the set-backs of 2020. In particular, CPO production and stock levels are likely to be constrained by the impact of reduced fertiliser applications by smaller producers in response to weak CPO prices in the first half of 2020.

These factors, combined with the effect of the current scales of export duty and levy as described above, means that prices for local sales of Indonesian CPO can reasonably be expected to remain stable at current levels for the immediate future.

Covid-19

Whilst the Covid-19 pandemic has not directly affected the company's day to day operations, albeit that it has necessitated certain changes to working practices and on site testing to safeguard employees, contractors and other parties associated with the group, there have inevitably been certain impacts. In addition to the wider economic consequences that led to the fall in CPO prices early in 2020, the group experienced delays in deliveries of supplies as well as travel restrictions that prevented or delayed employees and contractors from returning to the estates.

Further, the recently agreed initiatives with respect to the stone and coal interests could not be progressed during the extended economic slowdown in 2020.

Stone and coal interests

The project in respect of the stone concessions held by PT Aragon Tambang Pratama ("ATP"), which has been on hold because of the Covid-19 pandemic, is being rekindled with a view to commencing production during 2021. It is expected that ATP, a company which is owned by the group's local partners in the stone and coal operations and principally funded by the group, will be supplying andesite to a neighbouring coal company to build a road that will run through the group's estates pursuant to an agreement reached early in 2020.

Following a recovery in Indonesian coal prices, the contractor appointed to mine the coal concession at Kota Bangun in East Kalimantan held by PT Indo Pancadasa Agrotama ("IPA"), a company owned and funded similarly to ATP , has commenced negotiations to settle land compensation with affected local individuals in preparation for recommencing mining during 2021. As explained previously, the contractor will fund the land compensation and all other required expenditure on infrastructure and mobilisation in exchange for a participation in the profits of the IPA mine.

In addition to its mine, IPA owns a port on the Mahakam River that it acquired in 2018 to provide an evacuation route for its coal production. IPA expects that its revenues will be augmented by fees from two neighbouring coal concessions that are planning to ship coal through IPA's port.

2020 results

The group's normal cropping cycle results in FFB crops being weighted to the second half of the year and this was again the case in 2020 with a second half crop of 436,763 tonnes against the 349,087 tonnes harvested in the first half. Combined with the better average selling prices in the second half, this will permit the group to report earnings before interest, tax, depreciation and amortisation for the second half that are significantly ahead of the $11.2 million reported for the first half.

Whilst interest costs in the second half of 2020 were not materially different from those of the first half, finance charges reported for the first half were reduced by foreign exchange gains of $5.7 million arising in respect of Indonesian rupiah and sterling indebtedness. Subsequent strengthening of the Indonesian rupiah and sterling against the US dollar will mean not only that these gains will not be repeated in the second half, but also that finance charges for the second half will reflect a significant reversal of the gains booked in the first half.

Funding

Improved cash flow from operations in the final months of 2020 permitted the group to reduce amounts owed to trade suppliers to close to normal levels and to avoid cancelling fertiliser applications.

Bank indebtedness was reduced over 2020 by the equivalent of $15.0 million, but this reduction was in part financed by increased pre-sale advances from customers against forward commitments of CPO and CPKO (all such commitments being on the basis of pricing fixed shortly ahead of delivery by reference to market prices prevailing at that time).

Looking forward, the group has bank indebtedness falling due for repayment in 2021 and 2022 equivalent in total to $39.8 million and is also due to repay the outstanding $27.0 million nominal of US dollar notes at the end of June 2022.

As previously announced, the group is in discussions with its banks to provide additional financing. The group will also explore alternative sources of finance including debt, equity and trade finance to strengthen the group's balance sheet, address the dividend arrears on the preference shares and enable the group to take full advantage of its high levels of production and the strong palm oil market.

Dividends on the preference shares

Subject to the prospects of much improved cash flow in 2021 being realised and to satisfactory arrangements being agreed to fund the indebtedness falling due for repayment in 2021 and 2022, the directors expect to be able to pay the dividends arising on the preference shares in respect of the current year. Whilst the group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, with a significant debt refinancing still to be agreed, it is not yet in a position to provide guidance on when it might be able to commence doing so.

Outlook

2021 has started well for the group with production in January ahead of normal levels. Indications are that the peak production period will continue through the first quarter of 2021.

Works to restore the condition of estate roads following the heavy rains of recent months should facilitate more efficient evacuation of FFB in 2021. With the easing of supply backlogs and adaptations implemented to address Covid-related risks and travel restrictions, the remaining mill works will gradually be completed in 2021. Together, these will serve to improve extraction rates which should then remain at more consistent levels.

With good production, firm CPO prices, the continuing benefit of cost savings from the programme initiated in 2019 and careful management of expenditure, coupled with the prospect of positive cash contributions from the group's stone and coal interests (augmented by the recent full recovery of costs of the arbitration claim against IPA), the directors look forward to an improvement in the group's performance in 2021 and beyond.

Publication of results

In line with the timetable adopted in previous years, the final results for 2020 are due to be announced, and the annual report in respect of 2020 published, at the end of April 2021.

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