R.E.A. Holdings plc (RE.)
R.E.A. Holdings plc: AGM Statement

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R.E.A. Holdings plc (“REA” or the **“company”)**

AGM statement

The company will hold its AGM at 10 a.m. today when the chairman will give the following statement to shareholders.

Agricultural operations

Key agricultural statistics for the period 1 January to 31 May 2023 (with comparative figures for 2022) were as follows:

	2023	**2022**
Fresh Fruit Bunch (“FFB”) crops (tonnes):		
Group harvested	282,930	252,854
Third party harvested	77,579	98,698
Total	360,509	351,552
Production (tonnes):		
Total FFB processed	331,348	338,964
FFB sold	29,169	10,424
CPO	72,792	76,008
Palm kernels	16,313	16,211
CPKO	6,777	6,015
Extraction rates (percentage):		
CPO	22.0	22.4
Palm kernel	4.9	4.8
CPKO*	39.8	39.4
Rainfall (mm):		
Average across the estates	1,630	1,848

*Based on kernels processed

Group FFB for the period was slightly ahead of budget and some 12 per cent higher than the corresponding period in 2022. Competition from other mills offering enhanced payment terms for externally sourced FFB resulted in some reduction in purchases of third-party fruit during the initial months of the year but, following an adjustment to the group’s purchase prices, purchase levels have returned to normal.

The above average number of declared rain days (being days on which normal harvesting had to be cancelled) impacted harvesting efficiency, upkeep and evacuation during much of the period and contributed to the slight fall in the CPO extraction rate as compared with 2022.

Work continues on improving operational infrastructure and harvesting efficiencies.

Replanting and extension planting are proceeding in line with previously announced programmes.

Prices

Opening the year at $1,090 per tonne, CIF Rotterdam, prices have since weakened, but may well rebound as production growth is expected to remain slow and consumption continues to increase. The price currently stands at $865 per tonne.

The average price realised from sales of CPO by the group during the period January to May 2023, including premia for certified oil but net of export levy and duty, adjusted to FOB Samarinda, was $766 (average for the year 2022: $821).

As has been noted previously, the group understands that the premia it receives for selling CPO that is sustainable can be increased by selling segregated sustainable oil. The group is exploring opportunities for reorganising the processing of its fruit so as to process only sustainable FFB in one mill and then to segregate the delivery of CPO from this mill allowing for sales at enhanced premia.

Stone and coal interests

The rate of mining at the coal concession holding company, PT Indo Pancadasa Agrotama (“IPA”), to which the group has made loans, slowed to an average of 22,000 tonnes per month for the first five months of 2023, as IPA switched its main mining focus to its northern pit. By blending northern and southern pit coal, IPA has been able to arrange that all of its coal production continues to fall within the specifications for semi-soft coking coal. Drilling has confirmed the availability of a further area within the IPA concession of economically minable coal similar in quality to the southern pit coal. It is planned to open a third pit to mine this additional coal as the southern pit becomes fully mined out.

Arrangements to permit exploitation of the quartz sand in the overburden overlaying IPA’s coal are being progressed. Agreement in principle has been reached with IPA’s coal mining contractor to extend the latter’s current coal mining contract with IPA to cover the mining of quartz sand on terms similar to those applicable to the contractor’s mining of IPA coal. Commencement of sand recovery operations remains dependent upon the issue of the necessary environmental licence by the Indonesian authorities.

Wet weather has delayed mobilisation in preparation for opening the quarry at the andesite stone concession held by PT Aragon Tambang Pratama (“ATP”), to which the group has also made loans. Of the two crushers that have been purchased by ATP, one is now in situ but deep mud on the road into the quarry (following weeks of rain) has delayed delivery of the second, although recent drier weather should shortly bring an end to the delay. Quarrying is now expected to commence during the second half of the year, with stone production initially being used to upgrade access to the quarry.

Prices for both thermal and coking coal have weakened considerably in recent weeks. IPA aims to offset the impact of this by gradually increasing production over the remainder of the year. Nevertheless, it is likely that the lower prices, coupled with the need to fund the opening of the ATP quarry and the commencement of tax payments following full utilisation of brought forward tax losses, will mean that net loan repayments to the group by IPA and ATP will be much lower in 2023 than they were in 2022.

Finance

Good progress is being made in the group's negotiations with its Indonesian banker, PT Bank Mandiri Tbk ("Bank Mandiri") for a development loan to fund a proportion of the extension planting costs at the group's newest estate, PT Praesetia Utama ("PU"). Negotiations have been assisted by the recent renewal for a further 25 years of two of the group's HGU land titles which form part of the security for the bank's existing loans to the group.

In addition, IPA and ATP are exploring options for refinancing a portion of their existing loans from the group.

Results and dividends

Results for the group for the first half of 2023 will reflect the lower selling price for CPO by comparison with 2022. In addition, it is likely that the results will include a significant exchange loss arising from the strengthening of the Indonesian rupiah against the US dollar with the rupiah currently standing at Rp14,888=$1 against Rp15,731=$1 at the beginning of the year.

As previously announced, the semi-annual preference dividend of 4.5p per share falling due on 30 June 2023 in respect of the half year ending on that date will be paid on 30 June 2023. The directors continue to expect that the semi-annual dividends on the preference shares arising on 31 December 2023 and in 2024 will be paid as they fall due.

The directors stated in the annual report published on 19 April 2023 that, provided that operational performance and cash flows continued at satisfactory levels, they would aim to eliminate the arrears of preference dividend (7p per share) by the end of 2023. The recent fall in CPO and coal prices, if sustained, will mean that results and cash flows are likely to be lower than was expected on 19 April 2023. Nevertheless, provided that there is no further deterioration and the financing initiatives noted above provide the additional funding that the directors anticipate, the directors still expect that payment of the arrears of preference dividend can be made in conjunction with the semi-annual dividend arising on 31 December 2023.

Outlook

Looking towards the second half of the year, agricultural production should, as is normal, be higher than in the first half and should see further benefits from ongoing investments to improve operating efficiencies in field operations. Whilst the results for the year will be dependent upon CPO prices achieved over the rest of the year, falling levels of fertiliser prices will assist the group in offsetting other inflationary impacts on costs.

Looking forward to 2024 and beyond, mining of the remaining coal reserves at IPA can be expected to augment group cash flow for two more years while commencement of quartz sand production at IPA and stone production at ATP have the potential to provide material and stable additional cash flows to the group for many years to come.

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