

R.E.A. Holdings
Good Trading Statement. Upgrade

410p

25 January 2010

Share Price: 410p



12m High: 470p

12m Low: 208.5p

Market Cap: £137m

Shares in Issue: 33.3m ordinary, fully diluted

Also 16.4m 9% Cumulative Preference Shares

NAV/Share: 345p (H109 actual)

Gearing: 48% (H109 actual)

Interest Cover: 5.4X (H109 actual)

EPIC Code: RE.

Sector: Food Producers and Processors

Market: London Main List

Broker: Mirabaud Securities

PR: -

Website: www.rea.co.uk

Description: REA is engaged in the operation and further development of a single site palm oil plantation in East Kalimantan, Indonesia. More recently it has acquired rights in respect of two small coal mining concessions, also in East Kalimantan.

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An encouraging Trading Statement from palm oil producer REA Holdings has led us to increase our forecasts for calendar years 2009 and 2010.

Key points are:

- The 2009 crop was 490,000 tonnes, ahead of the 486,000 tonnes we have been using in our forecasts. Also the group has processed an additional 13,000 tonnes of smallholder crop, more than double last year's amount.
- Crop yields have been slightly higher than we expected, at 23.5% (we expected 23.3%, the previous year's yield was 23.17%).
- The palm oil price FOB Borneo was stronger in the second half of the year.
- Early indications for the 2010 crop are good at 561,000 tonnes. This is not only a 15% improvement on the 2009 crop, it is a 5% improvement on our earlier estimate. Also the current palm oil price is rather stronger than we had factored into our earlier calculations.
- The planting programme has been put at a further 8,000 Hectares over the next two years. This will start coming into production in 2014.

The increase in the planting programme is very good news for profits from 2014 onwards – palm oil investment is a long term affair. Shorter term, the three open cast coal pit investments could start impacting profits in H2 2010, the first coal is already being mined and sold. The only negative is a doubling of the Indonesian Government withholding tax that could result in a short term cash cost of US\$1m for the year or so before the group structure is reorganized to reduce its impact.

REA shares have underperformed the shares of the two main comparators on a twelve month basis and there is no reason for this. The whole sector has huge upside potential.

Y/E	Crops	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield
December	tonnes	US\$m	US\$m	S\$m	c/share		UKp.	%
2007A	393,217	57.6	47.0	39.0	73.0	9.0	2.00	0.5
2008A	450,906	79.6	36.3	39.0	77.2	8.5	3.00	0.7
2009E	490,000	73.0	37.9	34.8	67.9	9.7	4.00	1.0
2010E	561,000	92.6	53.8	50.8	102.8	6.4	6.00	1.5

Palm Oil

Palm oil plantings are once again proceeding at a sensible pace, after a relative lull in plantings caused by a local political dispute during 2007 – 2009. At end December 2009 the group had 30,990 Hectares planted out, of which approximately 2,000 Hectares will yield palm fruit in 2010. By end-2011, 39,000 Hectares will be planted out, and while some of this will be immature, the impact on profit for 2014 onwards is clear to see. REA's plantation activities are already strongly cash generative, hence the decision to both raise the planting programme and to invest in open cast coal.

Also, the palm oil price has been not only more consistent but stronger during recent months. H1 was a disappointment as far as the price of the commodity was concerned, but recent price trends have encouraged us to raise our price expectation from \$575/tonne to \$650/tonne for the coming financial year.



Palm oil prices have regained some stability after the extreme movements caused by the excessive biofuel speculation and then the 2008/9 financial crash. Even allowing for the discount at which palm oil trades BOF Borneo compared to CIF Rotterdam, REA Holdings is likely to obtain a better price for its oil in 2010 than it did in 2009, possibly as much as it did in peak year 2008. Trends in the soya markets, which have a significant influence on palm oil pricing, are also looking positive. REA Holdings no longer hedges its palm oil sales forward, at least not in any significant volume. As prices seem to be on a rising trend, this is good news for the company.

Coal

The new, third opencast coalfield that REA Holdings has 'purchased' in Indonesia is interesting. The strip ratio is high, at in the range of 20:1 to 25:1, but the coal is good quality, with a high calorific value (it is coking coal quality) and no chlorine or sulphur issues. It should be in production by December 2010, the company believes, with an output of 16,000 tonnes/year.

The existing Liburdinding mine is now in operation and the first sales are being made. For 2010 the group is budgeting for 150,000 tonnes of output.

The only snag with the coal situation is that the legislation to allow non-Indonesian companies to operate local coal mines, while passed by the Indonesian Government, has yet to come into effect. Because of this REA Holdings technically does not own these

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deposits, it has loaned money for local companies to buy them, on the understanding that ownership will be transferred in due course in return for cancellation of the loan.

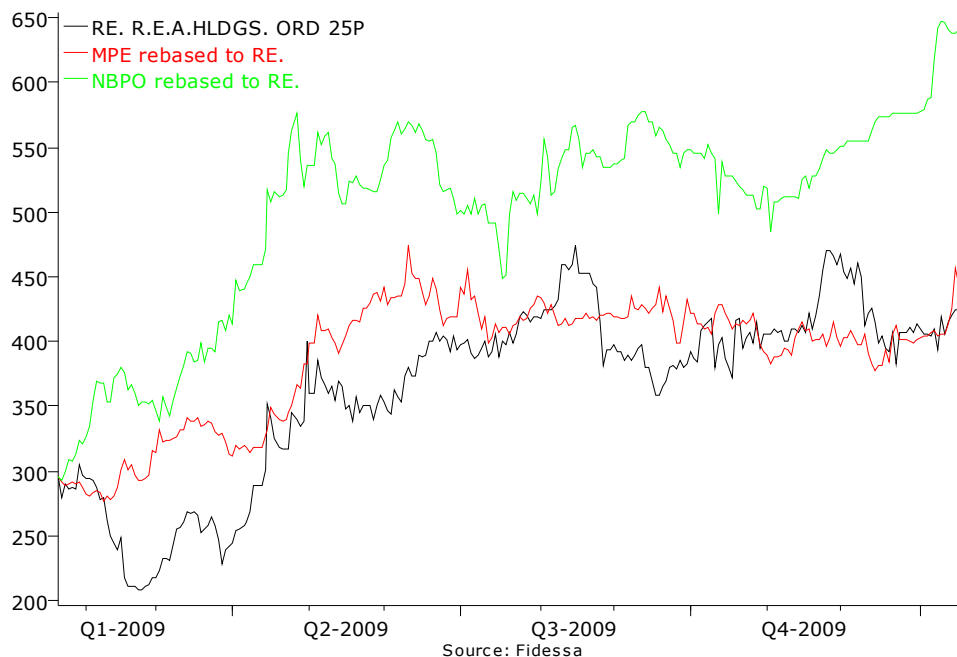
The coal businesses have not yet been included in our forecasts. We shall be producing a further study outlining the impact, and the likely upside.

Share Price vs. The Sector

REA Holdings has lagged its two major comparators in share price terms over the past twelve months. Best performer has been New Britain Palm Oil, which operates in Papua New Guinea and whose new UK refinery to cater to the UK chocolate biscuit and biofuel markets is about to come on stream. M.P. Evans, which like REA Holdings operates in Indonesia but which also has Australian cattle interests, tends to track the REA share price. In recent weeks, however, MP Evans has ticked up – in spite of drought conditions and very high temperatures in Australia – and REA shares have not responded.

This appears to us to be an anomaly; there is no fundamental reason why REA Holdings shares should be underperforming short term.

The bigger issue, however, is the upward movement in the palm oil price, which should benefit the entire sector as long as the Indonesian Government is sensible about the additional tax take it will undoubtedly levy as the commodity price rises.



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ALL US\$ December Year End	<u>2007A</u>	<u>2008A</u>	<u>2009E</u>	<u>2010E</u>
Reported Turnover US\$000	57,600	79,630	72,988	92,639
Inventory Gain	5,578	-4,214	1,500	0
Total Revenue	63,178	75,416	74,488	92,639
Cost of Sales	14,875	27,682	25,000	26,875
Gross Margin %	84%	60%	68%	71%
Gross Profit	48,303	47,734	49,488	65,764
Administrative & Distribution Expenses	6,953	4,515	9,600	9,450
Admin & Dist as % of Sales	12.1%	5.7%	13.2%	10.2%
Other operating income	6	4	0	0
IFRS Biological Asset Adjustment	8,030	-2,660	3,000	3,000
Operating Profit	49,386	40,563	42,888	59,314
Investment Revenues	1,641	1,185	1,000	1,000
Interest Charge in/-Out	-4,017	-5,439	-6,000	-6,500
Exceptional Item	0	0	0	0
PTP ex exceptional items	47,010	36,309	37,888	53,814
Declared Pre-Tax Profit	47,010	36,309	37,888	53,814
Adj Pre-tax Profit ex IFRS Bio	38,980	38,969	34,888	50,814
Tax £000	15,013	10,536	10,230	14,530
of which: Deferred Tax on Bio Adjustment	2,564	-772	810	810
Tax Charge % (on declared profit)	32%	29%	27%	27%
Tax Charge* % (on adj pft)	39%	27%	29%	29%
After Tax Profit	31,997	25,773	27,658	39,284
Minority Interests	-278	420	420	420
Preference Dividends	-2,266	-2,360	-3,248	-3,248
For Ordinary Shareholders	29,453	23,833	24,830	36,456
Cost of Ordinary Dividend	641	1,498	1,303	1,303
Retained Earnings	28,812	22,335	23,527	35,153
Average No. of Shares	32,050	32,574	32,574	32,574
Earnings Per Share Undiluted US cents	91.90	73.17	76.23	111.92
Dividend Per Share UKp.	2.00	3.00	4.00	4.00
Shares in Issue Fully Diluted	32,881	33,335	33,335	33,335
EPS Fully Diluted US cents	89.58	71.50	74.49	109.36
EPS fully dil ex IFRS Bio & Associated Tax	72.95	77.16	67.92	102.79

Figures are calculated in US dollars and have been computed on an IFRS basis

Preference Shares in Issue 14m

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Management	Major Shareholders								
<p>Chairman: Richard Robinow</p> <p>Managing Director: John Oakley</p> <p>Non-Executive Director: Chan Lok Lim</p> <p>Non-Executive Director: David Blackett</p> <p>Non-Executive Director: Jock Green-Armytage</p> <p>Non-Executive Director: John Keatley</p> <p>Non-Executive Director: David Killick</p> <p>Non-Executive Director: Charles Letts</p>	<table border="0"> <tr> <td>Richard Robinow</td> <td>30.79%</td> </tr> <tr> <td>Prudential</td> <td>13.05%</td> </tr> <tr> <td>Alcatel Bell Pension Fund</td> <td>12.30%</td> </tr> <tr> <td>Artemis UK Smaller Cos</td> <td>5.9%</td> </tr> </table>	Richard Robinow	30.79%	Prudential	13.05%	Alcatel Bell Pension Fund	12.30%	Artemis UK Smaller Cos	5.9%
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Key Dates	Key Milestones								
<p>Full Year Results: April 2010</p>	<p>1989: Commences the East Kalimantan project, a 125,000 H single site oil palm plantation in Indonesia.</p> <p>1997: Asian Economic Crisis closes the door on debt finance. Seeks equity finance, part of which is provided by the MEZ Group.</p> <p>October 2001: Palm oil price plunges to \$250m/t and REA halts new planting activity. Also, the MEZ group launches legal proceedings against both the company and its two executive directors.</p> <p>2004: Extension planting is resumed at the rate of 3,000 – 4,000 H per annum.</p> <p>2005: Restructures Indonesian banking facilities. Two share placings at 260p/share raise 10.24m.</p> <p>2006: Resolves legal dispute with the MEZ group. Issues \$30m of 7.5% dollar-denominated loan notes 2012/14.</p> <p>September 2006: Acquires PBJ, a 20,000 H land allotment in East Kalimantan.</p> <p>January 2007: £22m nominal of 9.5% sterling loan notes 2015/17 issued.</p> <p>March 2008: Acquires a further two land allocations in East Kalimantan, KMS and CDM, totalling 37,000 H.</p> <p>August 2008: £15m nominal of 9.5% sterling loan notes 2015/17 issued.</p> <p>August 2008: Acquires rights in respect of two adjoining coal concessions, Liburdinding and Muser.</p> <p>December 2009: Acquires a further coal concession at Kota Bangun.</p>								

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