Food Producers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	311.0
12m High (p)	385.0
12m Low (p)	237.0
Shares (m)	40.5
Shares Prefs (m)	63.6
Mkt Cap (£m)	126.0
Mkt Cap Pref (£m)	67.3
EV ($m)	496.4
Free Float*	33.8%
Market	AIM

**As defined by AIM Rule 26*

Description

R.E.A. is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The Group also operates a stone quarry, and owns coal mining concessions which have been contracted out to significant coal mine operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

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www.rea.co.uk

Key shareholders

Directors	31.95%
M & G Investment Mang.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis UK	8.83%

Next event

April 2018	Full Year Results 2017

Analysts

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R.E.A. Holdings

1H 2017: Bouncing Back

While the results reported for 1H 2017 are marked by the difficult operating conditions created by the post El-Nino weather conditions, and by the impact of the management upheaval created by the sudden departure of the company's most senior operating officer in the region in Q1, the 2H of 2017 is expected to see the business not just 'bouncing back' from adversity, but moving decisively towards the completion of the project over the next few years. REA's 1H 2017 report states "the problems of the difficult past two years…are now largely behind us".

- **Strategy**: REA Kaltim, the principal division of REA, is developing a land bank of some 108,000 ha. At the current, accelerated rate of development, the proprietary plantations should be completed by 2021 at circa 60,000 ha.
- **Changing fortunes**: REA's financial performance should undergo significant change from end 2019: it is the point at which the business becomes self-sustaining (we are assuming 37,000 ha of mature plantations) and by end 2021, REA could be generating annual free cash in excess of $100m.
- **Valuation:** Using an Indonesian risk biased WACC of 12.2%, a valuation range of £4.44 - £4.76 per share is suggested (on the basis of our long run projections for cash flows), depending on the terminal growth rate applied. The WACC makes no adjustment for REA being listed on the London Stock Exchange.
- **Risks:** Agricultural risk, commodity price risk, and country risk are constants of palm oil production. 1H 2017 net debt of $235.5m (79.4% of total equity), will grow further as the project moves towards completion. However, REA has options, which if exercised could markedly strengthen the balance sheet.
- **Investment summary:** REA now has some 25,000 ha of plantable land still to develop. With gearing estimated at 89.4% for year-end 2017, choices may have to be made. It was interesting to note the hint 'tucked away' at the end of the Financing section of the Chairman's statement: "the group is…exploring the possible divestment of certain outlying plantation assets which, if effected, would materially reduce the group's overall borrowings".

Financial summary and valuation

Year end Dec ($m)	2015 R	2016	2017E	2018E
Sales	90.5	79.3	103.2	124.7
EBITDA	14.1	16.8	21.4	37.9
Reported EBIT	-6.6	-5.0	-2.5	13.1
Pre-tax Profit	-12.2	-9.3	-24.4	-2.0
EPS (cents)	-59.0	-48.2	-72.9	-25.4
Adj. EPS (cents) **	-11.2	1.4	-	-
Dividend per share (p)	0.0	0.0	0.0	0.0
Net (debt)/cash	-196.7	-205.1	-249.4	-256.8
P/E (x)	-	-	-	-
Planted Hectares (ha)	37,097	42,846	45,846	48,846
EV/Planted Hectare ($/ha) *	13,381	11,839	10,964	10,290
CPO Production (mt)	161,844	127,697	155,370	183,616

Source: Hardman & Co Research

**EV/Planted Hectare includes Mkt Cap of the 9% Pref. Shares and 15% DSN Stake*

***** An estimate of earnings before applying the IAS 41 amendment***

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REA Holdings 1H 2017

Bouncing Back

Valuable and profitable tropical plantation businesses are products of significant hard work and capital investment. By the nature of their location in the Tropical Belt, these projects have to be robust: they must be able to deal with weather related hazards, sometimes turbulent social and political climates, and with complex logistics. Additionally, they must be able to attract high quality staff who can deal with the isolation that comes with such employment, and they must be able to attract the funding necessary to sustain the development programme.

There can be no doubt that the management of REA has had to contend with all the complexities that the Tropical Belt can throw at a project over the past few years, including most recently one of the harshest El Nino weather patterns so far recorded, followed by exceptionally heavy rains and through all of this, a lacklustre commodity price. In the midst of this confluence of impedimenta, the company's Managing Director Mark Parry (President Director of REA Kaltim since July 2012) 'fell foul' of Indonesian employment regulations and was required to stand-down. However, as noted above, projects like REA's need to be robust, and in that context, it is heartening to note the opening statement from the Chairman in the 2017 Half Yearly Report: "Operationally, the group has turned around".

As we noted in 'All Change From 2019' (13th June 2017), REA's financial performance is expected to undergo significant change from 2019 onwards. We are assuming some 37,000 ha of mature plantations for end 2019, which with stronger estate productivity, should mark the point at which the business becomes self-sustaining. We have been projecting the plantations to be fully planted by end 2021 at some 60,000 ha of which circa 45,000 would be expected to be mature. Under this scenario, REA could be generating annual free cash in excess of $100m. It is this prospect that presumably prompted DSN to take a strategic stake of 15% in REAK.

The completion, finally, of the land swap (REA's SYB land for the PU land) agreed in 2012 (and confirmed in 2015) with local mining interests, means that the company now has ownership of a further 9,097 hectares of fully titled agricultural land (of which some 5,000 ha are deemed to be plantable), right at the centre of REA's existing operations (see map).

REA Land Bank as of September 2017 (Hectares)

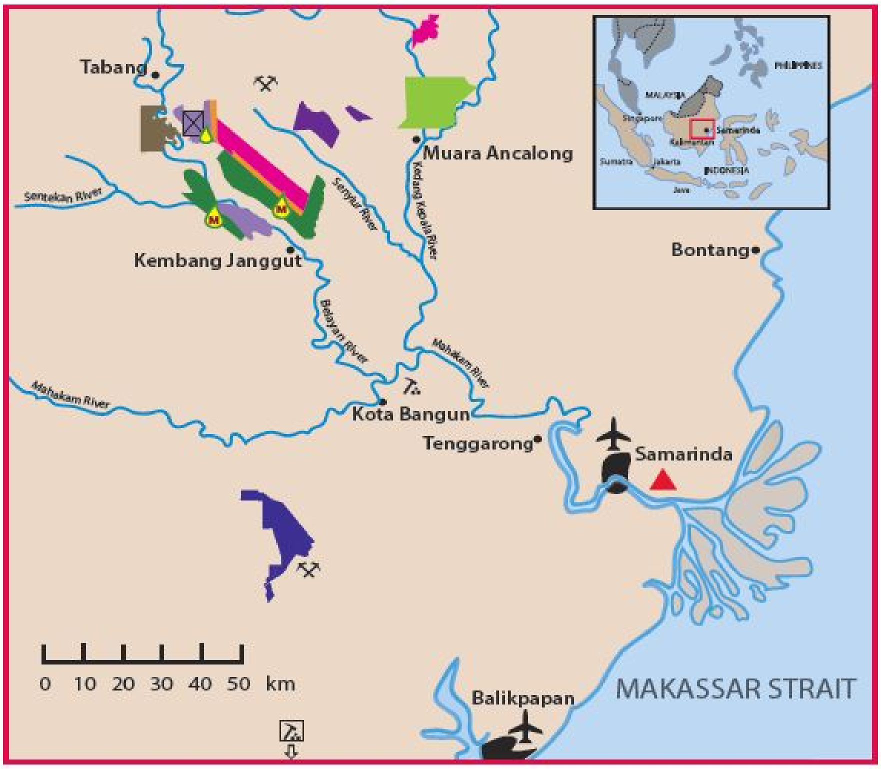
Estate	Planted	Cleared	Available for Planting	Conservation, Reserves & Infrastructure	Total Area	Area Non HGU	Area HGU
REAK	22,986	0	100	7,095	30,106	0	30,106
SYB	5,050	0	250	2,891	8,217	0	8,217
PBJ	6,926	675	3,500	4,231	16,062	4,460	11,602
CDM	3,354	1,058	1,000	10,235	15,980	6,196	9,784
KMS	3,775	0	1,500	3,607	9,285	1,964	7,321
PBJ2	0	0	2,000	3,239	5,269	5,269	0
KKS	0	0	3,000	1,794	5,150	5,150	0
PU	0	0	5,000	3,448	9,097	0	9,097
Totals	**42,091**	**1,733**	**16,350**	**36,540**	**99,166**	**23,039**	**76,127**

HGU: Land Cultivation Title
Source: REA Holdings

Choices to Be Made

As the project nears completion, management would be advised to focus the company's financial resources for efficiency of development outcomes, especially given the not inconsiderable gearing (89.4% estimated for year-end 2017, and 97.8% projected for end 2018), that has underpinned development to date. With the completion of the SYB/PU land swap, REA now has another 5,649 ha of plantable land to develop adjacent to the broadly contiguous estate areas located between the Belayan River (in the West) and the Kedang Kepala River (to the East and North East).

Group Operations



The smaller map shows the location of the group's operations within the context of South East Asia. The larger map provides a plan of the operational areas and of the river system by which access is obtained to the main areas.

Key	
M	Methane capture plant
	Oil mill
	Stone source
	Coal concession
	Tank storage

Companies		
	CDM	PT Cipta Davia Mandiri
	KKS	PT Kartanegara Kumalasakti
	KMS	PT Kutai Mitra Sejahtera
	PBJ	PT Putra Bongan Jaya
	PBJ2	PT Persada Bangun Jaya
	REAK	PT REA Kaltim Plantations
	SYB	PT Sasana Yudha Bhakti
	PU	PT Prasetia Utama
	SYB	SYB land transfer

Source: Company Interim Report 2017

The PBJ estate due south of the Mahakam River (6,926 ha planted today, with potential for 11,000 ha planted) will shortly require an investment in its own mill. Funding for this requirement will compete with development funding required for the other estates and their mills. Net of the SYB/PU land swap, and excluding PBJ from the mix (see table above), REA has in excess of 12,000 ha of plantable land to develop within the central area of its operations. Choices will have to be made; it was interesting to note the hint 'tucked away' at the end of the Financing section of the Chairman's statement: "The group is also exploring the possible divestment of certain outlying plantation assets which, if effected, would materially reduce the group's overall borrowings". PBJ is unquestionably the most 'outlying' of the group's plantation assets, and unlike KKS, also outlying, (but not so markedly), PBJ is substantially developed and it could therefore be expected to achieve a sale price that would materially reduce the group's indebtedness.

The valuation of palm oil production assets is guided by economics and market forces: during the high point of the commodity cycle, assets were commonly changing hands for valuations in a range of $20,000-$25,000 per planted ha. More recently, (in the past 12 months), the KLK bid for MP Evans has prompted the publication of a detailed valuation of the MP Evans assets by Messrs Khong & Jaafar Snd Bhd, and it has prompted MP Evans to dispose of peripheral assets including a minority holding in the Indonesia palm oil plantation Agro Muko, all providing valuation references for the possible value of a high-quality estate like PBJ in East Kalimantan.

Valuation of recent palm asset transactions

Plantation (owner)	Valuer	% acquired	Area (ha)	Planted Area (ha)	Remaining Plantable Area (ha)	Plasma Area (ha)	Actual Transaction Value	Value / Planted Area ($/ha)	Estimated Value Unplanted Area ($/ha)	Valuation Plasma Area ($/ha)
MP Evans	KLK			34,650	6,400	8,150		14,100		
MP Evans	Khong & Jaafar Valuation Report			34,650	6,400	8,150		18,400		
MP Evans (East Kalimantan Estate)	Khong & Jaafar Valuation Report			10,250	350	4,366		21,500		5,200
Agro Muko (MP Evans Minority Stake)	Sipef	36.84		19,545 (equity hectare = 7,200 ha)			$100m	13,860		
BMA (Sunrich Plantations Pte Ltd)	MP Evans	95	8,240	7,400		1,760	$88m in cash & $20m of bank debt assumed	13,200	3,969	

Source: Hardman Agribusiness

Applying the valuation data in the table above to a very newly and still in development, property like PBJ (for which a mill still has to be built) is difficult. With a possible 8,000 ha planted by end 2017 (Hardman Agribusiness projection), plus a further 3,000 ha plantable, buyers are likely to price according to maturities of planted areas, readiness for planting of unplanted areas, and suitability for planting of the unplanted areas. This makes putting a value on the property difficult, especially as the value of PBJ can be expected to increase over the next 3.5 months as development progresses. These caveats aside we would argue for a valuation for the planted areas at in the region of $13,000-$14,000 per hectare, suggesting a sales price in the region of $90m. This would not be inconsistent with the price agreed by MP Evans for Sunrich in August 2017.

Readers will note, that the PBJ asset, whilst the most outlying in the context of the other REA estates, could certainly achieve a sales value that would make a material and beneficial impact on the REA balance sheet.

1H 2017 Operational & Financial Results

Palm Oil Production

The consequence of heavy rains at the end of 2016, following the El-Nino weather pattern was damage to the plantation infrastructure: roads, drains, harvester access paths, etc. The intensity of the rainfall is best indicated by the data below, which reveal a 79% increase in inundation in the 12 months to end June.

Rainfall Average Across Estates (mm)

	2017	2016	2015	2014	2013
6 months to 30th June	2,034	1,574	1,505	1,295	2,087
% of total	n/a	45.0%	70.3%	49.7%	61.7%
6 months to 31st December	n/a	1,925	636	1,311	1,298
12 Months to 31st December	n/a	3,499	2,141	2,606	3,385
12 Months to End June	**3,959**	**2,210**	**2,816**	**2,593**	**3,537**
Change %	**79.1%**	**-21.5%**	**8.6%**	**-26.7%**	**10.7%**

Source: Company Financial Statements / Hardman Agribusiness

The consequences of the severe weather, continued to impact in 1H 2017, disrupting estate operations, harvesting, and planting. Harvesting was further impacted by the need to rebuild harvester numbers after these were reduced to save money during the very low cropping period in the summer of 2016. However, crops began to recover in May, and as harvester numbers returned to normal levels (circa 2,200 in September 2017), so monthly harvest tonnages have increased. Against an average monthly harvest of 40,206 mt during 1H 2017 volumes for July and August (which are low cropping months) came in at circa 47,500 mt (2016 – 22,500 mt), and management is targeting to achieve in excess of 60,000 mt monthly for the final 4 months of the year. We have retained our 2017 FY projection of some 579, 000 mt of estate produced FFB, which is broadly in line with the company expectation of around 600,000 mt. For 2018 we are again pitched below the company's expectation of above 700,000 mt, with our own projection for some 684,000 mt.

CPO and CPKO Production

(6 months to 30th June)	2017	2016	2015	2014	2013
FFB Harvested by Group (mt)	241,235	225,171	277,216	309,801	265,215
Third Party Supplied FFB (mt)	52,780	48,249	68,120	68,603	42,371
Total FFB (mt)	294,015	273,420	345,336	378,404	307,586
Change (%)	**7.5%**	**-20.8%**	**-8.7%**	**23.0%**	**4.3%**
Total FFB Processed (mt)	288,477	271,317	341,809	n/a	n/a
CPO produced (mt)	63,867	64,618	73,536	81,048	65,948
Change (%)	**-1.2%**	**-12.1%**	**-9.3%**	**22.9%**	**-3.7%**
Palm Kernels Extracted (mt)	12,776	12,967	15,629	n/a	n/a
CPKO produced (mt)	4,583	4,863	5,318	6,398	5,002
CPO Extracted (%)	22.10%	23.80%	21.50%	21.60%	21.50%
Palm Kernels Extracted (%)	4.40%	4.80%	4.60%	n/a	n/a
CPKO Extracted (%)	37.20%	31.90%	33.50%	38.30%	36.10%

Source: Company Financial Statements / Hardman Agribusiness

Mill extraction rates, a key efficiency indicator, suffered during the period, reducing to 22.1% (23.8%) due to the aforementioned harvesting and transportation difficulties, both of which impacted on the quality of fruit entering the mill. As could be expected with harvesting and collection efficiencies now improving, the company reported in the 1H Statement that "the CPO extraction rate for July and August combined was 23.2%". We are slightly reducing our forecast for the 2017 year to 22.7% (22.8%). We have kept the OER flat also for 2018, but this may prove to be overly conservative. We will keep the OER under review into early 2018.

CPO and CPKO Price

(6 months to 30th June)	2017	2016	2015	2014	2013
Achieved Average FOB Selling Price Received for CPO ($mt) Port of Samarinda	622	516	542	711	625
Achieved Average Selling Price Received for CPKO ($mt) Port of Samarinda	1,290	985	862	1,034	583

Source: Company Financial Statements / Hardman Agribusiness

While CPO opened on a strong note in 2017: $857/mt CIF Rotterdam in mid-January, the price had fallen by more than $200/mt by end June. Nevertheless, REA achieved an average price ($622/mt) more than 20% up on the first half of 2016. Our financial model assumes an average received FOB price of $570/mt for 2017 and $590/mt for 2018. These forecasts currently look conservative (even allowing for export taxes) given that FOB Belawan for 22nd September is $707/mt.

The heavy rains also impacted the development programme, delaying completion of bunds under construction and leaving the prepared land too wet to plant. Consequently, the company was able to plant only 241 ha and clear a further 393 ha. However, for the full year REA is indicating that it aims to complete planting of 3,000 ha (a reduction of 1,000 ha on the target at the beginning of the year). If achieved, this will still represent good progress. We have adjusted our planting schedule accordingly.

Stone & Coal Operations

Stone

The company has now begun to recover stone from the limestone quarry adjacent to the PBJ estate. Since May 2017 some 12,000 mt of stone has been delivered to the crushing facility on the PBJ estate. Crushing commenced this month, with some of the crushed material being used on the estate infrastructure at PBJ, and some sold to third parties. The andesite stone concession is the most promising of the quarrying assets, with very substantial deposits of high value stone for use in road building, and other construction works. It would be feasible, with appropriate road access, to transfer crushed andesite stone from the concession to one of the nearby REA estates. Recent feasibility studies suggest that the concession could be opened for circa $3m (principally in developing road access) with very rapid payback. This opportunity has tantalized the Board for some years, but it has been constrained in terms of investment funding. Some reports suggest that the andesite concession could be developed into a valuable business in its own right.

Coal

REA determined some years ago to delegate coal mining risk to 3rd Party operators, and it has agreements in place for the commercialisation of its Kota Bangun concession which contains high value semi-soft coking coal. With coal prices now relatively buoyant, the company is keen to see the coal being extracted (from which it will earn a royalty of some $9 / mt and rising with the price of coal). Ahead of implementing the agreements in place with 3rd Party operators, the group needs to secure a loading point on the Mahakam river for the coal to be routed to market. The group is believed to be making good progress with this objective.

Electricity Supply

The sale of renewable electricity to PLN, the Indonesian national electricity utility, for distribution to local communities was in line with our forecasts at $305,000. For 2017 as a whole, we are projecting revenues for the electricity generating business of circa $600,000, rising to $1m annually by 2019 (and then unchanged for the life of our profit and loss model). We believe this is conservative. Potentially revenue growth will be further boosted as all households are ultimately connected, and demand per household grows as consumers purchase additional appliances etc. In addition, PLN has been considering linking the regional transmission network to the new local grid; in that event REAK could install further generating capacity and would be able to deliver electricity into the regional network 24 hours/day and 7 days/week, increasing revenue from electricity sales materially. We have assumed, for valuation purposes, that by 2020/2021, the company is supplying six megawatts of electricity to PLN

Profit & Loss Account Formation

1H Revenue					
6 months to 30th June ($m)	**2017**	**2016**	**2015**	**2014**	**2013**
Revenues	**46.28**	**39.34**	**46.21**	**66.44**	**46.30**
Change (%)	17.6%	-14.9%	-30.5%	43.5%	-30.5%
Sales of Goods	*45.7*	*38.1*	*44.3*	*65.3*	*46.2*
Revenue from Services	*0.6*	*1.2*	*1.9*	*1.2*	*0.1*
Net loss re changes in fair value of agricultural inventory	-1.83	-0.66	-1.351	1.022	-1.28
Total Depreciation	*-10.84*	*-9.01*	*-9.37*	*-10.23*	*-9.94*
Other Costs	*-28.28*	*-23.53*	*-30.81*	*-27.09*	*-24.47*
Cost of Sales	**-39.12**	**-32.54**	**-40.18**	**-37.32**	**-34.41**
Gross Profit	**5.33**	**6.14**	**4.67**	**30.14**	**10.61**
Gross Margin (%)	11.51%	15.61%	10.12%	45.36%	22.92%

Source: Company Financial Statements / Hardman Agribusiness

Cost of sales for 1H 2017 rose nearly 2 percentage points against revenues as compared with 1H 2016 as a result of higher prices for 3rd Party FFB and increased investment in rehabilitation of the company's mature plantations. This investment can be expected to pay back with improved yields in 2018 and beyond.

Half Year Costs Analysis					
6 months to 30th June ($m)	**2017**	**2016**	**2015**	**2014**	**2013**
Distribution Costs	-0.563	-0.508	-0.494	-0.674	-0.674
As % of Sales of Goods	-1.2%	-1.3%	-1.1%	-1.0%	-1.5%
Administrative Expenses					
Indonesian Operations	-6.184	-5.309	-5.683	-7.476	-7.643
Change %	16.5%	-6.6%	-24.0%	-2.2%	28.2%
Change % Rupiah/US$ rate	-1.00%	-4.30%	-9.56%	-21.05%	-5.34%
Indonesian Operations as % Sales of Goods	-13.53%	-13.93%	-12.83%	-11.45%	-16.54%
Average Rate Rupiah: $ rate	13,344	13,479	12,923	11,795	9,744
Head Office (London & Singapore)	-3.52	-3.53	-2.696	-3.106	-2.639
Net Forex Changes	0	0.033	-0.217	-0.106	-0.009
Profit/Loss Fixed Asset Disposal (Financial Asset 2013)		0	0	0	-0.291
Admin Expenses Pre Capitalisation	**-9.704**	**-8.806**	**-8.596**	**-10.688**	**-10.582**
Capitalisation	2.45	1.65	2.00	2.24	2.74
Admin Expenses in P&L	**-7.254**	**-7.161**	**-6.594**	**-8.448**	**-7.840**

Source: Company Financial Statements / Hardman Agribusiness

Administrative expenses after capitalisation, were little changed year on year. The company reports that the 2017 1H outcome would have been lower were it not for one off costs related to staff changes and re-organisation of the Indonesian offices from Jakarta and Samarinda to Balikpapan. Indonesian administrative expenses as a % of sales were marginally lower than in 2016.

Profit & Loss Statement

Depreciation, with the change to IAS 41, has become a significant influence in the formation of the P&L statement. In June 2014, the International Accounting Standards Board (IASB) published amendments to 'Agriculture: Bearer Plants' (IAS 16 and IAS 41). Effective from the beginning of 1 January 2016, Bearer Plants, formerly classified as Biological Assets in the Balance Sheet, are now divided into PP&E Structure and PP&E Planting, and are treated as an investment cost, and are subject to depreciation, instead of being accorded a fair value valuation, as previously. The impact on REA's profit and loss account can be seen to be significant. Whereas formerly, the application of IAS 41 resulted in a positive impact on the P&L, the new treatment has resulted in a significantly enlarged depreciation charge to the reported P&L, and this will mark the pattern of reporting for some years to come. Comparatives for 2015, restated to reflect the change in the accounting standard, indicate a reduction in pre-tax results of $23.8m.

Across the plantation sector, companies have responded in different ways, with many palm oil producers simply writing off the built-up value in Biological Assets in one significant adjustment; REA has decided to do this incrementally.

1H Profit & Loss

6 months to 30th June ($m)	2017	2016
Revenues	46.28	39.34
Net loss re changes in fair value of agricultural inventory	-1.83	-0.66
Total Depreciation	*-10.84*	*-9.01*
Other Costs	*-28.28*	*-23.53*
Cost of Sales	-39.12	-32.54
Gross Profit	5.33	6.14
Distribution Costs	-0.563	-0.508
Administrative Expenses	-7.254	-7.161
Operating Profit	-2.49	-1.53
Investment Revenues	0.263	1.238
Finance Costs	-13.482	-4.898
Profit Before Tax	-15.71	-5.19
Taxation	1.259	0.753
Net for the Period	-14.45	-4.44
Attributable to Ordinary Shareholders	-14.144	-7.911
Attributable to Preference Shareholders	3.72	3.901
Attributable to Non-Controlling Interests	-4.025	-0.427
Earnings per share (US cents)	-34.6	-21.5

Source: Company Financial Statements / Hardman Agribusiness

The other major influence on the 1H 2017 P&L has been Financing Costs. At $13.48m ($4.9m) the total cost of debt financing was impacted by both the higher rates on Rupiah debt (interest on bank loans and overdrafts increased by some $2.4m to $7.5m ($5.1m)), and by exchange rate movements. Whereas total stated financing charges were reduced to the extent of some $2.01m in 1H 2016, for 1H 2017 the statement suffered a $4.18m hit for a reversal of some $6.2m. The reality of servicing the group's current debt burden, and the constraints this will be placing on the development of the group's assets, was given expression in the Chairman's statement: "…the group recognises that it is now incurring a relatively high level of interest charges…". The statement indicates that in addition to ensuring the availability of the necessary funding to support ongoing development, the directors are also considering converting "a substantial proportion of its rupiah denominated borrowings into US$ denominated borrowings", (on which interest rates are significantly lower) and are "exploring the possible divestment of certain outlying plantation assets". Investors will welcome both the initiative to ease the cost of debt servicing and the burden on the balance sheet and the constraints that this must inevitably place on development.

Management

After the resignation of Mr Mark Parry in February 2017, Ms Carol Gysin was appointed to the Board as Managing Director and Mr George Kapitan moved from the role of President Commissioner of REA Kaltim to that of President Director. As a deeply experienced business and professional figure in Indonesia, Mr Kapitan provides the business with all the necessary local direction and support that it requires. We understand that Mr Luke Robinow, also a member of the Board of Commissioners for REA Kaltim, is working closely with both Mr Kapitan and with Ms Gysin in London, to ensure that information flows operate at full efficiency around the group.

Appropriately for a business which has all its operating divisions in Indonesia, it should be noted that 4 of the 9 most senior members of the operational and supervisory management teams in Indonesia and Singapore, are either Indonesian citizens or permanent residents with strong connections and commitments to REA's business operations in the country, and to Indonesia as a country. This group includes Mr Luke Robinow, son of Richard Robinow. Mr Robinow has made Indonesia his home, he is bi-lingual with Indonesian and English, and he is both a member of the Board of Commissioners (Indonesian supervisory board), and an active member of the senior management team in the region. The Robinow family has had a long involvement in Indonesia, stretching back to the 1970s, and with ownership of some 27.4% of the ordinary shares in issue, it has a significant commitment to the business.

Noting the growing maturity of the group's estates, and the final push to complete development across the newer estates, the group has revised the roles of the senior managers on the estates. All estate agricultural operations now fall under the remit of the former manager of immature estates, who was responsible for the development of the PBJ and CDM estates, including the impressive achieved planting rate in 2016. The former head of mature estates, is now responsible for all estate support operations, including relations with the local community and smallholders, as well as certain estate administrative functions previously undertaken by Mark Parry. A number of additions have been made to the local management to strengthen it further: a new head of mills has recently joined the group and two new estate controllers will be joining within weeks. All three of these new staff members are expatriates with many years of experience of working on Indonesian plantations.

Additionally, changes have been made to enhance the co-ordination and communications between senior staff in London and Indonesia. Mr Martin Cooper (Group Chief Financial Officer) and Mr Matthew Salthouse (Group Chief Legal Officer/Director of REA Kaltim), who are based in Singapore, continue to visit Indonesia regularly for extended periods to oversee the implementation of group strategies and policies.

The complexities of operating a demanding business in a remote tropical location require efficient, rapid communication of operating conditions from the field to head office, and equally, the implementation of group policies and strategies, requires the effective oversight of their implementation in the field. REA has been working for some five years now to manage the transition from one generation of senior managers to a new younger team, and also to strengthen communications between the field and the central offices in Indonesia, Singapore and London. It is evident since she assumed the MD role, that Ms Gysin has made this a priority.

Planting and Production

		2015	2016	2017 e	2018 e
Hectare Planted (Ha)	Immature	7,518	11,325	11,770	13,993
	Mature	29,571	31,521	34,076	34,853
Total Planted (Ha)		**37,089**	**42,846**	**45,846**	**48,846**
% of Total Plantable		**62%**	**71%**	**76%**	**81%**
Planting took place		*2,236*	*5,757*	*3,000*	*3,000*
FFB Prod' (own) (MT)		600,741	468,371	578,983	684,345
FFB (purchased) (MT)		138,657	98,052	120,000	130,000
Total FFB for process (MT)		**739,398**	**566,423**	**698,983**	**814,345**
Own estate FFB yield/ha avg		*20.5*	*14.9*	*17.0*	*19.6*
Total FFB Processed (MT)		728,871	560,957	684,449	808,879
OER		22.2%	22.8%	22.70%	22.70%
Total CPO production (MT)		**161,844**	**127,697**	**155,370**	**183,616**
PK Extraction Rate		4.7%	4.7%	4.5%	4.5%
Palm Kernel Extracted (MT)		**34,354**	**26,371**	**31,454**	**36,646**
Reported PKO %		*35.0%*	*34.7%*	*36.0%*	*36.0%*
Total CPKO (MT)		**12,703**	**9,840**	**11,324**	**13,192**

Source: Hardman Agribusiness

Profit and Loss

Year Ended 31st Dec ($m)	2015 (Restated)	2016	2017 e	2018 e
Revenue	**90.5**	**79.3**	**103.2**	**124.7**
Net (loss)/ gain arising from changes in inventory value	-1.1	0.6	-1.8	0.0
Cost of production				
Depreciation	-21.7	-21.0	-23.8	-24.9
Other costs	-61.4	-50.9	-66.5	-72.9
Gross profit	**6.2**	**8.1**	**11.1**	**26.9**
Gross margin %	6.9%	10.2%	10.8%	21.6%
Biological assets valuation	0.0	0.0	0.0	0.0
Other operating income	0.0	0.0	0.0	0.0
Distribution costs	-1.1	-1.1	-1.3	-1.5
Administrative expenses	-11.7	-12.0	-12.3	-12.3
Operating profit	**-6.6**	**-5.0**	**-2.5**	**13.1**
EBITDA	14.1	16.8	21.4	37.9
Investment revenue	0.3	1.7	0.4	0.4
Finance costs	-6.0	-6.0	-22.3	-15.4
Profit before tax	**-12.2**	**-9.3**	**-24.4**	**-2.0**
Tax	-0.7	-2.0	-2.0	-2.0
Profit for the year	**-12.9**	**-11.3**	**-26.4**	**-4.0**
EPS (cents)	-59.0	-48.2	-72.9	-25.4
Dividend (GBp)	0.0	0.0	0.0	0.0
Attributable to:				
Ordinary Shareholders	-20.9	-17.8	-29.5	-10.3
Preference Shareholders	8.5	7.4	7.3	7.3
Non-controlling interests	-0.5	-0.9	-4.1	-1.0
	-12.9	**-11.3**	**-26.4**	**-4.0**

Source: Hardman Agribusiness

Balance Sheet

Year Ended 31st Dec ($m)	2015 (restated)	2016	2017 e	2018 e
NON-CURRENT ASSETS				
Goodwill	12.6	12.6	12.6	12.6
Intangible Assets	0.0	4.2	3.3	2.7
Biological Assets	0.0	0.0	0.0	0.0
Property, Plant & Equipment	468.9	471.9	480.8	488.3
Prepaid Operating Lease Rentals	34.3	34.2	34.5	34.8
Indonesia Stone and Coal Interests	35.3	37.2	38.7	39.7
Investments	0.0	0.0	0.0	0.0
Deferred Tax Assets	15.7	12.8	12.8	12.8
Non-Current Receivables	1.4	3.1	2.2	2.2
	568.1	576.0	584.9	593.1
CURRENT ASSETS				
Inventories	11.2	15.8	15.6	14.4
Biological Assets	2.1	2.0	2.0	2.0
Investments	2.2	9.9	0.0	0.0
Trade & other receivables	29.1	42.6	37.6	40.9
Cash & equivalent	15.8	24.6	18.6	25.3
	60.3	94.8	73.9	82.7
TOTAL ASSETS	**628.4**	**670.9**	**658.8**	**675.8**
CURRENT LIABILITIES				
Trade and other payables	27.0	43.4	22.6	42.4
Current Tax Liabilities	3.4	0.3	0.3	0.3
Obligation Under Finance Lease	0.0	0.0	0.0	0.0
Bank Loans	50.9	28.6	35.7	38.5
Sterling notes	0.0	10.1	0.0	0.0
US dollar notes	0.0	20.0	0.0	0.0
Hedging instruments	0.0	0.0	0.0	0.0
Other Loans & Payables	0.1	0.5	0.5	0.5
	81.4	103.0	59.0	81.7
NON-CURRENT LIABILITIES				
Bank loans	72.0	97.8	142.6	153.8
Sterling notes	55.9	37.0	37.0	37.0
US dollar notes	33.6	23.6	23.6	23.6
Preference shares issued by a subsidiary	0.0	0.0	0.0	0.0
Hedging instruments	0.0	0.0	0.0	0.0
Deferred tax liabilities	86.1	80.8	80.8	80.8
Obligations under finance leases	0.0	0.0	0.0	0.0
Other loans & payables	5.6	19.0	36.6	36.6
	253.2	258.3	320.7	331.9
TOTAL LIABILITIES	**334.6**	**361.3**	**379.8**	**413.6**
TOTAL EQUITY	**293.8**	**309.6**	**279.0**	**262.2**

Source: Hardman Agribusiness

Cash Flow

Year Ended 31st Dec ($m)	2015 (restated)	2016	2017 e	2018 e
NET CASH FROM OPERATING	**20.1**	**2.6**	**-14.7**	**32.4**
Interest received	0.3	1.7	0.4	0.4
Acquisitions	-	-	-	-
Proceeds from disposal of PP&E	2.5	0.1	-	-
Purchase of PP&E	-32.3	-31.1	-30.9	-30.8
Expenditure on Biological Assets	-	-	-	-
Expenditure on prepaid operating lease rentals	-1.3	-0.4	-1.0	-1.0
Change in minority interest	-	-	-	-
Investment in Indonesian stone & coal	-4.0	-1.9	-1.5	-1.0
CASH FROM INVESTING ACTIVITIES	**-34.8**	**-31.6**	**-33.0**	**-32.5**
Preference dividends paid	-8.5	-7.4	-7.3	-7.3
Ordinary dividends paid	-4.2	-	-	-
Repayment of borrowings	-9.6	-11.0	-3.1	-6.0
Proceeds of issue of ordinary shares	6.8	13.0	-	-
Proceeds of issue of preference shares	7.8	-	-	-
Redemption of US dollar notes	-	-	-20.0	-
Issuance of Sterling notes, by exchange	39.9	-	-	-
Redemption of Sterling notes	-39.9	-	-10.1	-
Proceeds of issue of sterling notes (net of cost)	4.1	1.9	-	-
Purchase of sterling notes	-2.2	-	-	-
Proceeds of sales of investment	-	-	9.9	-
Payment on termination of hedging contract	-10.2	-	-	-
Net Sale and repurchase of US dollar notes	-	-0.1	-	-
New bank borrowings drawn	30.3	14.9	55.0	20.0
Proceeds of sale of shareholding in subsidiary	-	14.0	0.8	-
Loans from non-controlling shareholder	-	12.4	16.7	-
CASH FROM FINANCING	**14.5**	**37.8**	**41.8**	**6.7**
NET INCREASE IN CASH	**-0.3**	**8.9**	**-5.9**	**6.7**
Cash b/f	16.2	15.8	24.6	18.6
Effect of exchange rate	-0.2	0.0	-	-
CASH BALANCE C/F	**15.8**	**24.6**	**18.6**	**25.3**

Source: Hardman Agribusiness

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