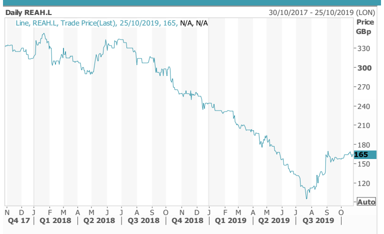
# R.E.A. HOLDINGS

## Weak commodity prices dampen road to recovery

## Food Producers




*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **RE.** |
| Price (p) | **164.5** |
| 12m High (p) | 275.0 |
| 12m Low (p) | 90.0 |
| Shares Ord (m) | 43.8 |
| Shares Pref (m) | 72.0 |
| Mkt Cap Ord (£m) | 72.1 |
| Mkt Cap Pref (£m) | 51.8 |
| EV ($m) | 378.0 |
| Free Float | 27.6% |
| Market | Main |

### Description

R.E.A. (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also owns stone quarrying rights and concessions, and coal mining concessions that are being contracted out to third-party operators.

### Company information

| | |
|---|---|
| Managing Director | Carol Gysin |
| Chairman | David Blackett |

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### Key shareholders

| | |
|---|---|
| Directors | 30.9% |
| M&G Investment | 20.0% |
| Nokia Bell Pensioenfonds | 9.3% |
| Artemis UK | 8.1% |
| Aberforth Partners | 6.7% |

### Diary

| | |
|---|---|
| Apr'20 | FY'19 results |
| Jun'20 | AGM |

### Analyst

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**REA's 1H'19 results showed a small, 3.1%, increase in own-crop production levels to 335,177mt and a 7.7% increase in CPO production to 96,514mt. Revenue for the period was up 17.5%, to $56.6m (1H'18: $48.2m), despite a plunge of more than 20% in the CIF palm oil price compared with 1H'18. The revenue increase was due partly to the sale of excess inventory carried forward from the end of 2018. REA continues to focus on improving its oil extraction efficiency, with an average OER of 22.9% in 1H'19; however, higher OERs are being achieved in some of the mills in recent months.**

- **FY production:** FFB production has slowed vs. the group's budget, as the oil palm trees enter a resting phase after a highly productive 2018. FFB ripening has also slowed due to recent dry weather across the sector. REA now expects FFB to fall short of its original expectation of ca.900,000mt in FY'19.
- **Preference share dividend expected to resume in 2020:** Against the backdrop of ongoing weak commodity prices, REA has implemented a series of cost-saving measures. It is deferring its preference share dividend payments for both Jun'19 and Dec'19, but hopes to resume the payments in 2020.
- **Financing:** Management recognises the need to deleverage REA's indebtedness. Net debt was $209.0m at end-1H'19 vs. $189.6m in FY'18. Discussions with the bank have resumed; REA expects to convert a large portion of its rupiah borrowings to lower-rate dollar borrowings before end-2019, reducing the cost of borrowings and helping reduce some funding risk.
- **Dollar notes and issue of equity:** REA has issued an additional $3m of new 2022-dollar notes, which were subscribed to by one of the group's customers, along with a supply agreement. REA has also announced the issuance of 3.441m new ordinary shares, at 145p per share, raising a further £4.9m.
- **Investment summary:** 2019 remains a difficult year for oil palm operators, with palms entering a resting phase in some producing regions. Coupled with a weak palm oil price, the sector index has fallen ca.33% since the start of 2017, or 18% since the recent Feb'19 peak. We expect REA to have ca.33,423 mature ha by end-2019, as well as stronger agricultural production across the estates, and the plantations to be fully planted by end-2025.

### Financial summary and valuation

| Year-end Dec ($m) | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| Sales | 79.3 | 100.2 | 105.5 | 125.9 | 137.5 | 145.5 |
| EBITDA | 16.8 | 20.7 | 12.8 | 22.3 | 36.6 | 43.8 |
| Reported EBIT | -5.0 | -2.2 | -10.7 | -2.1 | 11.0 | 17.2 |
| Adjusted PBT | -18.4 | -18.3 | -20.3 | -21.9 | -6.8 | -1.1 |
| EPS (c) | -48.2 | -67.7 | -54.4 | -78.0 | -35.3 | -24.7 |
| DPS (p) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net (debt)/cash | -205.1 | -211.7 | -189.6 | -217.7 | -215.2 | -211.3 |
| P/E (x) | - | - | - | - | - | - |
| Total planted hectare (ha) | 42,846 | 44,094 | 36,500 | 36,700 | 36,700 | 36,700 |
| Adj. EV/planted ha ($/ha)* | 7,793 | 7,557 | 8,907 | 8,763 | 8,736 | 8,804 |
| CPO production (mt) | 127,697 | 143,916 | 217,721 | 236,233 | 243,469 | 257,616 |

**adjusted EV includes mkt. cap. of the 9% pref. share*
*Source: Hardman & Co Research*

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# 1H'19 results

After a bountiful 2018, management's efforts to bring the operations to their expected production level are clearly paying off. However, these efforts have been dampened by continued weak commodity prices in 1H'19.

## Crops and oil production

*Lower-than-expected FFB production in 1H'19*

The group's FFB production saw a 3.1% increase to 335,177mt in 1H'19 (1H'18: 324,955mt). The results of the management team's remedial work in 2017/18 have continued to pay off, but these efforts have been slightly offset by the difficulties caused by palm trees entering a resting phase following the record cropping in 2018, resulting in lower-than-expected FFB production in 1H'19. Lower biological activity in the group's estates is seemingly an industry-wide experience.

Industry nucleus FFB production comparison

| | 1H'19 | 1H'18 | change | Company comments |
|---|---|---|---|---|
| | mt | mt | | |
| REA | 335,177 | 324,955 | 3.1% | Palm trees enter a resting phase. |
| Anglo-Eastern | 470,300 | 477,400 | -1.5% | Lower production trend observed in Riau, Bengkulu and South Sumatra by other planters in the region. |
| MP Evans | 287,200 | 270,700 | 6.1% | Performance not consistent across the group's estates. Estates at Kota Bangun and Bangka experienced a fall in crops compared with 2018. Palm trees naturally "rest" for some months. |
| First Resources | 1,309,188 | 1,409,432 | -7.1% | Production came in lower relative to the strong production in 6M'18. |
| Golden Agri | 3,444,000 | 3,638,000 | -5.3% | Fruit production slowed down YoY after experiencing a bumper crop in 2018. |
| Sipef NV | 573,593 | 610,052 | -6.0% | After a period of strong production growth in 2018, from the second quarter, fruit development in Indonesia generally stagnated – a phenomenon that was also observed in the mature plantations in Sumatra. |

*Source: Hardman & Co Research*

REA reported a consistent oil extraction rate (OER) performance in 1H'19, at 22.9%, compared with 22.8% in 1H'18, as refurbishment and improvements in the group's three mills were completed. Since the reporting period, the group has achieved higher OER in the group's mills. We expect a FY'19 OER of 23.2%.

## Profit & Loss

- **Revenue**: REA reported revenue growth of 17.5%, to $56.6m (1H'18: $48.2m), against a decline in palm oil prices of more than 20%. Part of the increase was from the sales of excess inventory carried forward at the end of 2018. The management team's efforts to bring the plantation operations back on track were hampered by the weak commodity prices.
- **Gross loss:** REA made a gross loss for the period of $4.7m, compared with a profit in 1H'18 of $6.9m, due mainly to the changes in stock levels because of the stock build-up at the end of 2018.
- **Administrative expenses:** Administrative expenses on the P&L rose by 24.3%, to $8.4m (1H'18: $6.8m), due to the lower capitalisation rate following the sale of the PBJ estate in August 2018. The capitalisation rate on costs for plantation companies is calculated mainly on the proportion of immature hectares against total planted hectares. In this instance, prior to the sale of PBJ, a significant portion of REA's immature hectares were from the PBJ estate – hence the fall in the capitalisation rate following the PBJ transaction against 1H'18. Administrative expenses before capitalisation for the period were $9.6m – a similar level to 1H'18's $9.5m.

- **Finance costs:** Finance costs charged to the P&L swung from a net inflow of $1.5m to an outflow of $16.0m. This was due largely to the strengthening of the Indonesian rupiah against the dollar in 1H'19, resulting in a $4.9m loss, compared with the $11.1m exchange gain in 1H'18. The capitalised portion of the finance costs was significantly reduced in 1H'19, following the sale of PBJ, to $0.3m (1H'19: $3.0m).

**Profit & Loss**

| $000 | 1H'18 | 1H'19 | change |
|---|---|---|---|
| Revenue | 48,170 | 56,584 | 17.5% |
| Gross loss/profit | 6,924 | -4,701 | -167.9% |
| Adjusted gross profit (excl. depr. & amort.) | 18,205 | 8,883 | -51.2% |
| EBITDA | 11,184 | 307 | |
| Operating loss | -334 | -13,694 | |
| PBT | 1,336 | -29,496 | |
| Adjusted PBT (excl. exchange fluctuation) | -9,066 | -24,446 | |

*Source: REA Holdings, Hardman & Co Research*

# Balance sheet and cashflow

- With a 17% drop in the CPO price in 2018, in its 2018 annual report, REA's management team made the decision to conserve cash by limiting capex and cost reduction in its operations. The CPO price declined by a further 11.8% during 1H'19. The group is therefore not investing in further new plantings for the time being; instead, it is directing the majority of its capex towards the maintenance of its existing immature hectares, as well as improvement work/refurbishment in its mills in order to increase extraction efficiencies. REA reported a $7.7m capital expenditure on PP&E in 1H'19, down 45.2% compared with 1H'18.
- 1H'19 saw an inflow of $6.1m in inventories in the cashflow statement, largely from the sale of the excess inventory carried forward at the end of 2018.
- Net debt at the end of 1H'19 was $209.0m, compared with $189.6m at end-1H'18. Net debt to equity increased from 72.5% at end-2018 to 88.2% at end-1H'19.
- In its June trading update, REA decided to defer the half-yearly dividend payment on the group's preference shares, which was due on 30 June 2019 as part of the cash conservation strategy. Management has also decided, according to the 1H'19 report, to defer the payment that is due on 31 December 2019 (although this has not yet been finalised). However, if commodity prices recover in 4Q'19, the company hopes to resume preference share dividend payments in 2020.

# Coal and stone interests

*Priority given by REA in 2018 to fund reopening of coal concession at Kota Bangun*

REA holds interests in respect of two coal mining concessions (Kota Bangun and Liburdinding), as well as two stone quarrying deposits. In 2018, the group gave priority, in terms of capital allocations, to fund the reopening of its coal concession at Kota Bangun, as it believed it would provide a quicker return, with a lower-risk investment among these assets.

## Kota Bangun – coal concession

REA, via its coal concession holding company (IPA), expects that mining will recommence by the end of 2019, with the appointment of a contractor. The appointed contractor will provide mining services, as well as the management of the port facility. The contractor, as part of the agreement, will also fund all further expenditure needed for infrastructure, land compensation and mobilisation, in exchange for a participation in profits from the mine. The profit participation for the contractor is expected to be ca.30%.

# Financing

## Issuance of $3m of new 2022-dollar notes

*Issue of $3m of new 2022-dollar notes…*

REA has been in discussions with its customers regarding the provision of funding in exchange for forward supply commitments of CPO and PKO (but on a basis that pricing will be fixed at the time of delivery by reference to the prevailing prices). One of the group's customers has agreed to subscribe to $3m of new 2022-dollar notes, which were issued on 30 September. Further discussions with the group's other customers are also taking place.

## Issuance of new ordinary shares

*…and placing of 3.441m new ordinary shares at 145p per share*

On 27 September, REA also announced the placing of 3.441m new ordinary shares at 145p per share – an 8.2% discount to its previous close price (26 September), representing ca.9% of the existing ordinary shares in issue. The £4.9m proceeds will be applied in subscribing 85% of a proposed share capital increase by the group's principal operating subsidiary, REA Kaltim (REAK). The subsidiary's 15% minority holder (Jakarta-listed DNS Group) has indicated its support for the capital raising by subscribing for the remaining 15% of the shares proposed by REAK.

Of the 3.441m shares issued by REA, some 1.9m shares were placed with Emba Holdings Limited (Emba), REA's largest shareholder and a company owned by the group's non-executive director, Mr Robinow. Following the placing, Emba now holds 29.72% of REA's shares in issue.

# Revised FY'19 forecasts

*Owing to weak commodity prices, planting programme currently on hold*

REA has a land bank of more than 82,000 ha in East Kalimantan, Indonesia, following the sale of PBJ in 2018, of which 36,500 ha were planted at the end of December 2018. With such a land bank, REA's management team is targeting to develop (plant out) a total of 50,000 ha by the end of 2025, subject to funding availability and commodity prices. However, with the currently weak commodity prices, REA's management team has decided to put the planting programme on hold in order to conserve cash, and it has elected to direct capital towards estate maintenance and mill improvement/extension instead.

## Production

*Reducing our FY'19 FFB estimate by 6.7% to 815,096mt, from 870,096mt, implying FFB yield of 24.4mt/ha*

A record level of group FFB was reported in the FY'18 results, with a total of 800,050mt, an increase of 50.8% on FY'17 (530,565mt). Management's efforts to ensure that an adequate level of harvesting resources is in place and that improvements are being made in various areas of infrastructure are paying off.

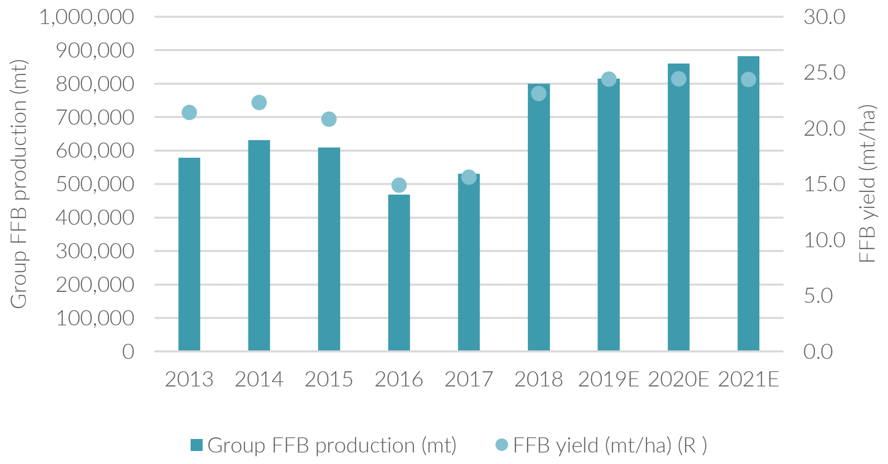
However, following a bountiful 2018, the palm trees have entered a resting phase, resulting in an industry-wide decline in FFB production. At the interim announcement, the group said it was expecting the FY'19 crop level to fall short of the original target of 900,000mt set out in its 2018 annual report. We are reducing our FY'19 FFB estimate by 6.7% to 815,096mt, from 870,096mt, implying an FFB yield of 24.4 mt/ha for the year. Readers should note that this is significantly lower than the group's internal budget for the year. Although the palm trees are in a resting phase, REA has stated that it will continue to "feed" the mature plantations with similar dosages of fertiliser. We expect a 5.5% uplift in group FFB production, to 860,131mt, for 2020.

*Increasing our FY'19 OER expectation to 23.2%, from 23%*

REA had made good progress with refurbishment and improvement works on its mills in 1H'19, and the extension of the group's Satria mill is now largely completed. These programmes are expected to result in improving efficiency levels, including oil extraction rates. REA reportedly achieved higher OERs in its mills in past two months. We have increased our FY'19 OER expectation to 23.2%, from 23%.

The planting programme for the coming years has been put on hold, given current commodity prices and the group's funding availability.

## Nucleus FFB production and yield




*Source: REA Holdings, Hardman & Co Research*

## FFB production and CPO production

| | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|
| Planted ha | | | | | | | |
| Mature | 29,367 | 31,521 | 34,076 | 33,292 | 33,423 | 35,225 | 36,225 |
| Immature | 7,730 | 11,325 | 10,018 | 3,208 | 3,277 | 1,475 | 475 |
| **Total planted ha** | **37,097** | **42,846** | **44,094** | **36,500** | **36,700** | **36,700** | **36,700** |
| Planting in the year | 2,251 | 5,758 | 1,248 | 275 | 0 | 0 | 0 |
| | | | | | | | |
| FFB production | | | | | | | |
| FFB (group) (mt) | 609,389 | 468,371 | 530,565 | 800,050 | 815,096 | 860,131 | 882,594 |
| FFB (third-party) (mt) | 139,276 | 98,052 | 114,005 | 191,228 | 201,228 | 211,228 | 221,228 |
| **Total FFB** | **748,665** | **566,423** | **644,570** | **991,278** | **1,016,324** | **1,071,359** | **1,103,822** |
| *FFB yield (mt/ha)* | *20.8* | *14.9* | *15.6* | *23.1* | *24.4* | *24.4* | *24.4* |
| | | | | | | | |
| OER | 22.3% | 22.8% | 22.8% | 22.5% | 23.2% | 23.2% | 23.2% |
| **CPO production (mt)** | **163,880** | **127,697** | **143,916** | **217,721** | **236,233** | **243,469** | **257,616** |

*Source: REA Holdings, Hardman & Co Research*

## Profit & Loss

- We have left our CPO pricing assumption for 2019 unchanged, at $540/mt, and the group's received price of $460/mt remains intact. However, we have lowered our CPO price (CIF Rotterdam) expectation to $600/mt for 2020 and 2021. FY'19 revenue is revised to $125.9m from $133.4m in our previous forecast.
- Admin expenses charged to the P&L, after adjusting the capitalisation rate, is expected to be ca.$17.4m, from $15.9m.
- Finance costs charged to the P&L, including the $5.1m exchange fluctuation reported in the 1H'19 accounts and assuming the rupiah stays at its current exchange rate to the dollar, is expected to be ca.$25.2m, from $19.4m previously. The increased finance costs are partly due to the decrease in capitalisation rate and the delay in discussions with the bank, which are now being resumed. Management is confident that a significant portion of its rupiah borrowings will be converted to dollar borrowings with a much lower interest rate by 1Q'20. We should see a reduction in finance costs from FY'20 onwards. We have revised the total finance costs before capitalisation to $19.8m and $20.0m for FY'20 and FY'21, respectively, from $23.6m and $21.9m

**Profit & Loss**

| Year-end Dec ($m) | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| Average CPO price (CIF $/mt) | 704 | 718 | 596 | 540 | 600 | 600 |
| Achieved CPO price ($/mt) | 521 | 592 | 472 | 460 | 505 | 505 |
| **Revenue** | **79.3** | **100.2** | **105.5** | **125.9** | **137.5** | **145.5** |
| Growth rate | -12.4% | 26.5% | 5.2% | *19.3%* | *9.3%* | *5.8%* |
| Net (loss)/gain arising from changes in inventory value | 0.6 | -1.1 | 0.3 | -0.1 | 0.0 | 0.0 |
| Depreciation and amortisation | -21.0 | -22.2 | -23.0 | -24.4 | -25.6 | -26.6 |
| Other costs | -50.9 | -64.1 | -76.6 | -84.1 | -83.9 | -84.6 |
| **Gross profit** | **8.1** | **12.9** | **6.2** | **17.3** | **27.9** | **34.3** |
| Gross margin | 10.2% | 12.9% | 5.9% | *13.8%* | *20.3%* | *23.6%* |
| Distribution costs | -1.1 | -1.4 | -1.3 | -2.0 | -2.1 | -2.2 |
| Administrative expenses | -12.0 | -13.7 | -15.7 | -17.4 | -14.8 | -14.8 |
| **Operating profit** | **-5.0** | **-2.2** | **-10.7** | **-2.1** | **11.0** | **17.2** |
| **EBITDA** | **16.8** | **20.7** | **12.8** | **22.3** | **36.6** | **43.8** |
| Profit on disposal | 0.0 | 0.0 | 10.4 | 0.0 | 0.0 | 0.0 |
| Investment revenue | 1.7 | 1.1 | 0.3 | 0.3 | 0.0 | 0.0 |
| Finance costs | -6.0 | -20.8 | -5.4 | -25.2 | -17.8 | -18.4 |
| **PBT** | **-9.3** | **-21.9** | **-5.5** | **-27.0** | **-6.8** | **-1.1** |
| Adj. PBT (excl. exchange rate fluctuations from finance costs) | -18.4 | -18.3 | -20.3 | -21.9 | -6.8 | -1.1 |
| Tax | -2.0 | -3.0 | -12.7 | -2.5 | -2.6 | -2.7 |
| **Loss for the year** | **-11.3** | **-24.9** | **-18.2** | **-29.0** | **-9.3** | **-3.8** |
| EPS (c) | -48.2 | -67.7 | -54.4 | -77.1 | -35.3 | -24.7 |

*Source: REA Holdings, Hardman & Co Research*

**Finance costs**

| Year-end Dec ($m) | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| Bank loans | -12.6 | -15.7 | -15.5 | -14.5 | -11.3 | -11.6 |
| Sterling notes | -5.2 | -5.2 | -4.1 | -3.9 | -3.9 | -3.9 |
| US dollar notes | -2.9 | -2.7 | -1.9 | -1.9 | -2.1 | -2.1 |
| Loans from related parties | -0.3 | -1.9 | -2.5 | -1.6 | -1.6 | -1.4 |
| Other financial costs | -0.3 | -0.8 | -1.0 | -1.0 | -1.0 | -1.0 |
| Exchange rate benefit (loss) | 9.1 | -3.6 | 14.8 | -5.1 | 0.0 | 0.0 |
| | **-12.1** | **-29.8** | **-10.2** | **-28.0** | **-19.8** | **-20.0** |
| Capitalised interest costs | -6.1 | -9.1 | -4.8 | -2.8 | -2.0 | -1.6 |
| **Interest costs in the P&L** | **-6.0** | **-20.8** | **-5.4** | **-25.2** | **-17.8** | **-18.4** |

*Source: REA Holdings, Hardman & Co Research*

# Balance sheet

With the new $3m dollar notes and equity placing announced earlier this month, we expect REA's net debt to equity to reduce slightly in 2019, to 91.0%, compared with 96.4% in our previous forecast.

**Balance sheet**

| @ 31 Dec ($m) | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| Goodwill | 12.6 | 12.6 | 12.6 | 12.6 | 12.6 | 12.6 |
| Intangible assets | 4.2 | 3.5 | 2.6 | 1.7 | 0.9 | 0.0 |
| Property, plant and equipment | 471.9 | 482.3 | 407.2 | 407.6 | 394.7 | 379.9 |
| Land titles | 34.2 | 35.2 | 35.9 | 36.2 | 36.5 | 36.8 |
| Stone and coal interests | 37.2 | 37.9 | 46.0 | 49.5 | 50.5 | 48.0 |
| Deferred tax assets | 12.8 | 9.9 | 10.1 | 10.1 | 10.1 | 10.1 |
| Non-current receivables | 3.1 | 5.0 | 7.5 | 8.0 | 8.0 | 8.0 |
| **Total non-current assets** | **576.0** | **586.3** | **521.9** | **525.7** | **513.2** | **495.4** |
| **Current assets** | | | | | | |
| Inventories | 15.8 | 11.5 | 22.6 | 18.4 | 18.4 | 18.5 |
| Biological assets | 2.0 | 1.9 | 2.6 | 2.6 | 2.6 | 2.6 |
| Investments | 9.9 | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade and other receivables | 42.6 | 39.3 | 50.7 | 50.7 | 52.8 | 49.8 |
| Cash and cash equivalents | 24.6 | 5.5 | 26.3 | 3.6 | 4.5 | 9.3 |
| **Total current assets** | **94.8** | **61.0** | **102.2** | **75.3** | **78.2** | **80.3** |
| **Total assets** | **670.9** | **647.3** | **624.1** | **601.0** | **591.4** | **575.7** |
| **Current liabilities** | | | | | | |
| Trade and other payables | -43.4 | -62.2 | -59.8 | -56.4 | -55.2 | -55.6 |
| Current tax liabilities | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bank loans | -28.6 | -28.1 | -14.0 | -13.6 | -19.0 | 0.0 |
| Sterling notes | -10.1 | 0.0 | 0.0 | -38.2 | 0.0 | 0.0 |
| US dollar notes | -20.0 | 0.0 | 0.0 | 0.0 | 0.0 | -26.7 |
| Other loans and payables | -0.5 | -10.5 | -0.7 | -4.0 | 0.0 | -10.5 |
| **Total current liabilities** | **-103.0** | **-100.8** | **-74.5** | **-112.3** | **-74.2** | **-92.8** |
| **Non-current liabilities** | | | | | | |
| Bank loans | -97.8 | -97.0 | -117.0 | -108.3 | -109.3 | -129.3 |
| Sterling notes | -37.0 | -41.4 | -38.2 | 0.0 | -38.2 | -38.2 |
| US dollar notes | -23.6 | -23.6 | -23.7 | -26.7 | -26.7 | 0.0 |
| Deferred tax liabilities | -80.8 | -79.6 | -79.2 | -80.0 | -82.5 | -85.1 |
| Other loans and payables | -19.0 | -28.1 | -30.1 | -34.4 | -34.4 | -24.0 |
| **Total non-current liabilities** | **-258.3** | **-269.7** | **-288.3** | **-249.4** | **-291.1** | **-276.5** |
| **Total liabilities** | **-361.3** | **-370.6** | **-362.8** | **-361.7** | **-365.3** | **-369.4** |
| **Equity** | **309.5** | **276.7** | **261.3** | **239.3** | **226.1** | **206.3** |

*Source: REA Holdings, Hardman & Co Research*

**Net indebtedness**

| | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| Net debt ($m) | 205.1 | 211.7 | 189.6 | 217.7 | 215.2 | 211.3 |
| Net debt/equity | 66.3% | 76.5% | 72.5% | 91.0% | 95.2% | 102.4% |

*Source: REA Holdings, Hardman & Co Research*

# Cashflow

- The company expects capex on PP&E for FY'19 to be lower than previously thought, and so we have reduced our estimate to $20.5m, from $22.9m.
- Management decision to defer its preference share dividend payments for FY'19 helps ease some of the pressure on cashflow. Without further information, we are assuming that the 2020 preference dividend will be resumed next year, and that the deferred 2019 dividend will be paid in 2021.

Cashflow

| Year-end Dec ($m) | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| **Operating profit/(loss)** | **-5.0** | **-2.2** | **-10.7** | **-2.1** | **11.0** | **17.2** |
| **Net cash from operating activities** | **2.6** | **19.7** | **-26.9** | **-2.7** | **13.6** | **27.1** |
| | | | | | | |
| Investing activities | | | | | | |
| Interest received | 1.7 | 0.0 | 0.1 | 0.3 | 0.0 | 0.0 |
| Net proceeds from disposal of PP&E | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net proceeds from disposal of assets | 0.0 | 0.0 | 2.8 | 0.0 | 0.0 | 0.0 |
| Purchase of PP&E | -31.1 | -32.0 | -23.8 | -20.5 | -9.1 | -8.7 |
| Purchase of intangible assets | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure on land titles | -0.4 | -0.9 | -1.0 | -1.0 | -1.0 | -1.0 |
| Investment in stone and coal interests | -1.9 | -0.7 | -5.6 | -3.5 | -2.5 | -0.5 |
| Income from investment | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 3.0 |
| **Net cash used in investing activities** | **-31.6** | **-33.7** | **-27.5** | **-24.7** | **-11.1** | **-7.2** |
| | | | | | | |
| Financing activities | | | | | | |
| Preference dividends paid | -7.4 | -7.8 | -8.4 | 0.0 | -8.0 | -16.1 |
| Ordinary dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayment of borrowings | -11.0 | -6.8 | -105.8 | -9.1 | -13.6 | -19.0 |
| Repayment of borrowings from related parties | 0.0 | -7.4 | -19.9 | 0.0 | 0.0 | 0.0 |
| Net proceeds of issue of ordinary shares | 13.0 | 0.0 | 0.0 | 5.9 | 0.0 | 0.0 |
| Net proceeds of issue of preference shares | 0.0 | 10.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net proceeds of issue of dollar notes | -0.1 | 0.0 | 0.0 | 3.0 | 0.0 | 0.0 |
| Redemption of dollar notes | 0.0 | -20.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Redemption of sterling notes | 0.0 | -11.2 | 0.0 | 0.0 | -38.2 | 0.0 |
| Net proceeds of issue/sales of sterling notes | 1.9 | 0.0 | 0.0 | 0.0 | 38.2 | 0.0 |
| Purchase of sterling notes | 0.0 | 0.0 | -1.3 | 0.0 | 0.0 | 0.0 |
| Proceeds of sale of investments | 0.0 | 7.1 | 2.7 | 0.0 | 0.0 | 0.0 |
| Proceeds of sale of shareholding in subsidiary | 14.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds of issue of shares with related party | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 0.0 |
| New borrowings from non-controlling shareholders and related parties | 12.4 | 24.0 | 13.4 | 3.5 | 0.0 | 0.0 |
| New bank borrowings drawn | 14.9 | 6.4 | 119.8 | 0.0 | 20.0 | 20.0 |
| Repayment of balances from divested subsidiary | 0.0 | 0.0 | 50.0 | 0.0 | 0.0 | 0.0 |
| Settlement of bank loan by purchaser of subsidiary | 0.0 | 0.0 | 24.7 | 0.0 | 0.0 | 0.0 |
| **Net cash used in financing activities** | **37.8** | **-4.9** | **75.5** | **4.8** | **-1.6** | **-15.1** |
| | | | | | | |
| **Net increase in cash** | **8.9** | **-18.9** | **21.1** | **-22.7** | **0.9** | **4.8** |
| Cash b/f | 15.8 | 24.6 | 5.5 | 26.3 | 3.6 | 4.5 |
| Effect of exchange rate | 0.0 | -0.2 | -0.3 | 0.0 | 0.0 | 0.0 |
| **Cash balance c/f** | **24.6** | **5.5** | **26.3** | **3.6** | **4.5** | **9.3** |

*Source: REA Holdings, Hardman & Co Research*

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