



Source: Thomson Reuters Eikon

Market data	
EPIC/TKR	RE.
Price (p)	339.4
12m High (p)	366.0
12m Low (p)	218.3
Shares Ord (m)	40.5
Shares Prefs (m)	63.6
Mkt Cap Ord (£m)	137.4
Mkt Cap Pref (£m)	63.6
EV (£\$)	453.2
Free Float*	33.9%
Market	Main

*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

Chairman David Blackett
 Managing Director Carol Gysin
 +44 (0)20 7436 7877
www.rea.co.uk

Key shareholders

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

Next event

April-17 2016 Full Year Results

Analysts

Doug Hawkins 020 7929 3399
dh@hardmanandco.com
 Yingheng Chen 020 7148 0547
yc@hardmanandco.com
 Tom Wigglesworth 020 7148 4742
tcw@hardmanandco.com

R.E.A. Holdings

Trading Update 2016 Year

The effects of the extremely dry conditions impacting East Kalimantan during 2014 and 2015, can be seen in a 22% reduction in group harvests and more than a 29% reduction in 3rd Party supplied FFB. Yet 5,700 ha of new planting was achieved, taking the total planted area to a whisker under 42,800ha at end December 2016.

- **Strategy:** REA Kaltim (REAK), the principal division of REA, is developing a land bank of some 108,000 ha in East Kalimantan. At the current, accelerated rate of development, the proprietary plantations should be completed by 2020 at circa 60,000 ha. With some 6,600 ha of plasma plantations supplying its mills, REAK should have finished 2016, within the top 20 producers.
- **Renewable Energy:** With a high-end profit margin (35%-50%), on supply of sustainable electricity from palm oil mill effluent, this distinct activity is on course for \$0.8m of revenues in 2017 and has significant scope for growth. Although dependent on the palm oil operations for fuel, this almost unique activity within the sector, should enjoy an independent valuation.
- **Valuation:** In addition to a market capitalisation of some £137m for the REA Holdings' ordinary shares, investors can also choose to invest for superior income opportunity amongst the company's range of traded fixed interest securities. These securities include 9% Cumulative Preference shares with a market capitalisation in the region of £63m, a US\$ Note programme with an issue value of some £35m and offering a coupon of 7.5%, and two Sterling Note issues of £8.3m and £31.85m, with coupons of 9.5% and 8.75% respectively.
- **Risks:** Agricultural risk (as shown by the El Nino weather pattern in 2015/16), commodity price risk, and country risk are constants of palm oil production. 1H gearing, at 72.5%, reflects both a capital structure more biased to debt than equity, the impact of tough operating conditions and a drive for growth.
- **Investment summary:** REA is developing and operating high quality plantation assets to produce sustainable palm oil. Against the background of tightening land availability in Indonesia and gathering consolidation within the sector, new partner DSN has acquired a 15% stake in REAK, with scope to attain 49% within 5 years (subject to agreement on price and shareholder approval).

Financial summary and valuation					
Year End Dec (\$m)	2013	2014	2015	2016E	2017E
Sales	111	126	91	88	124
EBITDA	39	43	15	19	41
Reported EBIT	27	32	-4	0	21
Pre-tax Profit	25	24	-9	-10	7
EPS (cents)	16	40	-53	-40	-10
Dividend per share (p)	7.25	7.75	0.00	0.00	4.00
Net (debt)/cash	-164.4	-179.2	-196.7	-206.0	-209.9
P/E (x)	20.9	8.2	-	-	-
Planted Hectares (ha)	33,830	34,614	37,097	42,797	47,097
EV/ Planted Hectares (\$/ha) *	11,703	11,438	10,672	12,458	11,321
CPO Production (mt)	147,649	169,466	163,880	136,850	186,235

*EV/planted hectare includes Mkt Cap of the 9% Pref Share and DSN 15% Stake

Source: Hardman Agribusiness

Table of Contents

Trading Update 2016 Year	3
Palm Oil Operations Outlook 2017.....	4
Stone & Coal Operations	4
Publication of Results	5
Management Changes	5
Disclaimer	6
Hardman Team.....	7

Trading Update 2016 Year

On 21st February, REA issued a Trading Update for the 2016 year ending 31st December. The details are set out in the table below and compared with Hardman's forecasts for the period. As previously reported, the severe dry periods experienced in both 2014 and 2015 had a significant negative impact on the group's crop production in 2016, alongside that of other oil palm plantations in East Kalimantan and a number of other areas of South East Asia. Readers will note that with very strong rainfall during November and December in particular, the average rainfall across the estates is up 61%, 2016 on 2015.

The effects of the extremely dry conditions for East Kalimantan can be seen in a 22% reduction in group harvests and more than a 29% reduction in 3rd Party supplied FFB. In sum, the outcome for total FFB was only 1.5% below our expectations. Extraction rates whilst up on last year at 22.8%, were below our expectation of 23.8%, and this was likely due to the unusually heavy rainfall experienced in November and December 2016 which disrupted collection. These weather conditions towards the end of the year also explain the shortfall of group FFB production against our forecast. This weather pattern was truly unhelpful since cropping rates had started to recover from September onwards. However, the heavy rains meant that not all the crop could be harvested.

Operational Update					
Year To 31st December	2016	2015*	Change (%)	Hardman 2016 Forecast	2016 Actual Variance From Forecast (%)
FFB crops (tonnes):					
Group harvested	468,371	600,741	-22.03%	475,000	-1.40%
Third party harvested	98,052	138,657	-29.28%	100,000	-1.95%
Total	566,423	739,398	-23.39%	575,000	-1.49%
Production (tonnes):					
Total FFB processed	560,957	728,871	-23.04%		
CPO	127,697	161,844	-21.10%	136,850	-6.69%
Palm kernels	26,371	33,877	-22.16%	25,875	1.92%
CPKO	9,840	12,557	-21.64%	9,315	5.64%
Extraction rates (percentage):					
CPO	22.8%	22.2%	2.70%	23.8%	
Palm kernel	4.7%	4.7%	0.00%		
CPKO	34.7%	35.0%	-0.86%		
Rainfall (mm):					
Average across the estates	3,449	2,141	61.09%		

Source: REA Trading Statement 21st February 2017/ Hardman Agribusiness

Landbank Development					
Development Progress	2016	2015	Change (%)	Hardman 2016 Forecast	2016 Actual Variance from Forecast (%)
Cleared, not yet planted at 1 January 2016 (ha)	2,700				
Cleared during the period (ha)	4,600				
Cleared, not yet planted at end December, 2016 (ha)	1,600				
Planted during the period (ha)	5,700	2,251	153.22%	6,000	-5.0%

Source: REA Trading Statement 21st February 2017/ Hardman Agribusiness

As detailed above, development of the landbank progressed at an impressive rate during 2016, with 5,700 ha planted, up 153% on the previous year's achievement and another 1,600 ha cleared and ready for planting at the start of January. This means that REA Kaltim will have gone into the 2017 year with some 42,800ha planted. We had anticipated the year-end new planted area at 6,000 ha, but the weather conditions during the latter half of the year, may have crimped the opportunity to achieve this higher figure.

Palm Oil Operations Outlook 2017

The trading update confirmed that bunch formation across the plantations was 'promising'. The company reports that it appointed a new agronomy consultant at the beginning of 2017 and that work is now underway to strengthen the road infrastructure servicing the estates. With these measures in hand and bunch formation indications promising, the company indicates that it is "optimistic that monthly production will start to accelerate". The company is hoping that the benefit of improvements to operational infrastructure and efficiencies, will contribute to a good performance in 2017, all of which will be helped if CPO prices remain relatively stable.

The company is also anticipating that palm oil commodity prices will remain around current levels for the first half of 2017. The CIF Rotterdam CPO price closed at circa \$801/mt at end 2016, having started the year at circa \$570/mt. Tighter stocks, due to the sharp reduction in output due to the weather conditions referred to above, has seen the CPO price trade in a range between \$770 and \$860 per tonne since the beginning of 2017.

The company states that the plantation expansion programme is expected to make further progress in 2017.

Stone & Coal Operations

The company noted that arrangements for the resumption of coal mining at the group's PT Indo Pancadasa Agrotama ('IPA') concession near Kota Bangun, are well advanced and that a new contractor will be selected from a short list in the near future. Following a limited period for rehabilitation of the mine, it is intended that coal production will resume. REA confirms that the agreement already in place will

provide for a steady cash inflow to the group based upon prevailing coal prices but with an agreed floor.

Publication of Results

In line with the timetable adopted in previous years, REA expects that the final results for 2016 will be announced, and the annual report in respect of 2016 published, at the end of April 2017.

Management Changes

The announcement that REA had accepted the resignation of Mark Parry as managing director of the company, and as president director of PT REA Kaltim Plantations ('REAK'), REA's principal operating subsidiary in Indonesia, with immediate effect, has come as unwelcome news. Mark Parry has been seen to drive the development of the landbank and to tighten operating efficiencies across the palm oil business, so investors will be watching to see that the progress achieved by Mr Parry is maintained following his departure.

It would appear, from the company's statement, that Mr Parry decided to offer his resignation after apparently breaching strict Indonesian regulations around certain employment issues.

REA has appointed Carol Gysin as managing director of REA, based in London. Carol has worked for REA for the last eight years as group company secretary and is a Fellow of the Institute of Chartered Secretaries and Administrators. In addition, the shareholders of REAK intend to appoint George Kapitan as president director of REAK. George, who is an Indonesian citizen, is currently chairman of the board of commissioners of REAK but will relinquish that position on his appointment as president director of REAK. It is intended that David Blackett, chairman of REA, be appointed as chairman of REAK's board of commissioners in his place.

Disclaimer

Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.

The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/>

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly, we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.

Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.

This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.

This report may not be reproduced in whole or in part without prior permission from Hardman & Co.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.

*Hardman & Co Research Limited (trading as Hardman & Co)
11/12 Tokenhouse Yard
London
EC2R 7AS
T +44 (0) 207 929 3399*

Follow us on Twitter @HardmanandCo

(Disclaimer Version 2 – Effective from August 2015)

Hardman Team

Management Team

+44 (0)20 7929 3399

John Holmes	jh@hardmanandco.com	+44 (0)207 148 0543	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 148 0544	CEO

Marketing / Investor Engagement

+44 (0)20 7929 3399

Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Antony Gifford	ag@hardmanandco.com	+44 (0)7539 947 917
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)207 148 0546

Analysts

+44 (0)20 7929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Thomas Wigglesworth	tcw@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com
Jason Streets	js@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com
------------------	---------------------

Mining

Ian Falconer	if@hardmanandco.com
--------------	---------------------

Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com
Angus McPhail	am@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Services

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Utilities

Nigel Hawkins	nh@hardmanandco.com
---------------	---------------------

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

