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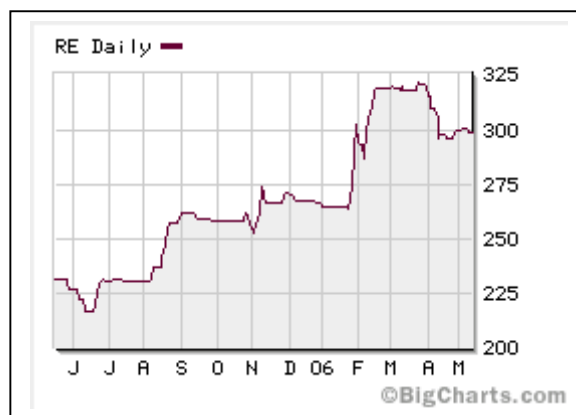
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REA Planting the seeds for growth 290p 24 May 2005



Full year profits under IFRS Accounting Standards were ahead of our expectations, and the Chairman's Statement suggests 2006 will be another 'satisfactory' year for the group. Key points are:

- A reduction in top-line growth was more than compensated for by a significant rise in the value of the group's biological assets, now taken through the p & l account.
- The business generated £8m of cash from operating activities last year.
- £10.24m of new equity capital raised to date should take care of funding needs to end December 2007.
- The new plantings programme appears to be making good progress and will multiply the size of the planted hectareage by two-thirds by end 2007. Crop output volumes could more than double from present levels by 2010.
- The post-year end settlement of the New York legal action improves the risk profile and frees up valuable management time.
- CPO prices have recovered from mid-2005 lows, and look well supported at current levels given the expanding market for bio-fuels.
- Current year crop levels are ahead of expectations so far.

We are upgrading our 2006 pre-tax profit estimate and expect further strong growth from now till the end of the decade.

Share Price: 290p

12m High: 325p

12m Low: 215p

Market Cap: £89.6m

Shares in Issue: 30.9m (fully diluted)

Gearing: 20.48 / 44.13 = 46% (2005 actual)

Gearing to date: 74%

Interest Cover: 4.3X (2005 actual)

EPIC Code: RE.

SEDOL No: 234906

Sector: Food producers and processors

Market: London Full List (FTSE Fledgling)

Broker: Mirabaud Securities

Website: www.rea.co.uk

Previous Research Note: 31.1.06 'Legal dispute resolved and trading update'.

Analyst: Sonia Kaur

Y/E	Sales £m	Declared Profit £m	Adjusted Profit £m	Fully diluted Eps p.	P/e ratio	Divi p.	Yield %
2004A	16.05	9.19	9.19	18.0	16	-	-
2005A	14.94	9.62	9.62	16.7	17	-	-
2006E	17.88	10.91	10.91	22.2	13	-	-
2007E	21.70	14.0	14.0	29.2	10	-	-

Full Year Results

The full year results to end December 2005 have been presented under IFRS Accounting Standards. They show sales down 7% to £14.9m as the average price of palm oil, FOB East Kalimantan, fell from \$385/tonne to \$333/tonne. Crop volumes at 313,355 tonnes were 6% ahead of last year and we understand current year crop levels are ahead of expectations so far.

As expected, the IFRS gain on revaluation of biological assets was substantial. This rose from £3m to £4.1m and in our best estimate could rise to as high as £5.6m in 2006.

Pre-tax profits, up 5% at £9.6m, were better than we expected and would have been higher still were it not for one-off costs totalling £1.2m in respect of the post-year end settlement of group's legal action in New York. It should also be borne in mind that the 2004 figures benefited from a gain on a financial transaction of £0.7m which was not repeated in the 2005 calendar year.

The tax charge in these latest results is abnormally high at 35%. It reflects movements in the deferred tax accounts and has artificially held back growth in earnings per share. Tax actually paid in the year amounted to just £79k as REA still has substantial carried forward tax losses (mainly due to capital and other expenditure). As expected, there is no dividend payable to ordinary shareholders and because of the massive investment in the extension planting programme it is likely to be some time before one is due.

Net debt stood at £20.5m at end December 2005, a £3m increase on the previous year, giving gearing of 46% if the preference shares are included as part of the equity. Group indebtedness will have risen significantly since then of course, because in January the company issued \$19m new 7.5% dollar denominated loan notes to acquire the minority interest in subsidiary company Makassar. Including an additional \$3m draw down on Indonesian consortium loan facilities, but excluding working capital borrowings and finance lease obligations, group indebtedness is currently c.£37.7m.

Two new share placings at 260p/share have raised a total of £10.24m in the current financial year to date, however. This takes some pressure off the balance sheet and together with increasing cash flows from the existing estate should be enough to fund the major planting programme currently underway to end December 2007.

In the meantime, the business continues to throw off plenty of cash. The net cash flow from operating activities last year was £8m, up from £4.7m in 2004 and we look for a further good rise in operating cash flow in 2006.

New Plantings Programme

REA's single site plantation in East Kalimantan, Indonesia currently has 13,085 H of substantially mature plantings. In 2004, an extension planting programme was resumed after a four year gap and by end December 2005 an additional 5,250 H of oil palm plantings had made it out to the fields. The original target was for an additional 7,000 H but delays to land clearing operations and heavy rains, particularly in Q4, pushed the group behind schedule.

Weather conditions permitting we expect the shortfall to be made up in the current financial year (with little effect on future crop levels). This means an additional 6,000 H of oil palm plantings by end December 2006 rising to an additional 7,000 H by end 2007. If management are able to hit these ambitious targets the size of the planted hectareage will have increased by over two-thirds in the space of two years.

Prospects

We are upgrading our 2006 pre-tax profit forecast from £10m to £10.9m to reflect the higher average US\$ FOB East Kalimantan CPO price/tonne. Certainly freight rates appear to have come off the boil in recent weeks, and in combination with an expanding market for bio-fuels we believe our current estimate of \$375/tonne looks well supported. 2006 should also see an improvement in yields and a good increase in crop output volumes, possibly to 353,400 tonnes, as the existing planted hectareage moves to full yield.

In 2007, crops from trees planted in the 2004 extension planting programme will start to come through for the first time. Palm oil prices and weather permitting we look for a strong rise in sales, profits and eps every year from now until the end of the decade.

REA Holdings

24.05.2006

Y/E December

Palm Oil Production

Year of Planting

Hectares

Theoretical Tonnes Yield

	<u>Planted</u>	<u>2001A</u>	<u>2002A</u>	<u>2003A</u>	<u>2004A</u>	<u>2005A</u>	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>
1994	500	10,000	12,500	14,000	14,000	13,000	14,000	14,000	14,000	14,000	14,000
1995	2,000	30,000	40,000	50,000	56,000	52,000	56,000	56,000	56,000	56,000	56,000
1996	2,300	18,400	34,500	46,000	57,500	57,500	59,800	62,100	62,100	62,100	62,100
1997	2,400	19,200	36,000	43,200	60,000	58,500	62,400	64,800	64,800	64,800	64,800
1998	5,000	0	40,000	65,513	100,000	120,000	130,000	135,000	135,000	135,000	140,000
1999	300	0	2,400	3,000	2,500	3,000	7,800	7,800	7,800	7,800	8,400
2000	900	0	0	1,000	3,883	9,355	23,400	23,400	23,400	23,400	25,200
2001	0		0	0	0	0	0	0	0	0	0
2002	0			0	0	0	0	0	0	0	0
2003A	0				0	0	0	0	0	0	0
2004A	3,000					0		24,000	45,000	60,000	75,000
2005E	2,250						0	0	18,000	33,750	45,000
2006E	6,000							0	0	48,000	90,000
2007E	7,000								0	0	56,000
2008E	4,500										
2009E	4,500										
2010E	4,500										
TOTAL THEORETICAL CROP				222,713	293,883	313,355	353,400	387,100	426,100	504,850	636,500
% Yield				24.9%	24.3%	23.4%	24.0%	24.0%	24.0%	24.0%	24.0%
Oil Tonnage Produced				55,456	71,473	73,262	84,816	92,904	102,264	121,164	152,760
Kernel Tonnage Produced		<u>34,000</u>	<u>59,000</u>	<u>10,022</u>	<u>12,169</u>	<u>12,647</u>	<u>15,903</u>	<u>17,420</u>	<u>19,175</u>	<u>22,718</u>	<u>28,643</u>
Total Palm Products Tonnes		34,000	59,000	65,478	83,642	85,909	100,719	110,324	121,439	143,882	181,403
Price Per Tonne US\$ FOB Borneo		286	391	370	385	333	345	380	380	380	380
Price per Tonne £UK		191	261	231	209	185	192	211	211	211	211
Palm Oil Revenue		0	0	12,824	14,955	13,553	16,256	19,613	21,589	25,579	32,249
Palm Kernel Revenue*		0	0	927	1,033	1,391	1,626	2,084	2,294	2,718	3,426
Cy Theoretical Turnover £000		0	0	13,751	15,988	14,944	17,882	21,697	23,883	28,297	35,676
Reported Fresh Fruit Crop		123,992	199,184	222,713	293,883	313,355	353,400	387,100	426,100	504,850	636,500
Reported Palm Oil tonnage		28,557	49,604	55,456	71,473	73,262	84,816	92,904	102,264	121,164	152,760
Extraction Rate		23%	25%	24.9%	24.3%	23.4%	24.0%	24.0%	24.0%	24.0%	24.0%

Figures from 2004 onwards have been calculated on an IFRS basis

Assumed exchange rate is £1 = \$1.80

* 4.5% yield @ 60% of Palm Oil price

REA Holdings

24.05.06

Y/E December
P & L Account

	<u>2001A</u>	<u>2002A</u>	<u>2003A</u>	<u>2004A</u>	<u>2005A</u>	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>
Reported Turnover £000	1,326	12,831	13,781	16,052	14,944	17,882	21,697	23,883	28,297	35,676
Cost of Sales	403	7,897	7,469	6,072	6,641	7,435	8,700	8,900	10,000	11,500
Gross Margin %	70%	38%	46%	62%	56%	58%	60%	63%	65%	68%
Administrative Expenses	1223	2,571	2,236	3,235	1,762	1,938	2,300	2,530	2,783	3,061
Admin as % of Sales	92.2%	20.0%	16.2%	20.2%	11.8%	10.8%	10.6%	10.6%	9.8%	8.6%
Other operating income	122	0	0	1,059	6	0	0	0	0	0
IFRS Biological Asset Adjustment				2,986	4,133	5,600	6,300	7,100	7,800	8,200
Profit/loss on asset disposals	448	-326	-257	0	0	0	0	0	0	0
Net Interest Charge In/Out	52	-581	-1,749	-1,599	-1,058	-3,200	-3,000	-3,100	-3,000	-3,000
Exceptional Item	0	0	0	0	0	0	0	0	0	0
Pre-tax Profit	427	1,456	2,070	9,191	9,622	10,909	13,997	16,453	20,314	26,315
Declared Pre-Tax Profit	427	1,456	2,070	9,191	9,622	10,909	13,997	16,453	20,314	26,315
Tax £000	147	49	345	2,654	3,323	3,273	4,199	4,936	6,094	7,894
Tax Charge* %	34%	3%	17%	29%	35%	30%	30%	30%	30%	30%
After Tax Profit	280	1407	1,725	6,537	6,299	7,636	9,798	11,517	14,220	18,420
Minority Interests	-59	-725	-383	-1,115	-1,014	0	0	0	0	0
Preference Dividends	-512	-512	-513	-639	-765	-765	-765	-765	-765	-765
For Ordinary Shareholders	-291	170	829	4,783	4,586	6,871	9,033	10,752	13,455	17,655
Cost of Ordinary Dividend	0	0	0	0	0	0	0	440	880	1,320
Retained Earnings	-291	170	829	4,783	4,586	6,871	9,033	10,312	12,574	16,335
Average No. of Shares	11346	12,628	16,385	19,755	22,631	29,340	29,340	29,340	29,340	29,340
Earnings Per Share										
Undiluted p.	-2.56	1.35	5.06	24.21	20	23.42	30.79	36.65	45.86	60.17
Dividend Per Share p.	0	0	0	0	0.00	0.00	0.00	1.50	3.00	4.50
Shares in Issue Fully Diluted		22,422	24,965	27,411	27,415	30,889	30,889	30,889	30,889	30,889
EPS Fully Diluted		0.76	3.75	18.0	16.73	22.73	29.24	34.81	43.56	57.16

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