

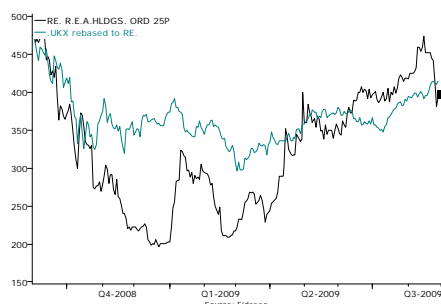
R.E.A. Holdings

Full year results review

386p

7 September 2009

Share Price: 386p



12m High: 485p

12m Low: 200p

Market Cap: £128.5m

Shares in Issue: 33.3m, fully diluted

NAV/Share: 522p (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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First half results from R.E.A. Holdings clearly highlight the negative impact of lower palm oil prices on both revenues and profits. The second half should be better, however, on account of rising output and an improvement in selling prices. Moreover, the resumption of the extension planting programme and recent progress on land titling issues mean we continue to be positive on the medium term outlook. Key points from the interim results release are:

- The average palm oil price for H109 was \$658m/t CIF Rotterdam, close to our own price forecast of \$640m/t but 44% below the H108 average of \$1168m/t.
- Profits were 61% below the previous first half but gross margins remained highly remunerative at 63%.
- Progress on the plantations has been satisfactory to date (i.e. end August) and management continue to forecast an 8% increase in the FFB crop for 2009.
- 2,000 H of land is set to be planted out this year, ramping up to 4,000 H in each of the following two years in light of positive developments on the land titling front. If achieved, the size of the planted hectareage will increase by 35% by end 2011.
- First revenues from the two new coal mining concessions acquired in H208 have been pushed back by c.6 months. As far as we can tell, the setbacks encountered are minor but we prefer to wait for further information before factoring the coal interests into our forecasts below.

For the current financial year to end December 2010, we have upgraded our turnover and dividend estimates and marginally reduced our 'adjusted' eps estimate excluding the fictional IFRS biological asset adjustment.

The palm oil price is unlikely to return to the speculative highs of 2008 but with global economic conditions improving, the current CIF Rotterdam price of \$700m/t certainly looks sustainable. This is good news for R.E.A and, weather and crops permitting, should result in a return to eps growth in 2010 and beyond.

Y/E	Crops	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield
December	tonnes	US\$m	US\$m	\$m	c/share		p.	%
2007A	393,217	57.6	47.0	39.0	73.0	8.5	2.00	0.5
2008A	450,906	79.6	36.3	39.0	77.2	8.0	3.00	0.8
2009E	486,575	69.3	34.2	31.2	59.9	10.3	4.00	1.0
2010E	534,050	78.1	39.3	36.3	71.0	8.7	4.00	1.0

The Interim Results

Indonesian-based palm oil producer R.E.A. Holdings has announced interim results for the six months to 30 June 2009. First half revenue of \$32.4m was 30% below the previous first half highlighting the impact of a 31% drop in the group's average selling price, from \$771m/t in H108 to \$530m/t in H109. Sales tend to be fixed 6 weeks in advance of deliveries so this first half average price includes little of the benefit of the rise in palm oil prices since April 2009. Gross profit in the latest half reduced from \$32.6m to \$20.5m, giving a gross margin on revenues of 63% vs. 70% in H109. Whilst the 2009 'Cost of Goods Sold' figure was 4% below the previous first half, benefiting from a reduction in fuel and fertiliser costs, this was not enough to outweigh the impact of the lower palm oil price.

Adjusting for the IFRS net gain on biological assets, which we view as preferable for comparative purposes, operating profit was down 55% to \$14.5m whilst adjusted pre-tax profit reduced by 61.6% to \$11.8m. Administration costs rose by a higher than expected 30% during the period, accounting for 16.6% of H1 revenues vs. our forecast of 8%. The reason for this was an increase in other charges - \$700k in negative exchange rate movements, \$671k in one-off pension contributions. Underlying administration costs, at \$4m, were 4.7% lower than the previous first half year and continue to be well managed. In spite of this steep fall in profits and cash flows - net cash generated from operating activities was down 66% to \$7.2m - the interim dividend has been increased from 1.5p to 2p/share.

A 33% increase in the interim dividend clearly signals management's confidence in future prospects

Progress on the Plantations

FFB crop output for the six months to 30 June 2009 was unchanged at 231,000 tonnes, and a satisfactory 2% below budget. R.E.A.'s crops tend to be second half weighted and with little evidence of an El Nino weather pattern, which can cause global weather chaos such as droughts and floods, having an early impact on palm oil production in Indonesia or on the REA estates we continue to forecast an 8% increase in the annual FFB crop for 2009.

Both the CPO and the palm kernel extraction rate were slightly ahead of H108, at 23.1% (23%) and 4.8% (4.5%) respectively. The group's average selling price, FOB Samarinda, of \$530m/t (H12008: \$771) was within 5% of our estimates and remains highly remunerative against an average production cost per tonne of c. \$300m/t. Currently, the group's FFB crop is transported by road from the fields to the group's oil mills by local contractors but by bringing this operation in-house through investment in additional vehicles and equipment, transport costs are expected to reduce by as much as 25% over the next two to three years.

Progress on the plantations continues to be satisfactory

This year's extension planting programme will see 2,000 H of new plantings make it out to the fields by end December 2009. Furthermore, encouraging progress on advancing the land titling process on four of the group's land allocations means the planting programme should be capable of increasing to 4,000 H in 2010 and again in 2011.

Forecasts

R.E.A.'s average selling price has firmed to \$600m/t in the second half and consequently we have conservatively increased our current year FOB price forecast from \$540m/t to \$560m/t. On the other hand, we have reduced our gross margin estimate by 1bps to 66%, increased our admin costs as a percentage of total sales estimate from 7.8% to 13.8% and increased our net gain on biological assets estimate, from \$0m to \$3m. As a result of these changes, we are increasing our FY2009 turnover estimate by 4% to \$69.3m but reducing our forecast of fully diluted eps ex the IRFS biological adjustment from 64p to 60p a share. Our new dividend forecast for 2010 is 4p/share, up from our previous forecast of 3.3p, in line with the clear indications given in the interim statement. For 2010, we have raised our turnover estimate by 6.4% whilst our adjusted eps estimate is virtually unchanged.

Our estimates for both years assume the current CPO price of \$700m/t is sustainable, an assumption which we believe is reasonable given continued strong demand from India and China and low global stock levels. Meanwhile, first revenues from the nascent mining operations have been delayed by 6 months and are now expected in FY10. These have not been factored into our estimates model as yet but should provide useful additional upside once production is in full swing.

R.E.A. Holdings

7 September 2009

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>	<p>Richard Robinow 30.79%</p> <p>Prudential 13.05%</p> <p>Alcatel Bell Pension Fund 12.30%</p> <p>Artemis UK Smaller Cos 5.9%</p>
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>

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