The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 31 March 2019 (3m/19)

- Unfavourable weather led to a 5.75% fall in total palm oil production during the first quarter;
- The Group expects this current trend to rebound in the course of the year, producing a positive growth figure;
- The palm oil market slowly recovered from the very low prices in the fourth quarter of 2018 and fluctuated around USD 540 per ton CIF Rotterdam during the first quarter;
- 37% of estimated 2019 palm oil production was sold at USD 586 per ton CIF Rotterdam, premiums included;
- Management is reasonably confident that the markets will rise, but remains cautious with regard to the unpredictability of possible external events;
- Cultivated areas have risen to 11 015 hectares in Musi Rawas in South Sumatra, Indonesia, where expansion continued steadily.

1 Interim management report

1.1 Group production

Group production

2019 *(in tonnes)*	Own	Third parties	Q1/19	YoY%	Own	Third parties	YTD Q1/19	YoY%
Palm oil	62 210	11 482	73 692	*-5,75%*	62 210	11 482	73 692	*-5,75%*
Rubber	2 049	0	2 049	*-10,68%*	2 049	0	2 049	*-10,68%*
Tea	738	0	738	*24,03%*	738	0	738	*24,03%*
Bananas	8 752	0	8 752	*19,63%*	8 752	0	8 752	*19,63%*

2018 *(in tonnes)*	Own	Third parties	Q1/18
Palm oil	66 509	11 676	78 185
Rubber	2 294	0	2 294
Tea	595	0	595
Bananas	7 316	0	7 316

The palm oil productions at the mature plantations in Indonesia experienced a tough start in the first quarter of 2019. At the older plantations of North Sumatra, the dry weather in February and March slowed down the ripening of the, nevertheless abundantly present, fruit (-6.7%), while the recovery at UMW/TUM after the fourth-quarter floods took longer than expected. As a result, for the time being volumes of UMW/TUM have only increased slightly (+3.3%).

There was a general delay in fruit bunch formation in the first quarter at Agro Muko in the province of Bengkulu (11.4%), after a very wet fourth trimester of 2018. However, the agricultural conditions returned to full normality in the opening months of the year.

Production at the new plantings of South Sumatra grew steadily (+101.0%) due to the increasing maturity of the planted hectares and favorable weather, which contributed to a better than expected first harvest from the hectares that will become mature in 2019. Only the older plantings at the Dendymarker plantations acquired in 2017 continued to produce below expectations, ahead of replanting with better palm seeds.

The average oil extraction rates (OER) for the Indonesian mills were comparable with the first quarter of last year, with the UMW/TUM palm oil mill again peaking at more than 24% and the Dendymarker mill, which processes all fruit from South Sumatra, already achieving an OER of 20%, compared with 15.1% in the first quarter of last year. The total produced palm oil volume in Indonesia fell by 2.8% compared with the first quarter of 2018.

The rainy season in Papua New Guinea was long and intense. Production was adversely affected by profuse rain from December to March, which topped 4 400 mm in the northernmost plantations of West New Britain Province in the first quarter. Bridges and roads were washed away, making it almost impossible to harvest the fruit and transport it in time to the three mills. With this in mind, production fell by 9.6% at the own plantations. Local farmers also found harvesting and transport difficult, but the processed volume was comparable with the poor level of the first quarter of last year (+3.5%). Due to the higher moisture content in the fruit, the OER of 22.2% was lower than last year (23.5%) and, as a result, the produced palm oil volume fell by 10.3% compared with the first quarter of 2018.

The Group's total palm oil production fell by 5.75% compared with the first quarter of 2018.

Rubber production for the Indonesian plantations fell by 10.7% compared with the first quarter of 2018, due to the Fussicoccum fungus that produced a more intense wintering period at the North Sumatra plantations this year (-24.4%), while production at Melania in South Sumatra was comparable with last year (-0.2%). Rubber production at Agro Muko in Bengkulu was down 12.5% on last year due to the high number of rain days, which disrupted morning tapping and the possible onset of the Fussicoccum fungus in this province for the first time.

There was a good increase in tea production at Cibuni in Java (+24.0%) for the first time in many years, as we again achieved the volumes we have experienced in the past, due to generally favourable weather.

The banana business in Ivory Coast returned to normal after an exceptionally poor production year in 2018, with higher volumes at all four plantations, resulting in a 19.6% rise in export production compared with the first quarter of last year.

1.2 Markets

Average market prices

In USD/tonne		YTD Q1/19	YTD Q1/18	YTD Q4/18
Palm oil	CIF Rotterdam*	540	674	598
Rubber	RSS3 FOB Singapore**	1 656	1 733	1 565
Tea	Mombasa**	2 187	2 917	2 579
Bananas	FOT Europe***	686	766	647

** Oil World price data*
*** World bank commodity price data - updated database*
**** CIRAD price data (in EUR)*

The palm oil market recovered slowly from the very low prices in the fourth quarter 2018, as the production peak was behind us and demand has been rather good. However, whereas the production in Indonesia was falling sharply, partially impacted by the very dry weather, in Malaysia production remained seasonally strong till February. Exports during the first quarter were also not as high as expected, because stocks in many destinations were filled to the brim, as a result of the buying wave in the fourth quarter in response to low prices. As a result, the stocks in Malaysia and Indonesia stayed above expectations. On a positive note, the Indonesian biodiesel volumes were increasing and the B20 (20% blending) has already been reached. It is currently being debated when the Indonesian government will be increasing to B30, which could be expected in the second half of the year. Another positive governmental decision was to leave the export levies at zero till May, as the current Palm Oil – Gas Oil (POGO) spread allowed for zero subsidies for the biodiesel industry.

The US-China trade war continues, and the impact on global economic growth is certainly becoming evident. The strong dollar is another factor that is not helping the price of palm oil.

The palm oil market has been hovering around USD 540 per tonne CIF Rotterdam, but it is gradually coming off a little with spot discounts, due to the high stocks in destinations.

The palm kernel market showed its volatility again, trading at USD 775 at the beginning of January, dropping to USD 615 at the beginning of March, and rising back to USD 700 at the end of the quarter. The high stocks of palm kernels and palm kernel oil (PKO) became burdensome in the origin.

The rubber market showed some signs of revival in the first quarter, which is usually impacted by the wintering in Thailand and Vietnam. The Tripartite of the governments of Thailand, Malaysia and Indonesia, decided to limit the export volumes to support the prices. These factors triggered a 20% price rally, but physical activities remained slow.

Prices for SICOM RSS3 traded from USD 1 543 in January to USD 1 787 in the middle of March, but dropped off slightly to USD 1 650 at the end of the quarter, due to a lack of physical buying interest.

Tea production in Kenya has not shown any signs of subsiding during the first quarter of 2019. Continued high production in Kenya combined with a substantial carry forward of stock at the end of last year has resulted in prices dropping during the first quarter. Prices are now at a 4-year low.

1.3 Prospects

1.3.1 Productions

The outlook for palm oil production in the second quarter remains moderately positive, with better weather at the mature plantations in North Sumatra, which will accelerate the ripening process. However, due among other things to the Muslim festival of Eid al-Fitr, the shortfall that mounted up for various reasons in the first quarter will not be made up in the following months at any of the mature Indonesian production centres. The production expectations for South Sumatra remain good with rising production at the already more than 2 200 mature hectares at the young Musi Rawas plantings.

The intense rainy season at Hargy Oil Palms in Papua New Guinea have also ended, with fruit harvests and transport returning to normal and the OERs rising once again to the usual >23%. Production is expected to pick up here, though the first-quarter shortfall will not be made up.

Due to the difficult start to the year and the resulting lower production volumes in the first quarter, the production expectations for 2019 are likely to remain out of reach for some time, before a positive growth figure is gradually achieved in the course of the year. However, it currently remains unclear whether the Group will be able to achieve the previously announced production volume of 380 000 tons of crude palm oil (+8.0% compared with 2018).

The Fussicoccum fungus is also expected to have a negative impact on rubber production in the second quarter, but tea production will continue to grow steadily. Banana production remains positive compared with last year and will peak in the second quarter, in line with the annual rise in demand from Europe.

1.3.2 Markets

The palm oil market is still suffering from high destination stocks, a heavy oilseed picture and a macro-environment that is rather unstable, with the US-China trade war continuing. Once the stocks situation is solved in Malaysia, the palm fundamentals could be rather friendly if the disappointing production numbers continue like the Indonesian production. The positive palm forecast will depend strongly on the impacts of the oilseed market and the macro environment. A lack of clarity on the trade war could also impact the US planting season which is commencing. The current ratio would favour more corn planting versus soybeans, but that could still change depending on prices and the weather. Furthermore, the vegetable oil market keeps looking at the gasoil prices, as discretionary blending is within reach and could be a significant buying power in this market. Management is reasonably confident that the markets will rise but remains cautious with regard to the unpredictability of possible external events.

The rubber market, despite coming off its recent highs, has shown some resilience at the current market prices. It seems that the market realised it could not continue running at the low prices of 2018. However, fundamentally there is no reason to expect further strength in the rubber market, unless the Tripartite is able to come up with a more convincing plan to support prices.

Mombasa tea auction quantities remain at a record high, allowing buyers to pick and choose teas. This is detrimental for tea prices; however, it seems the market has found the bottom at current levels, although we do not expect prices to improve significantly given the current stock position.

1.3.3 Results

On a stable but low market, where normality is being re-established after the high stock volumes at the end of 2018, we have now sold 37% of the expected palm oil production for 2019 at an average price of USD 586 per ton CIF Rotterdam equivalent, premiums for sustainability and origin included. That is USD 152 per ton lower than the average price of USD 738 per ton at the same time last year, when 50% of the volumes had already been achieved.

Bearing in mind the somewhat better price expectations for sales from the second quarter of the year, the Group would like to respond to the current market trends and will gradually put volumes on the market at prices in excess of USD 570 per ton CIF Rotterdam, premiums included.

Given the uninspiring outlook on the rubber markets, 26% of the expected rubber volumes was sold at an average price of USD 1 502 per ton, compared with 24% at USD 1 676 per ton in the same period the previous year.

Approximately 50% of the tea volumes were sold at average market prices of USD 2 500 per ton, a fall of 10.7% compared with USD 2 800 per ton at the same time last year, when 46% of the expected volumes had already been contracted.

We continued our marketing strategy for the sale of bananas, with primarily fixed prices for the whole year, in 2019 through deliveries to the UK, France and Spain for the best qualities and to West Africa for the other volumes.

To a great degree the ultimate recurring result will be determined by the achievement of the expected production growth, the level of the market prices for the rest of the year, the retention of the existing export levies on palm oil in Indonesia and the trend in cost prices. In spite of compulsory increases in worker wages and a stronger oil price, these are still positively impacted by the continuing low rates of the local currencies in Indonesia and Papua New Guinea compared with the reporting currency, USD.

1.3.4 Cash flow and expansion

At Musi Rawas the original four concessions were enlarged last year by the addition of three acquired concessions. The development of the seven existing concessions continues successfully and the appropriate assessments have been conducted to ensure these enlargements comply with the RSPO's sustainability standards (New Planting Procedures). The Group hopes to begin planting these three recently acquired adjacent concessions in the second half of the year.

Over the past quarter, an additional 334 hectares were compensated and an additional 362 hectares prepared for planting or planted, bringing the total to 11 015 cultivated hectares. That is 69.4% of the total of 15 876 compensated hectares, of which 13 567 hectares acquired for planting for own development and 2 309 for smallholders. There are now more than 2 200 hectares in production and the harvested fruits are all processed at the own palm oil factory in Dendymarker, which will therefore be used optimally in 2019. As well as the enlargement of the planted areas, the investment focus is oriented to the development of the internal road network and the residential centres for the workers and local management.

In conclusion, the acquisition of Dendymarker in 2017 and the additional concessions at Musi Rawas in 2018 have cleared the way for the development of the SIPEF Group over five years into a company with approximately 100 000 hectares, including 80 000 hectares that have already been planted, and with a supply base of approximately 120 000 hectares. In spite of the lower market prices for palm oil, the Group remains faithful to its intention to renew the old Dendymarker plantings and develop the Musi Rawas concessions. Depending on the generated cash flows over the rest of the year this replanting and expansion programme shall possibly temporarily be delayed in order to avoid increasing the debt ratio.

Translation: this press release is available in Dutch and English. The Dutch version is the original; the other language version is a free translation. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

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SIPEF is a Belgian agro-industry group listed on Euronext Brussels and specialised in the – as sustainable certified - production of tropical agricultural commodities, primarily crude palm oil and palm products. These labour-intensive activities are consolidated in Indonesia, Papua New Guinea and Ivory Coast and are characterised by broad stakeholder involvement, which sustainably supports the long-term investments.