The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 30 September 2020 (9m/20)

- So far, Covid-19 has had no significant direct negative financial impact on the operational activities of the SIPEF group, except for the effect of a sudden sharp drop in the price of palm oil in the second quarter.
- The total palm oil production of the Group grew by 5.3% compared to the first nine months of last year; this growth should continue in the fourth quarter.
- On the Indonesian estates a favourable precipitation pattern in the third quarter mitigated the expected negative impact of the drought of mid-2019.
- In Papua New Guinea, the recovery from volcanic eruptions is progressing favourably; a 48.4% increase in own fruit production was already recorded in the third quarter compared to the catastrophic third quarter of 2019.
- Demand for palm oil, both for food and biodiesel applications, remained strong in the third quarter with a price recovery to levels above USD 700 per tonne CIF Rotterdam as a result.
- To date, the Group has sold 94% of the expected palm oil production for 2020 at an average price of USD 703 per tonne CIF Rotterdam equivalent, premiums included.
- Based on these sales and recent market conditions, SIPEF expects a return to profit, with a recurring consolidated result after tax which is anticipated to be between USD 10 and 15 million at year end.
- The investment programs related to the expansion in South Sumatra, Indonesia, continued steadily with an increase in Musi Rawas from 1 340 cultivated hectares to a total area of 13 543 hectares by the end of September 2020. In addition, 4 210 hectares have already been replanted in the nearby Dendymarker plantation.

1. Group production

Group production

2020 *(in tonnes)*	Own	Third parties	Q3/20	YoY%	Own	Third parties	YTD Q3/20	YoY%
Palm oil	72 011	12 648	84 659	*4.76%*	202 905	44 122	247 027	*5.34%*
Rubber	1 170	192	1 362	*-7.47%*	3 957	451	4 408	*-8.85%*
Tea	500	19	519	*15.85%*	1 978	19	1 997	*13.47%*
Bananas	7 636	0	7 636	*1.03%*	23 805	0	23 805	*-1.98%*

2019 *(in tonnes)*	Own	Third parties	Q3/19	Own	Third parties	YTD Q3/19
Palm oil	70 976	9 833	80 809	199 054	35 451	234 505
Rubber	1 233	239	1 472	4 301	535	4 836
Tea	448	0	448	1 760	0	1 760
Bananas	7 558	0	7 558	24 286	0	24 286

Coronavirus has had no significant impact on the Group's productions, despite the continuing pressure of the virus on the daily management of plantations and mills in all countries and activities in which SIPEF is present.

The expected delayed negative impact of the drought in the middle of last year on the production of the third quarter of 2020 was mitigated by a very uniform precipitation pattern in most plantations in Indonesia. Indeed, such a pattern favours the vegetative development of the palms and supports fruit production.

As usual, volumes of fruit and oil increased in all plantations in the third quarter, compared to the two previous trimesters. However, this was not the case for the older plantations at Agro Muko in Bengkulu, where the impact of the drought of the middle of last year was felt the most.

Compared to the third quarter of last year, harvests in the mature plantations in North Sumatra also remained sub-standard (-5.5%) due to this drought. The temporary decrease in fruit production volumes in South Sumatra in comparison with the third quarter of last year (-3.4%), was the direct result of the accelerated replanting of the old Dendymarker plantations. After all, the growing harvests on the young plantations in Musi Rawas could not yet match the production level of the replaced old plantations.

In the mature plantations of UMW/TUM in North Sumatra, production again increased against the previous two quarters and compared to the third quarter last year (+11.1%). This is encouraging, all the more so because for two years in a row the bunch weights of these plantations had dropped because of an imbalance in fertilisation.

Due to the even and abundant precipitation compared to the 10-year average, the oil extraction rates (OER) at the Sumatra mills are generally slightly lower than last year. An exception is the Dendymarker mills in South Sumatra, where the supply of high-quality fruits from Musi Rawas is gradually replacing the low-oil fruits from the old Dendymarker plantations. Due to the lower extraction rates, the 3.4% growth in own fruit harvest volumes in the first nine months of the year is not fully reflected in the oil volumes produced. These increased by 1.8% compared to the same period last year.

In Hargy Oil Palms in Papua New Guinea, its own production areas are still recovering from last year's three volcanic eruptions. Approximately 3 000 hectares still produce significantly lower volumes of fruit. Compared to the catastrophic production volumes of the third quarter of last year, an increase of 48.4% has now been recorded. However, the annual volume is still 3.3% lower than that of the first nine months of 2019.

Smallholders have suffered less from ash precipitation due to the location of their plantations. As a result, they were able to offer higher fruit volumes for both the third quarter (+22.0%) and the full nine months (+16.2%) for processing in the Group's three mills there.

The normalised weather pattern in Papua New Guinea enabled the Group to return to the favourable extraction rates of 24.4% for the first nine months of the year, compared to 23.0% last year. As a result, the volume of oil produced increased by 11.3%, which is reasonably higher than the growth of the fruits supplied (+4.7%).

The Group's total palm oil production grew by 4.8% and 5.3% respectively, compared to the third quarter and the first nine months of last year.

The favourable weather pattern ensured that, percentage wise, the own rubber production in North and South Sumatra did not deteriorate further in the third quarter of 2020. Nevertheless, the Group's annual production over the first nine months decreased by 8.9%. This is mainly due to the Pestalotiopsis fungus, which continues to disrupt rubber activities in Southeast Asia, affecting this year's production mainly in Bengkulu province (-23.6%).

Tea production in Cibuni, on the island of Java, including recent purchases from smallholders, showed continued growth in both the third quarter (+15.9%) and the first nine months of the year (+13.5%). This was due to a favourable precipitation pattern, fully in line with the 10-year average.

In Ivory Coast, the slowdown in the ripening process in the second quarter, led to a 1.0% increase in banana production volume in the third quarter, compared to the same period last year. However, on an annual basis, production still remains 2.0% lower than the first nine months of last year. This reduction is mainly due to the gradual decline in the first high yields of the most recently planted Azaguié 2 plantation, which is now evolving to a normal replanting rate.

2. Markets

Average market prices

In USD/tonne		YTD Q3/20	YTD Q3/19	YTD Q4/19
Palm oil	CIF Rotterdam*	666	530	566
Rubber	RSS3 FOB Singapore**	1 547	1 672	1 640
Tea	Mombasa**	2 017	2 211	2 226
Bananas	CFR Europe***	643	662	662

** Oil World Price Data*
***World Bank Commodity Price Data (updated database)*
**** CIRAD Price Data (in EUR)*

The third quarter was dominated by good palm oil exports, with consuming countries replenishing stocks after the coronavirus lockdown. Malaysian palm oil production peaked in June this year, and stayed quite flat during all months of the third quarter, and due to good exports, the stocks stayed around 1.7 million tonnes. The stocks-to-use ratio implied there were less than four weeks of stocks in the tanks in Malaysia, and there has therefore been an inverted price market. Also, Indonesian production remained below its usual yield pattern and could not bring any relief.

China remained a strong buyer, not only of palm oil but across the agricultural commodities, restocking after the lockdown where the economy is recovering strongly. India was also a big importer, but more hand-to-mouth; they were certainly looking forward to the upcoming festive season. In general, demand was really good from most importing countries.

In addition, Indonesian domestic consumption remained strong, and the biodiesel volumes to fulfil the B30 blending program stayed at par. There is quite some debate about who will finance the gap between palm oil and gasoil to justify such blending, and the export levy was already increased by 10%, but the government seems to be determined to keep the blending target at B30.

A considerable amount of strength in the palm oil market was borrowed from sunflower oil, where significant yield reductions led to a very tight oil picture. Some big sunflower oil importers switched to other oils, from which palm oil certainly benefited. On top of that, the soybean complex has tightened as well, due to very strong imports from China. Latin America is virtually sold out and now the world depends on US soybean availability.

The price of palm oil rallied strongly from USD 585 per tonne at the beginning of July to USD 770 per tonne by mid-September, before closing the quarter at USD 710 per tonne.

The palm kernel oil (PKO) market was recovering as well from the coronavirus-driven lows of the second quarter, but certainly not at the same pace as palm oil. The relative higher stocks of kernels and palm kernel oil continued to hang over the market. The PKO market rallied from USD 650 per tonne to USD 750 per tonne, but stayed rather subdued.

The rubber market was gradually experiencing some more demand, predominantly from the recovering Chinese automobile industry after the coronavirus lockdown. Initially it was eating into the physical stocks but, once the Thai and Vietnamese production was dropping off due to bad weather, the consumers and traders had to start buying physical rubber. Most of them were taken by surprise, and this short covering added fuel to the rally.

Prices of Sicom RSS3 continued to rise from USD 1 380 per tonne in early July to USD 1 820 per tonne by the end of September. However, it took until September to translate into some physical demand.

Prices in the Mombasa tea auction, the Company benchmark, moved up during most of the third quarter, but have come down from their peak to end the quarter 10% above the levels at the start of the quarter. More demand was experienced in the Mombasa auction as a lower output in India added some demand. However, the year-to-date crop in Kenya still showed a massive increase of 34.16%, keeping a lid on the price rally.

The coronavirus crisis continues to disrupt the normal import/export flow of bananas. Partly due to the weakening USD against the euro, the 'dollar' producing countries continue to send more volume to Europe than was usual before. Therefore, the third quarter has been characterised by lower market prices for quality bananas in Europe.

3. Prospects

3.1. Covid-19 effects

So far, covid-19 has not had a significant direct negative financial impact on the operational activities of the SIPEF group.

All production units in the Group have remained operational, with no loss of volumes or yield per hectare. The negative effects on the world market for commodities (palm oil, rubber and tea) for the Group have mainly been limited to a previously reported sudden drop in the price of palm oil, with a low point in the month of May. Meanwhile, the price recovered nicely in the third quarter. This is also the case for the market prices of natural rubber.

Nevertheless, on a humanitarian level, it remains quite a challenge to protect the very numerous staff members and their families against infection as well as possible. For each country, internal measures have been enacted that are often more far-reaching than the restrictions imposed by the local authorities. Only by avoiding movements that are not strictly necessary and thanks to internal quarantine procedures, can large-scale contamination be prevented.

However, due to the travel restrictions, a further delay has been observed in a number of industrial investment projects, such as the expansion of the Dendymarker palm oil mill in South Sumatra, the establishment of a 'biocoal' factory for pellets from palm fibres in North Sumatra, and the further optimisation of industrial processes in the mills of the SIPEF group. All these projects will therefore only be realised in 2021.

Further discussion of the prospects cannot take into account possible additional measures taken by the authorities to limit the spread of covid-19, that are not yet known today.

3.2. Production

Prospects for palm oil production in Indonesia for the fourth quarter are rather favourable.

It is expected that the delayed effects of the drought of 2019, which negatively affected the third quarter in particular with lower than expected bunch weights, will possibly be compensated by the favourable effects of the "La Niña" weather patterns, resulting in higher than normal precipitation. This positive effect was already observed in September and should continue in the fourth quarter.

For Hargy Oil Palms in Papua New Guinea, the usual increase in production is expected in the fourth quarter. This will certainly also be higher than that of the same period last year, when the effects of the volcanic eruptions were more prominent. The reintroduction of the affected areas to production is taking place gradually, and it is only in 2022 that their production figures will reflect their full potential again.

With growth limited to 5.3%, compared to the same period last year, over the first nine months, despite relatively favourable growth expectations for the fourth quarter, it seems unlikely that the 10% increase in annual volumes announced at the beginning of the year will be achieved. On the other hand, the growth rate for the full year 2020 is expected to exceed the reported level of 5.3%.

The Pestalotiopsis fungus will further affect the Group's rubber production in the fourth quarter, while tea production, if favourable weather conditions are maintained, will continue to grow compared to last year. Banana production is expected to be close to the 2019 volume by the end of the year.

3.3. Markets

The palm oil market has a solid supply and demand outlook. Production has been below its usual trend due to lower fertiliser application in 2018 and 2019, as well as a dry weather spell in 2019. Current wet weather due to “La Niña”, mainly should benefit the yields in the course of 2021. However, stocks are at their lowest level since 2016, and the crop is past its peak. It is unlikely that stocks will significantly rise in the coming six months.

Exports have been phenomenal and are expected to remain solid, as the importing countries are still in a replenishing mode. Competitive vegoils are also looking at a tight environment, due to crop problems in sunflower oil, rapeseed oil as well as a tight soybean complex. The planting weather in Latin America has been suffering from a dry spell and there is a significant chance of impacted yields. However, the price elevation of soybeans in Brazil, and to a lesser extent Argentina, will likely lead to more acreage being planted. The magnitude of the crop development will need to be carefully judged in the coming months.

The two main caveats for the palm oil market are the impact of the second coronavirus wave, as well as the financing of the B30 biodiesel mandate in Indonesia. For the time being, it seems that full lockdowns, as experienced in the second quarter, will be avoided. The Indonesian government seems to be determined to support the B30 program, but it is still unclear how the huge spread between palm oil and gasoil will be financed. So far, the program is continuing close to its original plan, but it could have a serious price effect if there is no solution on the financing side.

Based on the current outlook, a robust price environment for the remainder of the year as well as 2021 is being confidently anticipated.

The rubber market has further rallied in the first weeks of the fourth quarter due to production problems and short covering. As long as the “La Niña” weather conditions prevail, it is likely that the tight production will provide sufficient support for the prices. The economic effect of the coronavirus pandemic could still play a negative role as long as the automobile industry does not pick up, but based on the current buying wave from Chinese industry it could revive quickly. Further price steadiness is being hoped for in the coming months but cannot overlook that the production being only temporarily affected.

“La Niña” is gaining strength and usually results in below normal rainfall in East Africa. Tea production in Kenya is likely to be affected as a result, but high stocks will have to be absorbed first before any significant price rally occurs. Prices are expected to move up moderately during the fourth quarter.

The usual rise in banana prices in Europe, at the start of school activities in September, was disrupted this year by the large supply of bananas from the dollar producing countries (Ecuador, Costa Rica, ...). As a result, the markets remained below normal levels during the month of October. In view of the lasting effects of the global pandemic, it is not certain that the markets will return to normal price levels in the fourth quarter.

3.4. Results

Because of the recovery of market prices in the last three months, SIPEF has so far been able to sell 94% of the expected palm oil production for 2020 at an average price of USD 703 per tonne CIF Rotterdam equivalent, including sustainability and origin premiums.

This price is USD 132 per tonne higher than the average price of USD 571 per tonne at the same time last year, when 88% of the expected volumes had been sold. SIPEF wants to respond to the volatility of market trends and gradually place the unsold volumes in the market. Given current price levels and expectations until year-end, sales of the remaining 6% of the annual production will slightly strengthen the market average of sales achieved so far.

As a consequence of the persistently low crude oil prices, there remains uncertainty about the monthly export tax/levy imposed by the Indonesian government on the supply of palm oil. At the moment this tax already amounts to USD 58 per tonne for October (USD 50 and 55 in the months before). It may still be adjusted for the remaining two months of the year.

So far, 94% of the expected reduced production volumes of rubber have been sold at an average price of USD 1 570 per tonne FOB. This price is USD 26 per tonne (1.7%) higher than the realised price of USD 1 544 per tonne FOB at the same time last year. For the limited volumes still to be sold, it will still be possible to make use of the considerably higher prices that can now be negotiated in the market.

The Group's tea activities are currently facing a 15.5% decrease in average selling price compared to the same period in 2019. Due to the high volumes offered in Mombasa, the currently realised average selling price of USD 1 960 per tonne will not increase towards the end of the year. Plantations J. Eglin's contribution to results will further increase in line with the exported volumes delivered to European customers at predetermined annual prices.

Considering the already realised sales of palm oil, and based on the recent market conditions, the Group expects a return to a profit position for the year 2020. The recurring consolidated result after tax is expected to be between USD 10 and 15 million.
The substantial increase in realised palm oil sales prices compared to 2019 will not be fully reflected in the expected profit position in 2020, as this will be negatively affected by the temporary effect of the volcanic eruptions in Papua New Guinea, the negative contribution of the rubber and tea activities and the resumption of the Indonesian export branchs/levy on palm oil.

Subject to the previously mentioned potential effects of covid-19 on the operational activities of the Group and on the palm oil market, the final recurring result will largely be determined by the expected production growth, the level of market prices for the last quarter, the maintenance of the current export tax policy for palm oil in Indonesia and the evolution of cost prices. The last, despite mandatory increases in workers' wages, is favourably influenced by the lower oil price and by the persistently weak quotations of the local currencies of Indonesia and Papua New Guinea against the reporting USD currency.

3.5. Cash flow and expansion

The Group's investment focus remains on South Sumatra. There, work is in progress on the expansion of the four existing concessions for which all permits have been obtained in Musi Rawas since 2013 and on the replanting of the Dendymarker plantations acquired in 2017.

Due to the delay on RSPO approval for planting of the three most recently acquired concessions in Musi Rawas, it was decided to free up additional budgets for the replanting of Dendymarker. Thus, during the first nine months of the year, 1 388 hectares were planted, bringing the total to 4 210 hectares replanted.

During the last nine months, 813 hectares were additionally compensated, and 1 340 hectares were additionally prepared for planting and planted, making a total of 13 543 cultivated hectares. This corresponds to 78.7% of the total of 17 209 compensated hectares, of which, after correction, 2 355 hectares were provisionally acquired for planting for smallholders and 14 854 hectares for development of own palm areas. There are now 6 855 hectares in production, and all harvested fruits are still being processed in Dendymarker's own extraction mill. This mill is optimally utilised and needs an expansion of the processing capacity from 20 to 60 tonnes of palm fruits (FFB) per hour. However, this necessary expansion will be delayed by the coronavirus-related travel restrictions and its realisation is foreseen in 2021. In addition to the extension of the cultivated hectares in Musi Rawas and the replanting in Dendymarker, extra investments will be made in both locations to expand and improve the internal road network and residential areas for the workers and local management.

Despite the uncertainties that covid-19 brings in the short term, the Group remains committed to its intention to renew the old plantings of Dendymarker as soon as possible and to develop the concessions of Musi Rawas.

The previously announced restructuring of the rubber activities in Indonesia was already started in the second half of the year with a number of measures which allow the cutting of costs, to reduce investments and, where possible, to prepare for the future conversion of rubber to oil palm. The timing of the implementation of this conversion will depend on the approvals that will be obtained to carry out such a change of use the land.

Subject to the previously mentioned delays in the implementation of the investments in mills and technical processing, the SIPEF group has not had to take any significant exceptional measures to support the liquidity and solvency of the Company during the coronavirus crisis in the past months. Supported by the resurgence of market prices for palm oil, the Group, however, does not expect to have to delay the replanting and expansion program of the cultivated hectares in South Sumatra in order to avoid a possible higher 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.