

01 May 2015



Price	307p (30 Apr Close)
12m High	487.5p
12m Low	293p
Mkt cap	£107.0m
Shares	35.1m Ordinary Shares 59.4m 9% Cumulative Preference Shares

Sector	Food Producers
Market	London Main List
Broker	Mirabaud Securities
Website	www.rea.co.uk

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 that have been contracted out to other significant coal mine operators.

R.E.A. Holdings (RE.L)

Sustainable Growth

After two difficult years, REA put its operations back on a growth path in 2014. That revenues increased by nearly 14% in a year when the price of palm oil weakened by 21%, and operating profits expanded by 32%, indicates that the company is recovering from the setbacks of 2012 and 2013. Yet REA has more to do, operating efficiencies, while still amongst the upper end of the palm oil producer peer group, have room for improvement, and this is reflected in the valuation. REA owns some of the best plantations in Asia and it possesses a significant land bank that provides it with the opportunity to double the size of operations, but over the last five years the pace of development has been painfully slow. There are indications now that 2015 will mark a turn in the pace of development. Peer group valuation analysis positions REA within the middle of the valuation range. However REA has the potential to recover a higher ranking as its growth potential is realised. The company offers two investment vehicles in the form of the Ordinary shares yielding 4.9%, and the Cumulative Preference shares yielding 7.2%. While the income attraction of the Preference shares is compelling in a low interest rate environment, the Ordinary shares should benefit from improving operational efficiencies, a strengthening balance sheet and from any uplift in the CPO price, whenever that may be.

Readers should note that REA is preparing to publish its second Sustainability Report later in 2015. The production of palm oil competes with the rainforest within the tropical belt and for this reason it has attracted opposition. Within the sector REA sets best in class standards for sustainability, including the setting aside of more than 20,000 ha for conservation, and the establishment of a separate operating unit (KON) to manage its conservation programme. Moreover the company has raised the bar on the sustainability of palm oil production with the generation of electricity from palm oil mill effluent to meet its internal requirements and for sale to local communities who were previously without supply. Readers will note that 33% of the fertiliser requirement derives from estate produced organic compost and that building bricks and other estate items are manufactured with palm oil production by-products. For investors focused on participation in ethically directed companies, REA's 2015 Sustainability Report is recommended reading.

Dec Year End	FY12	FY13	FY14	FY15E	FY16E
Sales (\$m)	124.6	110.5	125.9	124.2	154.3
Operating Profit (\$m)	37.8	28.1	32.1	33.5	46.6
PBT (\$m)	30.6	25.2	23.7	24.7	37.0
EPS (cents)	33.9	15.8	40.3	21.6	36.6
DPS (UK p.) *	7.0	7.25	7.75	8.75	9.75
Net (debt)/cash (\$m)	(140.4)	(164.4)	(179.2)	(149.1)	(151.3)
P/E (x)	10.9	29.5	11.6	21.6	12.7
Planted Hectare and Hectare in Development (ha)	31,507	34,062	34,614	37,614	41,614
Own FFB Production (MT)	597,722	578,785	631,728	675,405	720,468

*Dividend shown excludes benefit from scrip issues.

Reported Results 2014

REA has clearly turned a corner after the 'village disputes' that marred performances in 2012 and 2013. CPO production is at an all-time high (up 14.8% at nearly 170,000mt), and revenues expanded by 13.9% on 2013, marking clear progress over the previous four years detailed below. REA's achieved CPO prices posted gains in 2014 over the lows experienced during 2013 when oil quality was impacted by disruption of the milling and harvesting of fruit. If in revenue terms the 2014 year trailed 2011's outcome by nearly 15% and gross profit by 44.7%, this can largely be attributed to the 18% differential in the achieved price for palm oil. The 2012 results saw the first impact of the village disputes (in excess of \$12m of losses for the year) that also were to impact the 2013 results, but in 2014 operations progressively returned to normal with the first increase in gross profit since 2011; at the operating profit level 2014 posted a 14.4% gain on 2013. Most importantly, cash generated by operations grew for the first time since 2011, even without the release of an \$8.4m tax refund.

Year To 31st December	2014	2013	2012	2011	2010
	\$m	\$m	\$m	\$m	\$m
CPO mt (000)	169.5	147.6	151.5	147.5	127.3
<i>Change</i>	14.8%	-2.6%	2.7%	15.9%	
Average Price Achieved (\$/mt)	665	648	800	861	779
<i>Change</i>	2.6%	-19.0%	-7.1%	10.5%	
Revenues	125.9	110.5	124.6	147.8	114.0
<i>Change</i>	13.9%	-11.3%	-15.7%	29.6%	
Gross Profit	46.3	41.2	55.4	83.7	65.9
<i>Change</i>	12.4%	-25.6%	-33.8%	27.0%	
Operating Profit	32.1	28.1	37.8	72.7	56.3
<i>Change</i>	14.3%	-25.7%	-48.0%	29.1%	
Pretax Profit	23.7	25.2	30.6	64.2	50.4
<i>Change</i>	-5.8%	-17.6%	-52.3%	27.4%	
Cash Generated By Operations	33.1	19.4	55.1	59.9	50.2

Source: REA Report & Accounts 2010-2014

Productivity

Year To 31st December	2014	2013	2012	2011	2010
FFB own production (mt)	631,728	578,785	597,722	607,335	518,742
FFB 3rd party (mt)	149,002	99,348	64,014	34,146	20,089
OER (%)	21.7	21.8	22.9	23.0	23.6
FFB mt/Mature ha	22.3	21.4	22.4	24.1	23.6
Planted Ha	34,614	34,062	31,507	28,733	30,834

Source: REA Report & Accounts 2010-2014

FFB/Ha

That estate operations have returned to more normal efficiencies is revealed in the data in the table above. Estate produced FFB is now at an all-time high with an increase on 2013 FFB/ha. Productivity per ha has increased by 0.9mt/ha, but still has some way to go to better the 2011 performance. The 2014 year was marked by steady improvement in production during the first half year but during the second half transport disruption, caused by the exceptionally dry weather during September and October, combined with the ongoing mill refurbishment programme restricted the volume of fruit the company was able

to process. Because these events coincided with the peak cropping period spanning the year end, volumes of crop harvested were lower than they would otherwise have been. Perhaps as much as 30,000 mt of fruit was lost. Had this been included, yield per ha would have been 23.4mt.

Pure Play Plantation Groups	FFB Yield (MT/ha)
Dharma Satya Nusantara Plantations	26.4
Hap Seng Plantations	23.0
R.E.A. Holdings	22.3
Astra Agro Lestari	21.5
IJM Plantations	21.4
United Plantations	20.8
Anglo-Eastern Plantations	19.5
Presco (Lagos)	19.2
First Resources	18.7
London Sumatra	17.5
Sarawak Oil Palm	17.1
Salim Ivomas Pratama	16.3
Okomu Oil Palm (Lagos)	15.3

Source: Hardman Agribusiness

Seen in context of its international peer group, the 2014 FFB/ha result is in line with the better performances of the pure palm oil producer peer group detailed in the table above. DSN points to what can be achieved in respect of both FFB/ha and OER (see below).

3rd Party FFB

As the table below illustrates, there has been rapid growth in the supply of 3rd Party FFB. The company's mills are for many village producers the only outlet for their crop and with the rising consumption of palm oil during this century, many village farmers have planted oil palm. Of the total bought in FFB in the 2014 year, some 120,000 mt were contributed by village producers and circa 29,000 mt by private estates. The company anticipates that village supply will continue to grow but that the estate portion will decline as the estates build their own mills. It is likely therefore that growth will slow in the 2015 and 2016 years and perhaps there could be dip as some 20,000mt of estate FFB falls out of the purchases over the next year or so.

Year To 31st December	2014	2013	2012	2011	2010
FFB 3rd party (mt)	149,002	99,348	64,014	34,146	20,089

Source: REA Report & Accounts 2010-2014

In order to extend RSPO certification to some of the out grower productions, REA is mapping the area for better information on farms and their productivity.

OER Levels

OER levels remain a work in progress, but readers will note (see data in table below) that the OER has fallen consistently with the rise in 3rd Party FFB purchases.

Year To 31st December	2014	2013	2012	2011	2010
FFB 3rd party (mt)	149,002	99,348	64,014	34,146	20,089
OER (%)	21.7	21.8	22.9	23.0	23.6

Source: REA Report & Accounts 2010-2014

Lower OERs can be a natural consequence of doing this form of business. It makes good sense for REA to be a significant processor of village produced fruit

as this aligns local community interests with those of the company. Recognising that 3rd Party FFB, especially coming from village plantations, can be of a lower quality than estate produced fruit, mills that specialise in this sort of business institute rigorous quality control and grading systems. In some environments Hardman has noted that OER's are very high especially when the mills are supplied with 3rd Party FFB because those mills only record as processed the actual percentage of the crop delivery for which they have paid. In the context it is interesting to note that REA is upgrading the loading ramp at its oldest mill (Perdana Estate) to facilitate the grading of the entire deliveries of FFB to the mill. Previously grading had been done on a sample basis. Perdana Mill is reported to grade out only about 1% of the crop presented whereas the more modern Satria Mill, which grades all the crops presented to the mill, is grading out closer to 10% of the 3rd Party crops delivered in for processing. Not surprisingly Satria Mill achieves one of the higher OERs within the group at 23%. Mills which grade all 3rd Party fruit delivered in for processing, discount for immature or post mature fruit and for badly formed bunches and by managing this process tightly such mills can achieve very high reported OERs. In the same section of the 2014 Report & Accounts detailing the mill refurbishment programme, it refers to "...enhanced security systems and flow meters to monitor throughput due for installation during 2015". Mills lacking strong monitoring systems are at risk of oil 'leakage'; REA's OERs may be about to rise for a variety of reasons.

Seen in the context of the achieved OERs for its international pure play palm oil peer group, REA has clear scope for improvement and this is not beyond the company. The Satria mill is already reported to be achieving extraction rates between 23%-24% more in line with DSN.

Pure Play Plantation Groups	OER (%)
Dharma Satya Nusantara Plantations	24.0%
IJM Plantations	23.2%
London Sumatra	23.2%
First Resources	22.8%
United Plantations	22.5%
Salim Ivomas Pratama	22.1%
Astra Agro Lestari	21.9%
R.E.A. Holdings	21.7%
Anglo-Eastern Plantations	21.4%
Hap Seng Plantations	21.3%
Okomu Oil Palm (Lagos)	21.2%
Sarawak Oil Palm	20.1%
Presco (Lagos)	17.7%

Source: Hardman Agribusiness

A rising OER will signal a new chapter for REA; the efficiency upgrades now taking place in the mills underscore the fact that there were weaknesses in its local management. The same failure to attend to detail in the milling operations (undoubtedly put under some strain with the rapid growth in 3rd Party FFB being processed) was also a likely contributing factor in the escalation of the village disputes. Mark Parry, COO of REA Kaltim (to become Group Managing Director from January 2016) is credited by REA for tightening local management and instituting more rigorous management procedures and reporting.

Planting Rate & Land Bank

Planting rate has been disappointingly slow over the period 2010-2014, but in another indication of much improved operating conditions, the company is optimistic that it can plant 2,500 ha or more in 2015. Development of the PBJ and CDM estates progressed more slowly than intended during 2014 – REA reported extending the planted areas by 784 ha. Readers will note that this is higher than the reported increase in planted area of 552 ha. The company decided to abandon some 232 planted ha on the CDM estate due to flooding problems, for a net gain of only 552 ha.

Year To 31st December	2014	2013	2012	2011	2010
Mature planted area (ha)	28,275	27,102	26,688	25,415	21,984
Immature planted area (ha)	6,339	6,960	4,819	3,318	8,850
	34,614	34,062	31,507	28,733	30,834
Net Annual Additions	552	2,555	2,774	-2,101	3,927
Average Annual Increase Over Period (ha)	945				

Source: REA Report & Accounts 2010-2014

Against the background of a substantial high quality land bank the slow rate of planting has been acting as a brake on development of the REA project. The village disruptions of 2012 and 2013 have much to answer for in this context and indeed some legacy of this period looks to have been felt even in 2014: agreeing land compensation and allocations for community palm oil developments has taken longer than might have been expected, but today the company has perhaps as much as 7,500 ha available (5,000-6,000ha PBJ and 1,000-2,000 at CDM) for development with all agreements in place. Planting in 2014 was also restricted at PBJ as the company has been required to construct a 20km bund along a river system running through the estate in order to control flooding on the lower reaches of the estate. With 7.5km already constructed and construction advancing at 5 km per month, the company has now begun planting on PBJ. At CDM, notwithstanding that agreements had been reached with the local communities, sensitive environmental assessments have had to be made in respect of wetlands within the estate. With these matters substantially dealt with during 2014, management reports that REA is in better shape today than for some time to now plant at an accelerated rate.

Estate	CDM	KKS	KMS	PBJ	PBJ2	PU	REA Kaltim	SYB	Total
	ha	ha	ha	ha	ha	ha	ha	ha	ha
Fully Titled Land Pre-Swap	9,784		7,321	11,602			30,106	11,771	70,584
Fully Titled Land Post-Swap	9,748		7,321	11,602		9,097	30,106	8,217	76,091
Land Subject To Completion of Titling pre-Swap	6,280	17,200	1,964	2,564	7,411			2,212	37,631
Land Subject To Completion of Titling post-Swap	6,280	17,200	1,964	2,564	7,411				35,419
Pre-Swap Land Bank									108,215
Post- Swap Land Bank									111,510

Source: REA Report & Accounts 2014

REA has a substantial fully titled land bank which after the conclusion of swap agreements will total a little over 76,000ha. Additionally it has further land subject to titling (post swap agreements) that total more than 37,000 ha for a total land bank of some 111,510 ha. The company reports that with land titles now confirmed in respect of the PU swap land, documentation is being prepared for completion. A portion of the KKS land subject to completion of

titling (12,050 ha) requires rezoning and readers should note that a substantial portion of the PBJ2 allocation will be transferred to smallholder co-operatives. The company is confident that it has sufficient land to plant at least 60,000ha and should rezoning be completed for the KKS land, then this might extend to 67,000 ha. For shareholders, (including Chairman Richard Robinow whose family has 30% of the equity), the opportunity to develop a plantation of 60,000-70,000 ha, hints at the substantial value yet to be created.

2014 Reported P&L Account

- Sales up 14.9%
 - CPO output up 14.8%
 - Achieved prices up 2.6% at \$665/mt (\$648/mt)
- Gross profit up 12.3%
- Operating profit up 14.4%
 - Admin costs down by 13.5%
 - Significantly influenced by a 13.47% weakening in the IR:\$ exchange rate.
- Net profit up 73.5%
 - Flattered by release of \$8.4m tax refund
- Dividends paid on the Ordinary shares for the year, totalled 7.75 pence (7.25 pence). Including the capitalisation issue of 9% Cumulative Preferences shares (equivalent to slightly over 6.0 pence per share) provided for a total dividend of some 13.75 pence equivalent, to give a yield of 4.3%.

12 Months to December	2014	Change (%)	2013 Full Year	Comment
	\$000		\$000	
Revenues	125,865	13.9%	110,547	
Sales of Goods	124,538	14.9%	108,350	Sales of estate production up 14.9%. Our forecast \$124.8m
Service Revenues	1,327	-39.6%	2,197	
Net Gain/(Loss) in Fair Value of Agri Inventory	-1,692		548	
Cost of Sales	-77,914	11.5%	-69,901	
Gross Profit	46,259	12.3%	41,194	Our forecast \$48.6m, with lower cost of sales
Gross Margin (%)	36.8%		37.3%	0.5 percentage point decline in gross margin reflects falling CPO price and increased purchases of 3rd Party FFB
Cost of Production per mt CPOe (\$)	425	-3.4%	440	Further efficiencies introduced to improve cost of production
Net Gain On Changes In Fair Value of Biological Assets	3,571	-49.9%	7,133	We expected \$4.7m
Other Operating Income	2		0	
Distribution Costs	-1,325	2.7%	-1,290	Our forecast higher at \$1.6m
As % of Gross Profit	-2.9%		-3.1%	
Administrative Expenses	-16,391	-13.5%	-18,959	Significantly influenced by a 13.47% weakening in the IR:\$ exchange rate. Our forecast higher by \$3m on more bearish assumptions on costs.
As % of Gross Profit	-35.4%		-46.0%	
Operating Profit	32,116	14.4%	28,078	Our forecast \$32.2m. The increase of 14.4% y-o-y is a better reflection of the group's progress than the pretax result which suffers from widely fluctuating exchange rate impact on the finance charge
Operating Profit Margin (%)	25.5%		25.4%	
Investment Revenues	398	-14.8%	467	
Finance Costs	-8,770	163.4%	-3,329	Y-o-Y stated Finance costs see only a \$1.0m exchange rate offset compared with \$8.2m in 2013. Our forecasts higher at \$13.4m, which correlates with interest passing through the cash flow, but the reported number implies an interest rate of circa 7.8%; Hardman was using 8%-8.5%.
Net Finance Costs	-8,372	192.5%	-2,862	
As % of Operating Profit	-26.1%		-10.2%	
Actual Interest Paid in Period	-13,721	18.9%	-11,537	Interest paid reduces notwithstanding higher average borrowings due to good management of debt facilities
Actual Interest Paid Cover	2.34		2.43	Cover is acceptable on interest actually paid, but add in Pref dividends and it reduces to 1.49x.
Cover on Stated Net Finance Costs	3.84		9.81	
Profit Before Taxation	23,744	-5.8%	25,216	Pretax weakens in comparison as a result of exchange rate differences influencing finance costs between the years. Our forecast lower at \$18.7m on expectation of higher finance charges
As % of Revenues	18.9%		22.8%	
Taxation	-1,763	-85.9%	-12,544	Release of \$8.42m provision relating to dispute with Indonesian tax authorities over payment of prior period taxes
As % of Pretax Profits	7.4%		49.7%	
Net Profit For Period	21,981	73.5%	12,672	Inflated by tax payback
Attributable to Preference Shareholders	8,140	11.6%	7,291	Coupon payments on permanent preference capital absorbs 37% of net profit or 25% of operating profit
As % of Net Profit (%)	37.0%		57.5%	
Attributable to Ordinary Shareholders	14,153	159.4%	5,457	Without tax repayment attributable would have been \$5.735m, little changed from 2013, yet this would be masking a much stronger performance as show at EBIT line.
As % of Net Profit (%)	64.4%		43.1%	
Attributable to Non-controlling Interests	-312		-76	
EPS (US \$ cents)	40.3	155.1%	15.8	
Average Prices per tonne CPO achieved over period, FOB Samarinda and net of export tax (\$/mt)	665	2.6%	648	

Source: REA Report & Accounts 2014

This is a result which confirms that operations are returning to normal. There were issues in the year which robbed the results of greater buoyancy, not least the ongoing mill refurbishment programme that frustrated harvesting during the end of the year peak period, but nevertheless the reported figures represent a solid achievement despite the external difficulties of a temperamental climate during 2H 2014, and a depressed commodity price.

Notable features of the results included:

- Efficiencies gains produced a 3.4% improvement in cost of production per mt/CPO at \$425 (\$440);
- Rupiah weakness (13.7%) contributed to a significant reduction in Indonesian admin costs, albeit that the minimum wage was lifted by 11% in 2014 and staff numbers rose by 13.7% on the 2013 total;
- Careful management of debt facilities produced a lower interest paid charge y-o-y despite higher average debt (from \$178.4m in 2013 to \$197.5m in 2014);
- Reported net finance costs were heavily skewed by exchange rate gains. However use of rupiah debt has also helped contain costs: the interest rate is higher at 10%-11% but currency gains coupled with avoidance of withholding tax (10%) on repatriation of cash to UK to meet interest payments on non-Indo \$ or £ debt, produce a lower cost of finance overall.

Balance Sheet

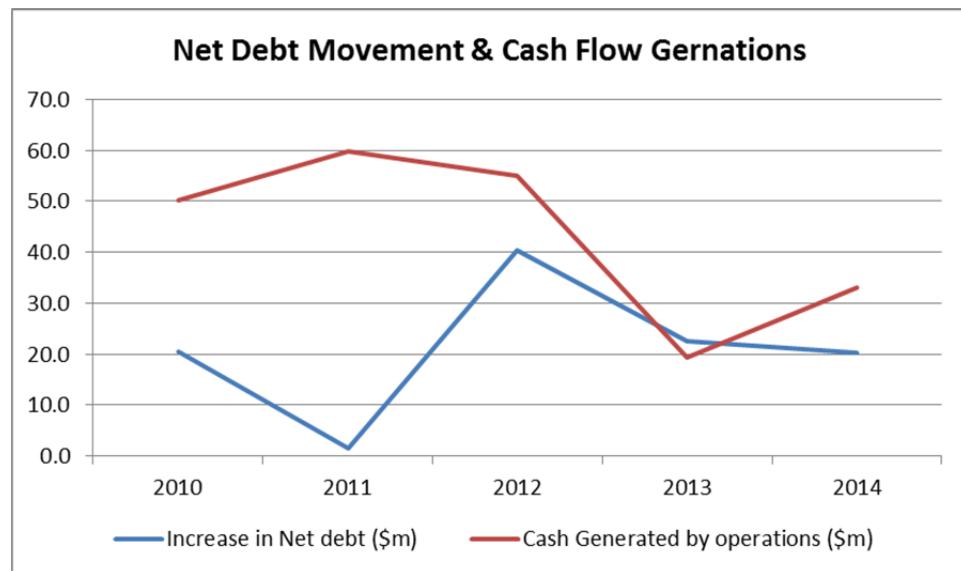
Fair Value net debt rose by \$20.3m in 2014 after an increase of \$22.6m in 2013. Reported net debt is shown up by \$14.8m at \$179.2m (\$164.4m). Working with the more conservative FV net debt position, readers will note that the net debt: EBITDA ratio has receded from last year's high to 4.5x (5.3x). A ratio of 4x EBITDA is considered to be an acceptable level for issuers of corporate bonds, ratios above 5x indicate a higher risk of default. On the reported basis net debt to equity now stands at 58.4% (54.9%).

Fair Value Financial Instruments					
Year At 31st December	2014	2013	2012	2011	2010
	\$000	\$000	\$000	\$000	\$000
Cash & Deposits	16,224	34,574	26,393	30,601	36,710
Bank Debt 1 year	-40,326	-35,033	-1,000	-2,000	-7,850
Bank Debt more than 1 year	-60,638	-62,281	-51,194	-27,018	-12,625
US \$ Notes	-34,691	-40,274	-48,813	-35,000	-42,750
Sterling Notes	-57,090	-55,285	-59,233	-56,094	-60,827
Cross Currency Interest Rate Swaps - Principal Liabilities	-8,567	-6,454	-8,311	-10,797	-11,568
Pref Shares of Subsidiary	0	0	0	-1,500	-1,500
Net Debt & Related Engagements	-185,088	-164,753	-142,158	-101,808	-100,410
Cross Currency Interest Rate Swaps - Interest Liabilities	-1,023	-1,438	-3,310	-5,419	-6,158
	-186,111	-166,191	-145,468	-107,227	-106,568
Increase in Net Debt	20,335	22,595	40,350	1,398	20,456
Cash Generated By Operations	33,012	19,358	55,110	59,854	50,210
EBITDA (excl Biological Assets Valuation)	41,202	31,114	44,741	67,819	59,472
Net Debt / EBITDA (x)	4.5	5.3	3.2	1.5	1.7
Net Debt as in Annual Report (\$m)	-179.2	-164.4	-137.1	-65.4	-95.4

Source: REA Report & Accounts 2010-2014

The impact on the Balance Sheet of the disruptions experienced in 2012 and 2013 is clearly detailed in the tables above with Fair Value net debt and related engagements increased by nearly \$85m over the period. Readers will note that cash generated by operations averaged \$55m pa during the period 2010-2012 inclusive, so that \$58m of the increase in liabilities may be attributed to reduced

cash flows in both 2013 and 2014, but despite reduced commodity prices, cash generated by operations was notably increased in 2014 (\$33.0m v \$19.4m, including \$8.4m of tax repayment in 2014, but 2014 still \$5m ahead of 2013), a trend that should be confirmed with increasing output over the coming years. The chart below graphically demonstrates the steep reversal in cash generation and related debt build up after 2011 and the clear improvement in outcomes in 2014.



Five Year Perspective/Future Outlook

A corner was clearly turned in 2014 with REA finally back on a growth path after two years during which normal operations were hampered by a disruptive and costly series of disputes with local communities. As we suggest elsewhere in this report, the build up to and management of the early stages of the village unrest perhaps reflected missed opportunities by the local management of the plantations and this same lack of attention to the detail of the operations can be seen reflected too in operational inefficiencies (that are now being addressed) at some of the REA mills.

In respect of forward FFB production on the REA estates, Hardman was previously assuming a 2015 crop harvested of circa 715,000 mt FFB. We noted however that the 2014 Report & Accounts drew attention to a decline in harvest levels generally in East Kalimantan and East Malaysia during the Q1 2015. The Report & Accounts note that "...oil palm crops....have been well down on the preceding year with many companies experiencing crop reductions of 10%-15%". This is largely attributed to unusually high rainfall (the highest for 5 years) in February. REA points out that FFB harvested for Q1 2015 came in at 19,428 mt lower than for Q1 2014, a consequence of naturally lower cropping and also ongoing delays to harvesting due to mill refurbishment in January. With the mill refurbishment programme not expected to interrupt normal harvesting and mill efficiency beyond January 2015, harvests should return to normal annual cropping patterns. Taking all these factors into consideration, Hardman has reduced its forecast for 2015 to 675,405 mt estate produced FFB...a target that hopefully leaves risk to the upside.

In 2015 we expect to see further progress made by REA in raising the OER level: we have used 22.5% in calculating our 2015 earnings outlook, but hope that the company is targeting a progressive return (over the next couple of years) to the 23.6% achieved in 2010.

Notwithstanding potentially solid progress in respect of crops harvested and oil extracted rates during 2015, the company's results will be heavily influenced by the price of palm oil. Current FOB Malaysia rates are the equivalent of \$595/mt, but REA indicates that it is achieving closer to \$610/mt on domestic sales within Indonesia. However this is all about to change, the Indonesian government has announced (for immediate effect) a \$50/mt subsidy levy on palm oil to support the Indonesian biodiesel programme (it is moving from a B10 blending mandate to B15). Without a price increase, this will mean that REA will be selling CPO for some \$560/mt. The company is able to produce CPO for circa \$400/mt providing it with a margin of circa 29%. This will put the emphasis on crop production and OER efficiencies to drive revenues in 2015.

Hardman Estimates

Profit & Loss					
Year Ended 31st Dec \$m	2013	2014	2015 e	2016 e	Comments
Revenue	110.5	125.9	124.2	154.3	CPO price weakness plus new \$50/mt levy expected to hold revenues just below 2014
Net (loss)/ gain arising from changes in inventory value	0.5	-1.7	-0.2	0.3	
Cost of production	-69.9	-77.9	-77.0	-89.4	Continuing efficiency gains, especially fertilisers, OER and logistics expected to boost GM
Gross profit	41.2	46.3	47.0	65.2	
Gross margin %	37.3%	36.8%	37.9%	42.3%	
Biological assets valuation	7.1	3.6	4.0	0.0	IAS 41 to be scrapped from 2016, but in 2015 reported results will be benefitted by increase to BA from new plantings
Other operating income	0.0	0.0	0.0	0.0	
Distribution costs	-1.3	-1.3	-1.5	-1.6	
Administrative expenses	-19.0	-16.4	-16.0	-17.1	Further Rupiah weakness likely to help with cost containment
Operating profit	28.1	32.1	33.5	46.6	
EBITDA	38.8	42.7	44.9	59.3	
Investment revenue	0.5	0.4	0.4	0.5	
Finance costs	-3.3	-8.8	-9.2	-10.0	We assume further exchange rate gains on Rupiah debt
Profit before tax	25.2	23.7	24.7	37.0	
Tax	-12.5	-1.8	-7.4	-11.1	
Profit for the year	12.7	22.0	17.3	25.9	
EPS (cents)	15.8	40.3	21.6	36.6	
Attributable to:					
Ordinary Shareholders	5.5	14.2	7.6	12.9	
Preference Shareholders	7.3	8.1	9.0	10.0	Preference shareholders expected to absorb more than 50% of net returns in 2015
Non-controlling interests	-0.1	-0.3	0.3	0.5	
Minorities	0.0	0.0	0.4	2.6	
	12.7	22.0	17.3	25.9	

Source: REA Accounts 2014, Hardman Estimates

Revenues

Our 2015 revenue forecast assumes an average achieved price of \$600/mt for CPO with estate produced FFB up, a little less than 7% at 675,405 mt. We expect the OER to strengthen as a result of:

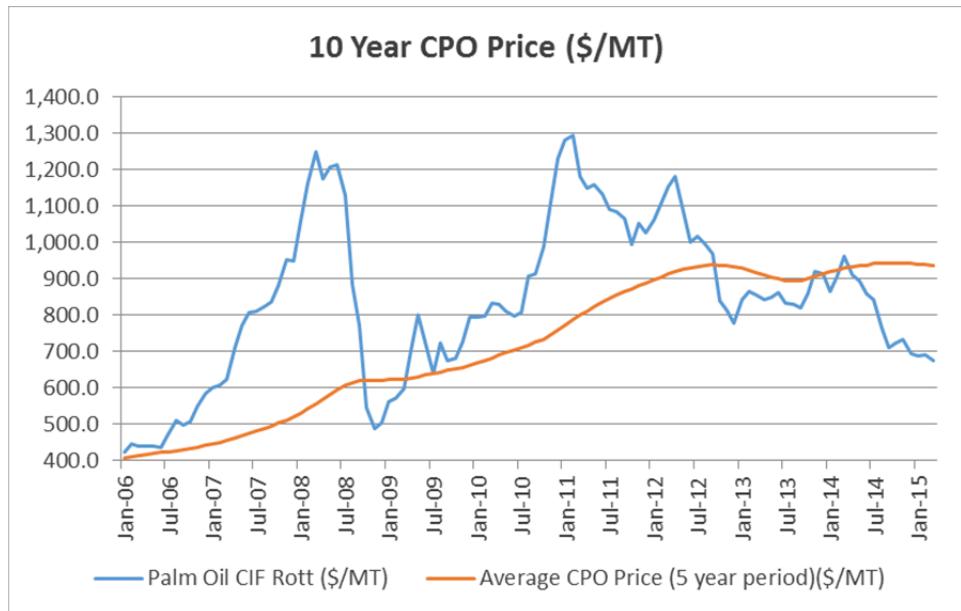
- the investment being made in mill refurbishment
- the tighter management of the mills including increased security
- rigorous quality control over 3rd Party FFB supplied to the group's mills.

	2014	2015	2016	2017
FFB Prod' (own) (MT)	631,728	675,405	720,468	766,514
FFB (purchased) (MT)	149,002	135,000	150,000	160,000
Total FFB for process (MT)	780,730	810,405	870,468	926,514
Own estate FFB yield/ha avg	22.3	23.2	23.0	22.7
OER	21.7%	22.50%	22.75%	23.00%
Total CPO production (MT)	169,466	182,341	198,031	213,098

Source: REA Report & Accounts 2014, Hardman Estimates 2015-2017

CPO Price

For 2016 and 2017 our CPO price estimate is raised to \$700/mt and \$750/mt respectively. These estimates assume CIF Rotterdam prices of \$700/mt 2015; \$800/mt 2016 and \$850/mt 2017. They are probably conservative towards the end of the forecast period. The commodity cycle is now well understood: lower pricing progressively over the past three years has seen falling investment and there is now a widespread expectation that smaller producers will be cutting back on fertiliser usage. These factors can be expected to produce a tighter supply: demand relationship from 2016 onwards. The increase in the Indonesian blend mandate for biodiesel from 10% to 15% coupled with the new \$50/mt/CPO levy (to subsidise the Indonesian biodiesel sector) can also be expected to exert some upward pressure on consumption and pricing – just how much depends on the ability of the country to achieve the target. Readers will note that the average price for CPO over the past 10 years is \$802/mt CIF Rotterdam.



Source: World Bank

Other Activities

Our forecasts also include first time revenues for electricity sales and from 2016 and onwards, also stone sales for a combined contribution, with services revenues, of \$4m pa from 2017. One of the key measures adopted by REA to reduce its greenhouse gas emissions has been the installation of methane capture facilities and electricity generating capacity at the Perdana (REA Kaltim Perdana Estate) and Cakra oil mills (REA Kaltim). By capturing methane and converting it to electricity REA has been able to generate enough electricity to meet the needs of its mills (Perdana, Cakra and Satria), offices, workshops and employee housing within the REA Kaltim estates (4 megawatts, and also to provide electricity to surrounding communities. REA has now installed generating capacity of 7 megawatts with 4 megawatts being utilised internally and 3 megabits available for sale to 21 local communities via PLN the state electricity utility company. Payment for power sold via PLN will be made by PLN and the district power company PKSDE, at fixed rates determined by Indonesian state regulations. Our previous estimates based revenues on the assumption of \$1m per megawatt supplied, but the regulator has revised this payment down recently to \$0.7m/megawatt supplied. We also expect there to be a handling charge of circa 10% by PKSDE for local distribution. In the current year therefore we are anticipating revenues of circa \$0.8m-\$0.9m from electricity sales (8 months only) following inauguration of supply in 16th April 2015. REA advises that in time the utility's requirement could rise to 6 megawatts per annum for a possible revenue outcome at current tariffs of \$3.8m pa.

We had previously also expected some revenues in 2015 from the stone quarrying operations, but have delayed these now until 2016. The company is currently in negotiation for the provision of quarrying services to work the stone concession and for permission to upgrade the road to the concession to support heavy duty trucking operations transferring the quarried and crushed stone to a stock piling centre on the REA Kaltim estates for internal use and external sales. REA is seeking to secure a 3rd Party off take agreement to underpin the \$3m of investment required for upgrading the access road.

Continuing Efficiency Gains

Fertiliser Costs

The company now produces circa 33% of its fertiliser requirement from organic waste from the palm oil production process. Increasing the area of the estates treated with organic fertiliser has enabled the company to reduce cost and bolster the sustainability of its operations. The company has introduced a sophisticated four stage composting process for utilization of Empty Fruit Bunches (EFB); up to 32.5% of the estate is now fertilised with organic estate produced compost. The company now hopes to tighten costs further by managing the production of the organic fertiliser with its own teams. An eventual overall saving as compared with inorganic fertiliser of over \$6 million should be possible.

Fuel Costs

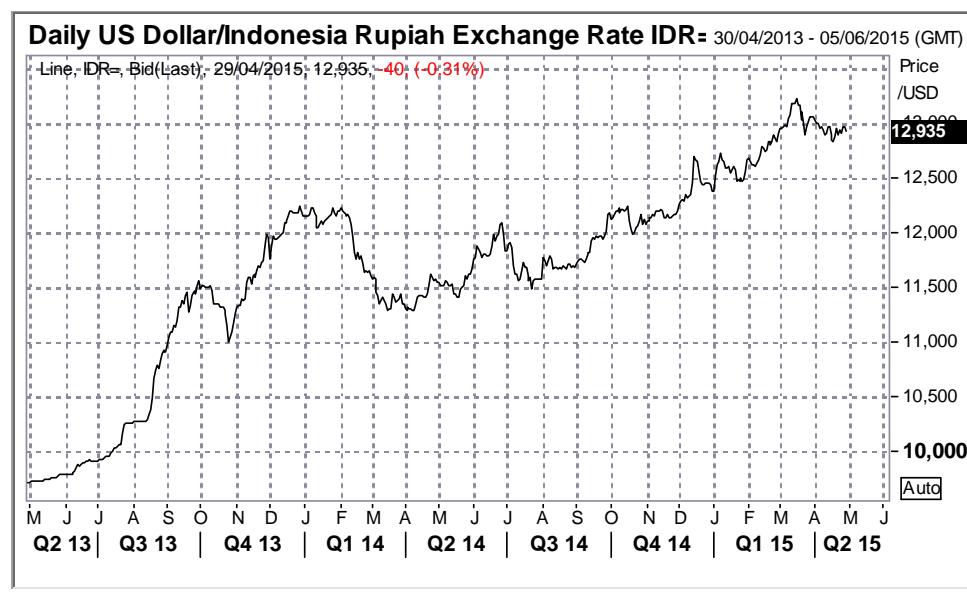
In a further move to increase sustainability and pare back costs, REA is exploring the possibility of using a blend of compressed methane (70%) and diesel (30%) in its vehicle fleet. The technology investment required is estimated at circa \$4m, but the company estimates that annual savings on diesel could amount to some \$2.7m pa.

Other Cost Savings & Sustainability Initiatives

It was notable that during the 2014 year the company reports that savings initiatives included measures to reduce the use of pesticides (for greater sustainability and lighter environmental impact) and further mechanization of FFB collection. A new focus for operational efficiency has been put on logistics and transport and this was underscored by the recent hire of a senior expatriate manager to head the transport & logistics operations. In another cost saving and sustainability initiative the company has begun in-house manufacture of harvester bridges and bricks for estate building work including housing, using a mixture of cement and boiler ash from the group's palm oil mills.

Employment Costs

The minimum wage is expected to rise by circa 10% in 2015 which coupled with a 13.7% increase in staff y-o-y (9,465 permanent & temporary workers) to support a ramped up development programme, will exert some upward pressure on nominal costs. Our forecast for broadly unchanged admin costs in 2015 relies on increased savings and further rupiah depreciation (10%). During the first quarter of 2015 the rupiah depreciated by some 16%-17% against the US\$ compared with same period in 2014. The rupiah had not traded at such a low value against the U.S. dollar since 1998. The currency's downward trend has been driven by a combination of factors, including high demand for dollars and capital outflows in anticipation of an interest rate hike in the U.S. later this year. Moreover, the Central Bank has signalled that it is comfortable with a weaker currency on the grounds that a devalued rupiah will reduce the current account deficit through lower imports of consumer goods and greater export competitiveness. The Bank has intervened in the foreign exchange market to avoid a steep drop-off but economists expect it to allow the rupiah to depreciate slowly throughout the rest of the year. The rate is currently 12,935 rupiah: \$1. REA reported an average rate in 2014 of 11,908 rupiah: \$ for further depreciation of 8.8%.



Finance Charges

Our forecast for finance costs shows little change y-o-y at \$9.2m (\$8.8m). Within this mix we are allowing for offset by exchange rate gains on rupiah debt in the region of \$2m-\$3m as a consequence of rupiah depreciation versus the US\$.

Cash Flow & Balance Sheet

Cash Flow					
Year Ended 31st Dec	2013	2014	2015 e	2016 e	Comments
\$m					
NET CASH FROM OPERATING ACTIVITIES	0.8	24.4	26.5	32.2	
Interest received	0.5	0.4	0.4	0.5	
Proceeds from disposal of PP&E	0.1	-	-	-	
Purchase of PP&E	-12.0	-14.9	-8.3	-4.2	
Expenditure on Biological Assets	-16.8	-18.5	-19.2	-24.2	Accelerated planting programme in both 2015 & 2016
Expenditure on prepaid operating lease rentals	-4.3	-4.3	-	-	
Investment in Indonesian stone & coal	-0.9	-0.9	-3.5	-0.5	\$3m capex in 2015 relating to road refurbishment to facilitate the stone quarrying activity
CASH FROM INVESTING ACTIVITIES	-33.5	-38.2	-30.6	-28.5	
Preference dividends paid	-7.3	-8.1	-9.0	-10.0	
Ordinary dividends paid	-3.7	-4.3	-4.4	-4.9	
Repayment of borrowings	-5.0	-30.7	-	-	
Proceeds of issue of ordinary shares	10.5	0.0	-	-	
Purchase of treasury shares	0.0	-1.0	-	-	
Proceeds of issue of preference shares	-	10.6	9.0	9.0	We anticipate further issues of Preference shares
Redemption of US dollar notes	-9.7	-6.3	0.0	0.0	
Redemption of Sterling notes	-	-	-17.5	-17.5	
Payment to close out hedging contracts	-1.9	0.0	-8.0	-	
Net Sale and repurchase of US dollar notes	1.2	-	-	-	
New bank borrowings drawn	57.6	35.4	20.0	10.0	
Jakarta Listing	-	-	38.0 (Hardman estimate)	-	We include new equity into the business from sale of at least 10% of REAK
CASH FROM FINANCING	41.8	-4.5	28.2	-13.4	Priority is development of land bank and associated investment in estate infrastructure
NET INCREASE IN CASH	9.0	-18.2	24.1	-9.7	
Cash B/F	26.4	34.6	16.2	40.3	
Effect of exchange rate	-0.8	-0.1	0.0	0.0	
CASH BALANCE C/F	34.6	16.2	40.3	30.7	

Source: REA Accounts 2014, Hardman Estimates

Balance Sheet					
Year Ended 31st Dec \$m	2013	2014	2015 e	2016 e	Comments
NON-CURRENT ASSETS					
Goodwill	12.6	12.6	12.6	12.6	
Biological Assets	288.2	310.1	329.2	348.5	By end 2016 we anticipate some 41,600ha planted
Property, Plant & Equipment	147.0	151.2	154.9	150.6	
Prepaid Operating Lease Rentals	30.5	33.9	33.4	33.0	
Indonesia Coal and Stone Interests	30.4	31.3	34.8	35.3	Increase principally attributable to stone quarrying activities
Deferred Tax Assets	9.5	8.9	8.9	8.9	
Non-Current Receivables	2.3	2.7	2.5	1.4	
	520.4	550.8	576.3	590.4	
CURRENT ASSETS					
Inventories	17.3	16.2	19.2	22.3	
Trade & other receivables	28.6	25.5	24.8	30.9	
Cash & equivalent	34.6	16.2	40.3	30.7	Swelled by sale of minority stake in REAK
	80.5	57.9	88.4	83.9	
TOTAL ASSETS	601.0	608.7	660.7	674.2	
CURRENT LIABILITIES					
Trade and other payables	16.9	17.8	19.2	22.3	
Current Tax Liabilities	2.9	2.6	8.2	11.9	
Bank Loans	35.0	40.3	42.3	45.8	
Sterling notes	-	14.7	17.5	17.5	
US dollar notes	6.0	-	3.3	3.3	
Hedging instruments	-	9.6	-	-	
Other Loans & Payables	1.0	1.2	1.0	1.4	
	61.8	86.2	91.6	102.3	
NON-CURRENT LIABILITIES					
Bank loans	62.3	60.6	78.6	85.1	
Sterling notes	55.7	37.7	17.5	0.0	
US dollar notes	33.5	33.5	30.1	30.1	
Preference shares issued by a subsidiary	0.0	-	-	-	
Hedging instruments	7.9	-	-	-	
Deferred tax liabilities	73.4	77.2	82.9	86.5	
Other loans & payables	6.9	6.8	6.8	6.8	
	239.7	215.8	215.9	208.6	
TOTAL LIABILITIES	301.5	302.1	307.5	310.9	
TOTAL EQUITY	299.4	306.6	353.2	363.4	

Source: REA Accounts 2014, Hardman Estimates

Net Debt Ratios

The Hardman financial model assumes further inflows of circa \$9m pa in each of 2015 and 2016 from issuance of two further tranches of cumulative preference shares, plus a sale of at least 10% of REA Kaltim during 2015. As readers will note, this could be expected to see the net debt: equity ratio fall to just over 42% in 2015 and the net debt to EBITDA ratio to move into much more comfortable territory at 3.6 (before Biological Asset revaluation), falling to a very respectable 2.4 potentially by end 2017.

Year to 31st Dec (\$'000)	2013	2014	2015 e	2016 e	2017 e
Total Debt	198,900	195,400	189,373	181,905	183,279
Cash	34,500	16,224	40,322	30,653	13,411
Net Debt	164,400	179,176	149,051	151,252	169,868
Net Debt/Equity	54.9%	58.4%	42.2%	41.6%	44.5%
Net Debt/EBITDA (before BA)	5.2	4.4	3.6	2.6	2.4
Net Debt/EBITDA	4.2	4.2	3.3	2.6	2.4

Cover for interest payments and for preference share coupon payments expands from 1.6x to a much more comfortable 2.4x.

Year to 31st Dec	2013	2014	2015 e	2016 e	2017 e
Free Cash Flow (\$'000)	-21,181	-9,006	7,738	17,020	1,760
Interest Cover (incl capitalised int. expenses and preference dividends) (x)	1.9	1.6	1.6	2.0	2.4
Dividend Cover (x)	2.2	5.2	2.5	3.8	5.1

Source: REA Accounts 2014, Hardman Estimates

Jakarta Listing of REA Kaltim

The company remains committed to a listing on the Jakarta Stock Exchange in the course of 2015, notwithstanding the sub-optimal trading environment for the palm oil producer sector. While REA is comfortably beneath the 100,000 ha limit on licensed development of oil palm plantations for entities that are not listed and under majority local ownership, the Directors believe that the listing of REA Kaltim will go *“some way towards meeting local political aspirations and enhancing the local profile of the group...and to result in REAK...being treated as a local rather than a foreign company for many Indonesian regulatory purposes, in particular with respect to land matters”*. (2014 Report & Accounts). On the assumption of a 10% placing, Hardman has included a possible \$38m cash inflow for 2015.

Management Transition

2015 will be a significant year in management terms with the retirement of John Oakley, REA's longstanding Managing Director, and Richard Robinow's retirement as Chairman at the end of December consequent upon his 70th birthday. Mark Parry, COO of REA Kaltim, will step up to the MD role in January 2016 (as has been long planned) and David Blackett (NED) will succeed Richard Robinow as Chairman. Both John Oakley and Richard Robinow will remain on the board as NEDs and will also undertake some additional responsibilities, including for Richard Robinow, overseeing the Jakarta listing for REA Kaltim. With the Robinow family holding 30% of the equity in REA, it is anticipated that Richard Robinow will continue to provide advice and support to the board.

Mark Parry joined REA in May 2011, then as the group's regional director based in Singapore, before becoming President Director of REA Kaltim in July 2012. He has had an intense introduction to running the plantation activities and is credited with turning round the problems faced by the group during 2012 and 2013.

David Blackett was appointed a Non-Executive Director in July 2008. After qualifying as a chartered accountant in Scotland, he worked for 25 years in South East Asia, where he concluded his career as Chairman of AT&T Capital Inc. Prior to joining AT&T he was a Director of an international investment bank with responsibility for the bank's South East Asian operations. He is also a Non-Executive Director of South China Holdings Limited, a company listed on the Hong Kong Stock Exchange.

Valuation

In the tables below we review the valuation of REA by reference to the market valuations for a selected international peer group of pure palm oil producers. The ranking of REA in each table varies from low end for Price: Book Value, to high end for Price: Earnings, but overall the company is ranked just a little above the middle of the group. REA has demonstrated that it can achieve 'best in class' sector results, and while the group's performance in 2014 was perfectly creditable, the market is likely expecting more from REA. When evidence emerges, during normal reporting, that the measures taken by the company to tighten management and improve efficiencies have borne fruit, it is likely that the valuation will strengthen, potentially nudging REA into the upper quartile valuation band.

EV/Planted Hectare

Pure Play Plantation Groups	EV/planted hectare (\$/ha)
Univanich Palm Oil	42,597
United Plantations	28,546
IJM Plantations	17,080
First Resources	15,096
Hap Seng Plantations	14,825
Dharma Satya Nusantara Plantations	14,581
Okomu Oil Palm (Lagos)	13,999
R.E.A. Holdings	13,236
Sarawak Oil Palm	11,657
Astra Agro Lestari	11,158
Presco (Lagos)	10,365
Socfinaf	7,374
London Sumatra	7,073
Salim Ivomas Pratama	5,258
Anglo-Eastern Plantations	4,437
Averages	11,113

**REA Market Cap includes both ordinary and preference shares*

Source: Hardman Agribusiness

The table above details the valuation put on pure play palm oil producers across different stock markets and operating in different countries. The younger plantations, and especially those with good efficiency records can be seen to attract valuations in the range \$14,000/ha to \$29,000/ha with a particular concentration around \$15,000/ha. With improving efficiencies it is not unreasonable to expect REA to converge with DSN or First Resources. The business does not look undervalued on this measure, but the data indicate that there is scope for REA to improve its ranking within the table.

Price: Book

The valuation of Anglo-Eastern (which is difficult to explain) sets the base for this data set at a very low level. Noting that REA is positioned towards the bottom of the table implies that the company is undervalued relative to its peers. REA has high quality plantation assets which despite recent operating difficulties produce FFB/ha results in line with sector upper quartile performances.

Peer Group Valuation Analysis	P/B Ratio (x)
Astra Agro Lestari	2.6
United Plantations	2.2
IJM Plantations	1.8
First Resources	1.7
Sarawak Oil Palm	1.7
Presco (Lagos)	1.4
London Sumatra	1.3
Okomu Oil Palm (Lagos)	1.1
Hap Seng Plantations	1.0
R.E.A. Holdings *	0.9
Salim Ivomas Pratama	0.7
Anglo-Eastern Plantations	0.6
Weighted Average (x)	1.8

Market Cap includes calculations of market value for Ordinary and Preference Shares

Data Source: Reuters

Price: Earnings

We have calculated the P/E for REA using the market capitalisations for both of the Ordinary and Preference share issues. On this assessment of value the combined market valuation positions the group valuation ahead of peer group averages.

Peer Group Valuation Analysis	P/E
United Plantations	20.8
IJM Plantations	19.0
R.E.A. Holdings *	16.0
Presco (Lagos)	15.1
Hap Seng Plantations	14.8
Sarawak Oil Palm	14.2
Astra Agro Lestari	11.6
Okomu Oil Palm (Lagos)	11.3
Salim Ivomas Pratama	11.1
First Resources	11.0
London Sumatra	9.5
Anglo-Eastern Plantations	8.8
Weighted Average (x)	13.6

** Market Cap includes calculations of market value for Ordinary and Preference Shares*

Data Source: Reuters

EV/Sales

REA ranks below the weighted average for the sector of 2.9x. Companies with consistently achieved upper level sector efficiencies such as UP, IJM and First Resources lead in a range of 3.5x-4.5x (OERs in a range of 22.5%-23.2% and FFB/ha in a range of 18.7mt-21.4mt). With improved operating and financial results, REA could be expected to push its valuation to into the 3.0-3.5x range.

Peer Group Valuation Analysis	EV/Sales
United Plantations	4.5
IJM Plantations	4.5
Hap Seng Plantations	3.6
First Resources	3.5
Presco (Lagos)	3.1
Okomu Oil Palm (Lagos)	2.8
Astra Agro Lestari	2.4
R.E.A. Holdings *	2.3
London Sumatra	1.8
Anglo-Eastern Plantations	1.4
Salim Ivomas Pratama	1.2
Sarawak Oil Palm	1.0
Weighted Average (x)	2.9

* Market Cap includes calculations of market value for Ordinary and Preference Shares

Data Source: Reuters

Gross Margin Analysis

Leaders in the table above, with the exception of IJM, tend also to be leaders in Gross Margin formation, suggesting that REA's valuation is being suppressed by setbacks to its profitability; recall that the company achieved a GM of 56.6% in 2011.

Pure Play Plantation Groups	LTM Gross Margin (%)
Presco (Lagos)	56.5%
United Plantations	54.7%*
First Resources	52.5%
Okomu Oil Palm (Lagos)	44.2%
Socfinaf	42.9%
Hap Seng Plantations	42.1%*
Anglo-Eastern Plantations	37.2%
R.E.A. Holdings	36.8%
Dharma Satya Nusantara Plantations	34.9%
London Sumatra	34.6%
IJM Plantations	34.3%*
Astra Agro Lestari	28.5%
Salim Ivomas Pratama	27.4%
Univanich Palm Oil	15.1%
Sarawak Oil Palm	14.9%*

*2013 results figures

Data Source: Reuters, Companies reports

EV/EBITDA

By this metric REA is positioned in line with the sector average. Consistent with other valuation analysis UP leads and Anglo-Eastern lags the sector. REA is ranked closely with a core group extending from Okomu to First Resources.

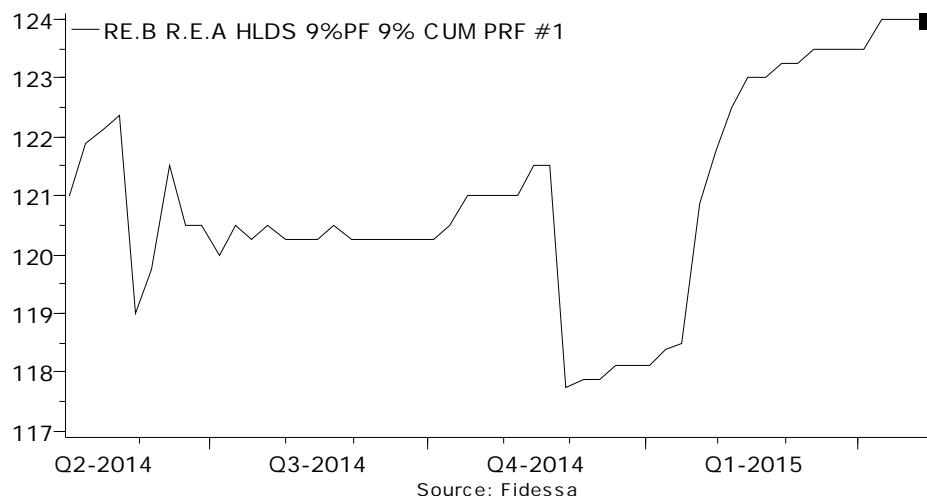
Peer Group Valuation Analysis	EV/EBITDA (x)
United Plantations	14.2
IJM Plantations	13.7
Okomu Oil Palm (Lagos)	9.4
R.E.A. Holdings *	9.4
Presco (Lagos)	9.4
Sarawak Oil Palm	9.1
Astra Agro Lestari	9.0
Hap Seng Plantations	9.0
First Resources	8.4
London Sumatra	7.2
Salim Ivomas Pratama	5.5
Anglo-Eastern Plantations	3.0
Weighted Average (x)	9.5

* Market Cap includes calculations of market value for Ordinary and Preference Shares
 Data Source: Reuters

Investment Alternatives

Investors have a choice of investment vehicles in respect of REA, either the Ordinary shares, now yielding 4.9%, or the Cumulative Preference shares yielding 7.2%, or a mixture of both for income and growth potential. Including the 10% tax credit applied to UK company dividends, the REA Preference shares offer a notably higher income opportunity than the market (FTSE ALLSHARE 3.28%).

Readers will note that the Hardman financial model assumes further inflows of circa \$9m pa in each of 2015 and 2016 from the issuance of two further tranches of cumulative preference shares. Against the background of both improving operational performances and a strengthening balance sheet, such income related opportunities will likely be of interest to investors seeking above average returns on invested capital. Previous issues have tended to be fully subscribed and as readers will note the shares have traded firmly above the issue price of 121p during 2015.



Our expectation for balance sheet strengthening includes proceeds from the sale of at least 10% of REA Kaltim during 2015. Together with other measures discussed within this report, the combined effect would be to lower the net debt: equity ratio to just over 40% in 2015 and for the net debt to EBITDA ratio to move into more comfortable territory at 3.5 (before Biological Asset revaluation), falling to a very respectable 2.4x potentially by end 2017. Including our forecasts for P&L formation, cover for interest payments and for preference share coupon payments expands from 1.6x in 2014 and 2015 to a comfortable 2.0x by 2016.

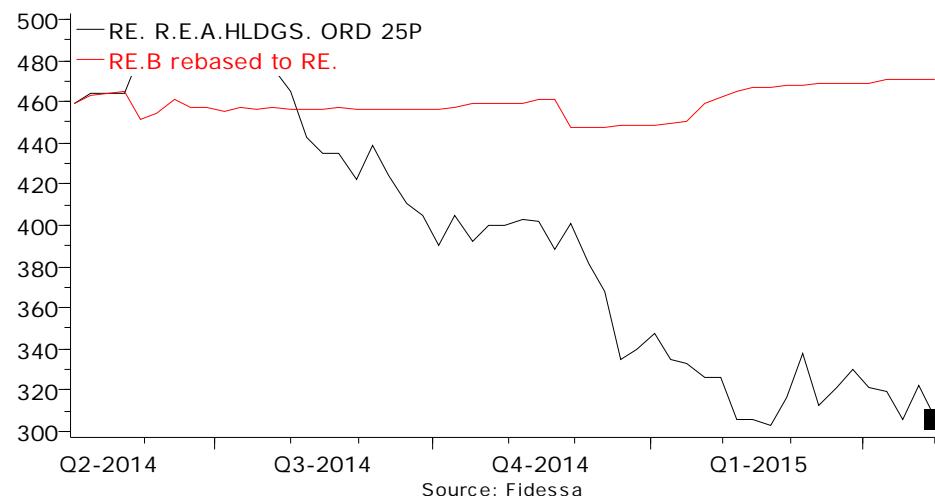
Issuer	Ticker	Description	Market Capitalisation (m)	Pref Issue / Market Capitalisation	Issue Size (£m)	Coupon %	Pref Share Price (p)	Pref Coupon (p)	Pref Share Yield (%)	Ord Share Price (GBP)	Dividend (p)	Dividend Yield on Ordinary (%)
BALFOUR BEATTY	BBYB	10.75P GROSS(NET PD)CUM CNV RED PRF 1P	1,685.5	7.90%	133.1	10.75%	119.0	10.8	9.0%	244.4	5.6	2.3%
BP	BP.B	9% CUM 2ND PRF GBP1	86,913.6	0.01%	9.0	9.00%	165.0	9.0	5.5%	476.1	23.9	5.0%
BP	BP.A	8% CUM 1ST PRF GBP1	86,913.6	0.01%	10.9	8.00%	150.5	8.0	5.3%	476.1	23.9	5.0%
BRISTOL WATER	BWRA	8.75% CUM IRRD PRF GBP1	Private	na	19.5	8.75%	156.0	8.8	5.6%	na	220.2	na
ECCLESIASTICAL INSURANCE OFFICE	ELLA	8.625% NON CUM IRRD PRF GBP1	Private	na	149.6	8.63%	140.5	8.6	6.1%	na	0.0	na
NORTHERN ELECTRIC	NTEA	8.061P(NET)CUM IRRD PRF 1P	Private	na	164.1	8.06%	147.0	8.1	5.5%	na	na	na
PREMIER FARNELL	PFLA	USD1.35 CUM CNV RED PRF GBP1(USD CPN)	705.7	6.88%	48.5	na	15.0	na	na	190.1	10.4	5.5%
PREMIER FARNELL	PFLB	89.2P CUM CNV RED PRF GBP(GBP CPN)	705.7	7.43%	52.4	89.20%	16.2	89.2	550.6%	190.1	10.4	5.5%
R.E.A.HLDGS PLC **	RE.B	9% CUM PRF GBP1	110.1	67.19%	74.0	9.00%	124.5	9.0	7.2%	315.0	8.3	4.9%

* also includes scrip issue (3 for 50 Ord) of Cumulative Pref (9%) shares

Source: London Stock Exchange

Traders in the Prefs note that the shares trade in mostly 'retail' amounts, typically in parcels of up to 10,000 shares. Prices quoted by market makers in the shares tend to include a spread in the range of 3-4 pence. Traders note that there are traditionally more buyers than sellers. Larger parcels up to a few hundred thousand shares are said to come on to the market perhaps once a month or so. These bigger parcels are reported to trade close to mid-market price when they do appear.

The question of whether to invest in the Ordinary shares or the Preference shares has been a choice between growth opportunity, or the opportunity for superior income. If the company can indeed tighten efficiencies and effect a strengthening of the balance sheet, the Ordinaries would then likely outperform the Preference shares, and perhaps strongly, especially if/when the CPO price strengthens.



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Hardman & Co Team

Investor Engagement

Max Davey	Keith Hiscock	Felicity Reid
+44 (0)207 148 0540	+44 (0)207 148 0544	+44 (0)207 148 0546
md@hardmanandco.com	kh@hardmanandco.com	fr@hardmanandco.com

Analysts – +44 (0)207 929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Building & Construction

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

Consumer & Leisure

Nigel Parson	np@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
---------------	---------------------

Life Sciences

Mark Brewer	mb@hardmanandco.com
Martin Hall	mh@hardmanandco.com

Media

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

Property

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

Resources

Ian Falconer	if@hardmanandco.com
David Navas	dn@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com
Stephen Thomas	st@hardmanandco.com

Services

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

Social Impact

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

Technology

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

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399

www.hardmanandco.com

