Press release 2016

Regulated information | September 2016

SIPEF

Interim statement of the SIPEF group as per 30 september 2016 (9m/16)

- Despite the growth of the own palm oil production in the young plantings of UMW/TUM (+40.3%), the El Niño-related production decreases in the remaining mature plantations are such that the group volumes have not increased any further in the first nine months of the year.
- The palm oil market experienced a recovery with prices of over USD 700/tonne due to low stocks. Prices for natural rubber and tea fell short of expectations.
- The recurring annual result of the *SIPEF* group should exceed that of 2015.
- The positive free cash flows allow us to continue the steady but successful expansion of the plantation business in South Sumatra in Indonesia.

Interim management report

1. Group production

	Third Quarter				Year To Date			
2016 (In tonnes)	Own	Third parties	Q3/16	YoY %	Own	Third parties	Q3/16	YoY %
Palm oil	63 092	8 412	71 504	-8.81%	175 516	35 406	210 922	-1.25%
Rubber	1 681	0	1 681	-23.14%	6 915	175	7 090	-9.72%
Tea	754	0	754	52.32%	2 261	0	2 261	11.99%
Bananas	6 533	0	6 533	12.06%	18 719	0	18 719	0.20%
2015 (In tonnes)	Own	Third parties	Q3/15		Own	Third parties	Q3/15	
Palm oil	66 493	11 922	78 415		175 167	38 433	213 600	
Rubber	2 027	160	2 187		7 542	311	7 853	
Tea	495	0	495		2 019	0	2 019	
Bananas	5 830	0	5 830		18 681	0	18 681	

Palm oil production mainly in the third quarter continued to experience the delayed effects of the El Niño drought of 2015. Production volumes in the mature plantations in North Sumatra fell markedly short of those for the same period last year (-11.5%). This phenomenon was less pronounced at the plantations with relatively younger palms, such as the Agro Muko plantation in Bengkulu (-7.1%), where the second generation replanting programme continues, and in UMW/TUM in North Sumatra (+47.1%), where the growing maturity is now having its full impact on the palm oil production volumes.
The palm oil operations in the province of West New Britain in Papua New Guinea suffered to an exceptional degree from this drought effect, at both the own plantations (-18.8%) and the smallholders' (-31.0%). At the older plantings, fruit bunch formation fell considerably short of the already lower than usual production volumes in the third quarter.

Over the entire nine-month period, the loss for the group was still fairly limited (-1.3%) as palm oil production of the own plantations was maintained at the level of September 2015 (+0.2%), while the volumes sourced from smallholders were 7.9% down on the same period last year.

The natural rubber volumes in Indonesia recovered in the third quarter (+4.6%), but were not yet sufficiently positive to fully make up for the production shrinkage in the first six months (-4.2%). The smaller first-quarter production volumes in South Sumatra, in particular, still weigh on the annual volumes, which are being propped up by constantly growing yields at the younger plantings in Agro Muko in Bengkulu (+10.1% over the first nine months). Following the sale of our rubber operations in Papua New Guinea and the handing over of those plantations at the beginning of June, the total rubber volume produced by the group is down (-9.7%) on last year.

Production at our Cibuni tea plantation in Java increased by 52.3% in the third quarter compared with the same period last year, when it was adversely affected to an exceptional degree by the direct impact of El Niño. Because of this very good production quarter, which is also the result of amended fertilizer programmes and optimised picking yields, annual production to date is 12.0% up on last year.

We can safely say that the difficult operational period for the Eglin banana plantations in Ivory Coast, caused by the colder weather and followed by quality problems in the field, has come to an end, and we are seeing a return to growing volumes (+12.1%) in the third quarter, thanks in part to the additional volumes from the new plantings in St Thérèse. Nevertheless, because of the persistently lower volumes from the Motobé plantation (-30.8%), the annual volume remains identical to last year.

2. Markets

		Average market prices		
		YTD Q3/16	**YTD Q3/15**	**YTD Q4/15**
in USD/tonne*				
Palm oil	CIF Rotterdam	683	640	623
Rubber	RSS3 FOB Singapore	1 501	1 660	1 559
Tea	Mombasa	2 255	2 686	2 742
Bananas	FOT Europe	919	912	903

** World Commodity Price Data*

The palm oil market was suffering from lower prices during the summer months on the back of low consumer demand globally and was expecting bumper US soy crops. Initially the poor palm oil harvesting and its respectively low stocks were ignored till the “Malaysian Palm Oil Board (MPOB)” report in August. However, it took till the MPOB report early September that sparked the market where the impact of the El Niño on the crop was shown and the stocks dropped below an unprecedented 1.5 million tonnes in Malaysia. These low stocks at point of origin and greatly depleted stocks in the destination market triggered a buying wave and the market inverse increased strongly. The relative high price on the spot, where it temporarily was even a premium over soybean oil, was only short-lived. The market had, however, recovered from USD 635/tonne at the end of June to USD 715/tonne by the end of September.

The palm kernel oil market had to deal with the same tightness in supply as the palm oil market, and its substitute, coconut oil, is already in short supply, hence the market rallied and showed impressive inverses of USD 50/tonne per month. The price of palm kernel oil traded from USD 1 200/tonne to USD 1 350/tonne CIF Rotterdam at the end of September.

The rubber market has been very static during the 3rd quarter. Demand seemed to be lacklustre and at the same time the supply was still not fully up to speed, Thailand, in particular, is still not catching up as expected. Prices for SICOM RSS3 have been hovering around USD 1 500/tonne but showed some upside at the end of September.

Kenya's black CTC tea production during the 3rd quarter was in line with the production during the same period last year. The price and demand seem to be in equilibrium, hence the prices have been range bound during this period. The average price to date for our Cibuni tea is around USD 2 500/tonne FOB.

3. Prospects

Production.
The protracted effects of El Niño appear to have worn off, and fruit bunches are being formed. Although this is not yet directly reflected in the current production figures, we do expect palm oil volumes to increase during the remaining period of the year, particularly at the relatively young acreages in Papua New Guinea and at UMW/TUM in North Sumatra.

With the sale of the rubber plantations in Papua New Guinea, the overall annual production volumes will be lower than in 2015, while the acreages in Agro Muko in Bengkulu will generate additional growth in Indonesia. Tea production volumes remain good, and for the first time in more than five years might very well attain the 3 000-tonne level at year end (2015: 2 726 tonnes). We expect banana volumes to recover gradually, without however significantly exceeding last year's levels, despite the expansion of our operations.

Markets.
The palm market is in its peak production period, although much lower due to the El Niño impact and started off with the lowest stocks in many years. The big question remains of how strongly the crop is recovering. So far in Malaysia it seems to be a mild one, but there are regions in Indonesia where very strong recoveries are happening. At the same time the US has harvested a record soy crop with superb yields, but this is all priced in and these volumes are strongly needed.
So the recovery in palm oil is very welcome to replenish stocks, but the stocks will be much lower going into 2017 than a year ago. Palm oil is relatively cheap compared to liquid oils and once the peak production is behind us, we expect a steady market with upside potential.

Despite the slow progress of the Thai rubber production, the supply and demand sides seem to be balanced. However, a consumer led buying wave could create an upside as long as the production hiccup continues. Therefore, we expect a steady market for rubber in the coming months.

With the late start of the 'short rains' and expected depressed rainfall during the fourth quarter Kenya's tea production is expected to be below last year's level. Therefore, prices are expected to remain at current levels to slightly higher.

Results.
The better prices of the third quarter allowed us to put bigger volumes on the market, consequently, we have so far sold nearly 90% of the projected volumes at an average price of USD 717/tonne CIF Rotterdam, premiums included. This is USD 34/tonne higher than the average market prices of USD 683/tonne for the first nine months, and USD 28/tonne higher than the average price of sales at the same time last year.

In view of the stable but lacklustre natural rubber markets, the average price (USD 1 449/tonne) of our sales was 8.3% lower than in the same period last year. With 88% of our projected sales volumes already contracted, we do not expect the rubber operations to make a substantial contribution to the result over the full financial year.

The average selling price of our Cibuni tea was USD 2.57/kg, as a result of this, the contribution in 2016 will be smaller, despite increasing volumes. The banana operations are expected to make a similar profit contribution, despite a growth in acreages.

The local currencies of our main production countries, Indonesia and Papua New Guinea, remained weak against the USD, which, coupled with growing production volumes in the fourth quarter, has a favourable impact on our production costs.

Taking all those factors into account, we are more optimistic about our recurring profit for 2016, which should exceed that of last year.

Cash flow and expansion.
The company's investment policy will continue to focus on the timely replanting of our existing production acreages in Indonesia and Papua New Guinea and on the expansion of our operations in Musi Rawas in South Sumatra and, to a lesser extent, of the banana plots in Ivory Coast. New technical installations will be put up, such as an additional wastewater treatment plant and a composting plant in North Sumatra. In Bengkulu we work on the first biogas power generator, which will be able to supply power to the local grid by year end.

At the three projects in Musi Rawas, an additional 1 510 hectares were compensated in the first nine months of the year, putting the total compensated hectares at 9 307. As at the end of September, an additional 1 964 of those hectares were planted; this means that, to date, 4 590 hectares have already been planted and 501 hectares prepared for planting. The total cultivated area therefore amounts to 54.7% of the compensated land. In August, the first fruit bunches began to be harvested from the 223 young mature acreages.

The expansion of the banana plots at the St Thérèse plantation in Ivory Coast continues with the planting of an additional 70 hectares in 2016, so that we will have 710 hectares in operation by year end.

In view of the higher profit projections and the reduced investment budget for the current year, we should be able to further diminish our modest debt position by year end.

Schoten, 20 October 2016.

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SIPEF is a Belgian agro-industrial company listed on Euronext Brussels. The company mainly holds majority stakes in tropical businesses, which it manages and operates. The group is geographically diversified, and produces a number of different commodities, principally palm oil. Its investments are largely long-term ventures in developing countries.