The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 31 March 2021 (3m/21)

- The total Group production of palm oil increased by 16.7% compared with the first quarter of last year;
- Barring exceptional weather effects, the SIPEF group should achieve the predicted annual production increase of more than 10% in 2021;
- The first quarter in the palm oil market can be characterised as a steady high-priced environment with prices averaging above USD 1 000/tonne CIF Rotterdam;
- The underlying fundamental tightness of palm oil and the current palm oil price competitiveness vis-à-vis other vegetable oils strengthen confidence in healthy prices throughout 2021;
- The Indonesian palm plantation industry has benefitted the least from this climate of high prices, as the export tax and levies skim off most of the price increases;
- The recurring 2021 results are expected to be significantly better than those of fiscal year 2020, despite the high taxes on palm oil production in Indonesia;
- Expansion in South Sumatra continues steadily with 14 332 hectares already cultivated and the replanting of the Dendymarker plantations acquired in 2017 is processing well;
- The potential sale of PT Melania to the Indonesian Shamrock group, announced at the beginning of March, is proceeding favorably.

Interim management report

1. Group production

Group production

2021 *(in tonnes)*	Own	Third parties	Q1/21	YoY%	Own	Third parties	YTD Q1/21	YoY%
Palm oil	75 222	16 411	91 632	*16.68%*	75 222	16 411	91 632	*16.68%*
Rubber	1 495	152	1 647	*1.59%*	1 495	152	1 647	*1.59%*
Tea	647	91	738	*-8.89%*	647	91	738	*-8.89%*
Bananas	9 449	0	9 449	*4.76%*	9 449	0	9 449	*4.76%*

2020 *(in tonnes)*	Own	Third parties	Q1/20	Own	Third parties	YTD Q1/20
Palm oil	63 142	15 391	78 533	63 142	15 391	78 533
Rubber	1 417	204	1 621	1 417	204	1 621
Tea	810	0	810	810	0	810
Bananas	9 019	0	9 019	9 019	0	9 019

Palm fruit production in the mature plantations with mineral soil of North Sumatra in Indonesia had a slower than expected start at the beginning of the year, and ended slightly below last year's level (- 2.4%). This decline was the result of two dry months, followed by a relatively wet March, and lower fruit production due to the ongoing stress effect of the 2019 drought.

In the Umbul Mas Wisesa group's organic soil plantations, the normalised rainfall supported the fruit harvest. In combination with the application of the adjusted fertilisation recommendations over the past two years this resulted in a fruit production that was 20.9% higher than that of the first quarter of last year.

In the oil palm plantations in Bengkulu Province, weather conditions were favourable for palm growth and fruit development. The young mature palms, especially, produced more. But also, the volumes of the hectares with older palms increased compared with last year, by more than 10% in particular. In addition, more hectares were put into production. The crops exceeded last year's production by 12.3%.

In South Sumatra, the fruit harvest increased by 40.8%. The production in the new plantations in Musi Rawas was more than double that of last year (+101.7%). This was the result of to a 59.4% increase in the hectares harvested and an increase in the average fruit weight in most of the young plantations. Weather conditions were also promoting palm growth and fruit development. Nevertheless, even here a slightly delayed stress effect of the 2019 drought on the reduced formation of female fruit could be observed.

The remaining older Dendymarker plantations experienced solid production in the first quarter. However, due to the intensive replanting program, total fruit production decreased by 37.7% compared with last year's first quarter.

The average oil extraction rate (OER) of the Indonesian palm oil processing mills varied more, according to local rainfall volumes, compared with those for the same period last year. They fluctuated from 21.4% in South Sumatra, which still processes a relatively high percentage of old dura palm fruits with low oil content, to 23.8% in the fully mature plantations with organic soils in North Sumatra.

Thanks to these strong extraction ratios, the increase in palm fruit volumes (11.6%) from Indonesian plantations was also reflected in an equivalent increase in palm oil volumes (10.7%) compared with the first quarter of 2020.

Except for a very wet week in February, the average rainfall in the oil palm plantations in Papua New Guinea was more than 40% lower than the five-year average. Consequently, production was not significantly affected by the weather. As a result, Company plantations recovered remarkably well from the impact of the volcanic eruptions in the second half of 2019. The volumes of the harvested palm fruits on these plantations experienced an overall increase of 35.6% compared with the same period last year. However, the surrounding farmers had a hard time and their delivered fruit volumes decreased by 2.1%. Thanks to exceptionally good OER (25.4% on average), total crude palm oil (CPO) production grew by 26.4% versus the first quarter of 2020.

The total Group production of palm oil increased by 16.7% compared with the first quarter of last year.

Persistently disappointing harvests in the rubber plantations, were the result of higher rainfall with loss of tapping days in the MAS plantation near Palembang, a delayed recovery of the leaf change in Bandar Pinang in North Sumatra and a combination of both factors in Agro Muko in the province of Bengkulu. In Agro Muko the removal of the unproductive old rubber trees has already started in preparation of the conversion to oil palm planned as from 2024. Nevertheless, a slight increase in production volume (+5.5%) compared with last year was recorded, which is entirely due to better crops in the MAS plantation in comparison with last year.

A very wet first six weeks of the year and a very dry month of March, hindered normal leaf growth and plucking activities. This resulted in a 20.1% decline in tea volumes compared with last year. The reduction of the tea production from Company estates has been compensated, to a certain extent since the end of last year, by additional volumes from the processing of leaves delivered by the surrounding farmers. This new activity is successful and is necessary to obtain the renewal of the land rights of the Cibuni plantation.

After disappointing banana volumes at the end of last year, expected higher production was achieved in most of the plantations in the first quarter of 2021. Export volumes were 4.8% higher than those of the corresponding quarter last year.

2. Markets

Average market prices

In USD/tonne		YTD Q1/21	YTD Q1/20	YTD Q4/20
Palm oil	CIF Rotterdam*	1 081	731	715
Rubber	RSS3 FOB Singapore**	2 337	1 598	1 728
Tea	Mombasa**	2 023	2 131	2 004
Bananas	FOT Europe***	659	702	628

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

The first quarter in the palm oil market can be characterised as a steady high-priced environment with massive inverses. These big inverses create demand destruction, which is necessary to manage a very tight stocks scenario in the origins as well as the destinations. This was not unique to palm oil, but to all major vegoils. Sunflower oil was leading the pack, followed by rapeseed oil, soybean oil and palm oil. Despite that prices were at its best since 2012, palm oil was the cheapest of the vegoils.

It has been quite unique that this tightness is occurring in all the vegoils, predominantly following a too low oil price environment in the recent years (hence great demand) and weather-related crop problems in the last year. All focus is now on crop recovery in palm oil, and new plantings in the annual crops such as soybeans and sunflower seeds. Major increases are expected in planted acreage, and, albeit that the recent published planting intentions in the US were below expectations, the weather in the coming two months will be a major factor.

The Indonesian palm plantation industry has benefitted the least from this high-price environment, as the export tax and export levy system skims off most of the price increases. The latest number for crude palm oil (CPO) is an export levy of USD 255 per tonne and an export tax of USD 116. The collection of the export levy currently should surpass the amount needed to subsidise the B30 biodiesel program in Indonesia, but so far there has been no sign of a corrective amendment of the export levy system.

All in all, very supportive market circumstances which attracted a lot of fund money which incentivise huge volatility. Partially long positions are fuelled by economic outlook, while partially short positions speculate on a price correction.

The price of palm oil initially dropped in January from USD 1 000 to below USD 900, but quickly recovered to above USD 1 100 mid-March, settling just below USD 1 000 at the end of the quarter.

Palm kernel oil (PKO) followed the palm market. The tightness in stocks has finally reached the palm kernels. In combination with an already tight coconut oil market, the laurics were firm and steady at a decent premium over palm oil. The PKO prices rallied, trading mostly in a range of USD 1 300 to USD 1 400.

The natural rubber market remained in status quo whereby prolonged wintering and leaf blight kept production subdued, and a lacklustre end consumer took coverage in the face of sky-high container freight rates. The latex glove industry was the exception, and their good demand kept the latex produced grades at an elevated price level.

Prices of Sicom RSS3 traded within a range of USD 2 000 per tonne and USD 2 400 per tonne, with physical at a slight premium.

Tea auction prices in Mombasa, the Company benchmark, recorded their lowest average level during the first quarter since 2007. Despite production being lower compared to the first quarter of 2020, there is a hangover of high stocks keeping prices under pressure. Auction prices moved in a narrow range during January/February but started to slip during March.

It is obvious that African bananas have a significant market share in Europe, despite the increasing volume of "dollar bananas" from Colombia and Costa Rica. The prices of African bananas have exceeded the current commercial prices, which have been on a downward trend for the last few weeks.

3. Prospects

Covid-19 impact

SIPEF reiterates that the Group did not experience any direct negative financial impact from the Covid-19 pandemic. The consequences were mainly human and social, for the more than 21 000 employees who are working on Company plantations in countries where local medical support is very limited. It was, and still is, SIPEF management's main concern to prevent large-scale clusters of infection, through restrictive measures on travel and business contacts.

The delays announced last year in the expansion of the Dendymarker production capacity, and the construction of the wood pellet plant in North Sumatra, have meanwhile been resolved, albeit with several months' delay in delivery.

Productions

Considering the forecasts of the company agronomists, and based on representative counts in the field, the Group also expects oil palm fruit production for the second quarter in Indonesia and Papua New Guinea to be in line with expectations. One can therefore look forward with confidence to the production of the first half of the year. Although it is not easy to plan more than three months ahead, the SIPEF group is on track, barring exceptional weather effects, to achieve the predicted annual production increase of more than 10% in 2021.

Furthermore, it is expected that the Pestalotiopsis fungus will negatively affect rubber production for the rest of the year as well. However, tea production, provided that favorable weather conditions are maintained, will continue its production growth initiated last year. In addition, the banana volumes produced to date are fully in line with expectations and the SIPEF group expects a year of recovery in banana production in 2021.

Markets

The palm oil market is at a very high price level, and historically there is usually a sell off during the second quarter, with a seasonal increase in production. That can be expected in the coming months as well; however, the tightness in stocks in the origins, but moreover in the destinations, which have been covered hand-to-mouth in this strongly inverted market, will not allow for too much stock build. Relief from good new oilseed crops is still five to six months away, and it is still debateable how big that relief will be. Any weather event will have a tremendous impact.

The market expects a significant production increase in the coming nine months, however it is not certain that such a recovery across the palm oil industry will eventuate. The recovery pace, as well as the future oilseed planting will determine where prices are heading. Demand will remain healthy and could be better with tight pipelines and higher biofuel interest than expected, so all is coming down to the upcoming production. Therefore, it is in hands of the weather gods.

Obviously, there are certain external factors at play, now maybe more than ever. The Covid-19 pandemic and its economic recovery, a forecasted general commodity boom, the petroleum prices, and the US dollar strength or weakness will play a strong role in prices, as well as the fund money appetite. However, the underlying fundamental tightness, and current palm oil price competitiveness vis-à-vis other vegoils, make for confidence that, healthy prices will be seen throughout 2021.

The rubber market will be tested in the coming months with wintering almost over and the container freight market being normalised on the one hand, and the better economic outlook, particularly in China on the other hand. Usually, the consumers are better at the waiting game than the producer; therefore, the better production could get the upper hand and lead to a price correction.

Demand for tea in the Mombasa auction is good, but the high availability of teas does not allow for prices to move up significantly. Big price swings are not expected in the near term.

In the current banana market, the usual spring price increases are apparently no longer an issue. It is expected that the lower market prices will also continue in the coming weeks. Due to the annual fixed price contracts that were concluded with customers, turnover will not be affected.

Results

In a continued strong market, since the fourth quarter of last year, SIPEF has been able to sell its palm oil volumes at prices unprecedented in recent years. To date, 47% of the expected palm oil volumes have been sold at an average price of USD 899 per tonne CIF Rotterdam equivalent, premiums for sustainability and origin included, against 41% at an average of USD 718 per tonne in the same period last year.

These sales prices are substantially skimmed in Indonesia by a combined export duty and export tax. These taxes have been significantly increased since December 10, 2020, strongly encouraged by the Indonesian government and mainly to finance the local biodiesel program. Despite the exceptionally high taxation of the agricultural sector, which is composed of more than 40% smallholders, no immediate adjustment of this tax regime can be expected. In Papua New Guinea, the exceptionally high palm oil prices do fully benefit the palm activities.

Meanwhile, 34% of the expected rubber production has been sold at an average price of USD 2 086 per tonne FOB. This represents an increase of 31.8% against the volumes sold at USD 1 583 per tonne in the same period last year. In an oversaturated tea market, about 31% of the expected tea volumes were sold at a price of USD 2 160 per tonne FOB. This is 8% higher than the average price of USD 2 000 per tonne of the sales up to and including the first quarter of last year. With local currencies rather weak relative to the USD, neutralising the limited increase in Group workers' compensation, and high production volumes, unit production cost prices remain well under control. Combined with the unprecedentedly strong selling prices, the results would be significantly better than those of fiscal year 2020, despite the high taxes on palm oil production in Indonesia.

Except for the possible price effects of the palm oil markets mentioned earlier, the final recurring result will be determined to a large extent by achieving the expected production growth, maintaining the current policy for export taxes and duties in Indonesia, and the evolution of cost prices.

Cash flow and expansion

In Musi Rawas in South Sumatra, the Group is still waiting for a positive answer from the Round Table on Sustainable Palm Oil (RSPO) to be allowed to develop the three adjacent concessions acquired in 2018, in line with the applicable sustainable development principles and criteria. The application is under consideration by the working groups that must approve new sustainable oil palm developments. According to the consultants' positive assessment reports, these lands could also undergo significant additional development, starting in the second half of 2021.

In the existing concessions, already under development since 2013, 159 additional hectares were compensated in the first quarter, and 318 additional hectares were prepared for planting or planted, to reach a total of 14 332 cultivated hectares. This represents 81.5% of the total of 17 583 compensated hectares, of which 2 335 hectares have been provisionally acquired for planting by surrounding farmers and 15 248 hectares for own development. There are now 7 111 hectares in production, and nearly all harvested fruits are processed in Dendymarker's own extraction mill. In the meantime, expansion works have started in this factory, to bring the processing capacity from 20 to 60 tonnes of palm fruits per hour. The replanting of the Dendymarker plantations acquired in 2017 is also continuing steadily. Meanwhile, 5 207 hectares were replanted, while 968 hectares were prepared for replanting.

The potential sale of PT Melania to Indonesia's Shamrock group, announced in early March 2021, is proceeding favorably. As a reminder, PT Melania owns half of Indonesia's rubber operations in Sumatra and the entire tea operations in Java. The due diligence procedures have been completed. It will therefore be possible to proceed rapidly to the signing of the agreements. Initially, 40% of the shares should be sold for a payment of USD 19 million. After this first stage the Shamrock group will take over the management of the rubber activities. The second tranche of 60% of the shares, of which 55% are held by SIPEF, will be transferred no later than 2024 for USD 17 million, after the renewal of the permanent land rights (HGU) for the entire rubber and tea business. The gross transaction price for 100% of the shares is USD 36 million. The final net proceeds and any capital gain on the sale of PT Melania will depend largely on the cost of renewing the HGU, and on the compensation for the accumulated social rights of the employed personnel, who will presumably be almost completely taken over.

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.