The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 30 September 2023 (9m/23)

Confirmation of a satisfying result for 2023

- A general cyclical decline in palm oil production, both in Indonesia and in Papua New Guinea, caused a temporary drop in production with 3.4% over the first nine months of the year.
- The banana production was 121.4% compared to the first nine months of the previous year, and the increase is entirely related to the expansion of 400 hectares in two new production sites in Ivory Coast.
- Palm oil markets continued to remain favourable from a historical perspective and prices hovered between USD 900 and USD 1 000 per tonne for most of the third quarter of 2023.
- The expansion in South Sumatra has continued steadily, with currently 28 408 hectares newly planted or replanted, of which 36.1% are still immature. The construction of the second palm oil mill will be finalised before mid-year 2024.
- 82% of the projected palm oil volumes were sold at an average ex-mill gate price of USD 855 per tonne. Prospects are positive with annual production volumes equal to last year and sustained strong palm oil markets.
- The projected Group's recurring annual result is expected to be in the upper end of a range of USD 65 to 75 million.
- The group is heading for a limited net financial debt at year end 2023. In the second semester, SIPEF paid its record dividend and substantial tax payments related to last year's profits. The cash flow of 2023 will support the extensive capex program nearing USD 100 mio.
- The SIPEF subsidiary in Papua New Guinea completed an integrated assessment on HCV and HCA in a wide area surrounding its operations, identifying large areas for conservation as well as for potential new development in and around existing smallholder estates, enabling widespread community engagement.

1. Group production

Group production

2023 *(in tonnes)*	**Own**	**Third parties**	**Q3/23**	**YoY%**	**Own**	**Third parties**	**YTD Q3/23**	**YoY%**
Palm oil	93 008	14 551	**107 559**	*-4.37%*	241 887	50 992	**292 880**	*-3.38%*
Rubber	179	0	**179**	*-69.90%*	693	141	**834**	*-40.85%*
Bananas	10 257	0	**10 257**	*20.60%*	29 487	0	**29 487**	*21.45%*

2022 *(in tonnes)*	**Own**	**Third parties**	**Q3/22**	**Own**	**Third parties**	**YTD Q3/22**
Palm oil*	93 259	19 210	**112 469**	249 422	53 688	**303 110**
Rubber	436	158	**594**	1 029	381	**1 410**
Bananas**	8 505	0	**8 505**	24 280	0	**24 280**

** Comparative figures in Q3/2022 have been restated.*
***Comparative figures include Bamako productions in Q1/Q2 2022 and have been restated.*

In the third quarter of 2023, the Group continued to record lower crop figures than last year. The general cyclical decline, mainly experienced in the first half of the year in Indonesia, was more pronounced in the third quarter in the Papua New Guinean estates. Therefore, the overall production of palm oil as per end of September was 3.4% lower than the volume produced during the first nine months of last year.

The El Niño weather phenomenon announced earlier did not affect the production in the third quarter in Sumatra, with abundant precipitation records in the mature estates in North Sumatra and in Bengkulu. Only in September, did the rainfall figures in South Sumatra and Bengkulu decline, affecting the new planting and replanting of palms at the end of the period. In North Sumatra, the mineral soil estates still showed a 3.4% decrease, while the organic soil estates met the palm oil quarterly production volume. This was a major change on the 29.0% decline of production up to the end of June this year. The Bengkulu estates have already increased production by 6.2% on the third quarter of last year.

The steadily maturing young plantations in South Sumatra continued to lift palm oil production by 52.8% for the quarter and by 66.1% on the nine months' performance against last year. The outstanding performance of these estates meant that at the end of September 2023 the Indonesian palm oil production for the Group had increased by 1.0% on last year.

The impressive performance of the estates in Papua New Guinea over the last two years could not be continued in the first nine months of 2023. Despite a strong start of the year, the crop pattern aligned with the previously known drop in production in the second and the third quarters. Consequently, a crop production decrease of close to 20% was recorded, both in the own estates and for the smallholders fresh fruit bunch (FFB) purchases, resulting in a 9.9% drop in palm oil production by the end of September 2023.

The decline in production figures in Papua New Guinea was therefore the main reason for this year's unexpected 3.4% drop in total production by end of September.

Production of bananas has increased by 21.4% compared with the first nine months of the previous year, which is slightly lower than the increase of 26.3% in the first semester of 2023. The newly planted production sites of Lumen and Akoudié, reaching about 400 hectares by now, continued to outperform in yield performance in their first year of harvest. However, this could not cover for the decline in production on the historical production sites, hampered by more pronounced unfavourable agronomical conditions in the third quarter of the year.

2. Markets

Average market prices

In USD/tonne		YTD Q3/23	YTD Q3/22	YTD Q4/22
Palm oil	CIF Rotterdam*	975	1 441	1 345
Rubber	RSS3 FOB Singapore**	1 553	1 918	1 810
Bananas	CFR Europe***	832	745	762

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

During the third quarter, the palm oil market was rather steady and mostly a price follower in the vegoil complex. Sunflower oil was struggling with high stocks entering harvest time, and became the cheapest vegetable oil in the world, where it is usually a premium oil. It kept all other oils under pressure and palm oil lost some demand. Palm oil production in Indonesia seems to have peaked in the third quarter, and stocks were relatively low, certainly compared to a year ago. However, Malaysia was still entering its peak production period and showing a stock increase. Since the Malaysian numbers are public, a distorted picture was being given, because Indonesia is by far the bigger producer.

In general, demand was good, but certainly not stellar. India and China took advantage of the competitive environment and bought big volumes of vegoil to restore their stocks. The biodiesel demand globally was good and still growing, particularly in Indonesia and the US. With the strong gasoil prices, even discretionary demand could be attracted.

The US soybean harvest was adjusted downwards given the hot and dry conditions in key growing months, but it had no dramatic impact on prices.

All in all, the third quarter experienced a subdued price movement, as most players were looking for the next spark in the market. Palm oil was a follower in the entire vegoil complex, and stocks were growing throughout the quarter. Prices traded in a narrow range of USD 100, between USD 900 and 1 000 CIF Rotterdam. The CIF Rotterdam market closed around USD 920 at the end of September 2023.

The palm kernel oil (PKO) market could not find its spark. Global oleochemical demand remained sluggish and was keeping a lid on prices. Therefore, PKO and coconut oil, to a lesser extent, continued to trade at even money with palm oil.

During the summer period, the fragile Russian and Eastern-European consumption affected the usual imports of bananas by these countries from Central America. Alternatively, these bananas flooded the European market and impacted the spot market price levels. However, following the reopening of schools and the related increase in consumption, the European market recovered to the price levels seen at the end of September last year.

3. Prospects

3.1. Production

At the start of the fourth quarter increasing crops are noted in most of the Indonesian palm production sites. Moreover, the fruit set is also indicating that rising volumes could be expected for the remainder of the year. It will largely depend on the drought effects caused by El Niño if the expected levels of production can be reached in the currently already dryer regions in South Sumatra and Bengkulu.

Also, the crop in Papua New Guinea is showing signs of improvement in a usually better production volume trend in the fourth quarter of the year. The weather has been exceptionally supportive during the second and third quarter and there are, so far, no signs of any negative El Niño impact in Papua New Guinea.

Because of this and considering the continued increasing crop trend in the newly maturing estates in South Sumatra, the recorded 3.4% decline in palm oil production by end of September 2023, could possibly be fully recovered by year end. However, the year will not show the growth in production as predicted based on the usual yield pattern of the current planted hectares. Instead, 2023 will likely be recorded as an agronomical ‘lower production year’ for the SIPEF group.

For the bananas in Ivory Coast, the plantations are now entering the warmer, humid, and more favourable crop production period of the year. Therefore, better yields and performances are expected in the coming months, enhancing the production volume increase in the fourth quarter.

3.2. Markets

As palm oil is still in, or just emerging from, peak production, stocks are still at normal levels. However, the focus is now on next year’s crop. 2023 production will show minimal growth in annual palm oil production at best, and the outlook for next year is rather bleak from a production perspective. The El Niño weather phenomenon has entered Southeast Asia, and its severity needs to be monitored closely. Also, there is a lower yield pattern in many growing areas with an older age profile, and more signs of an increase in replanting are seen. This combination could very likely drive the 2024 palm production to a lower number than this year.

The focus in the soybean arena is currently on how large the new crop will be in South America. Brazil is expected to plant a big new crop for harvesting in the first semester 2024, which is already reflected in rather aggressive selling. However, a large proportion of the planted area is currently suffering from dry and hot weather, and it remains to be seen how much will be planted and in which conditions.

Demand will continue to be solid in the food and biodiesel industries. Food inflation rates are reducing, and more initiatives are being undertaken for green energy, even in developing nations.

Palm oil is well priced, but still faces fierce competition from sunflower oil. It is expected that this pressure will be absorbed in the coming months. The development in the crops for 2024 will be the key feature for price direction. El Niño weather impacts, not only on palm growing areas, could be the trump card. The downside seems to be rather limited, certainly with the current strong energy prices, albeit the present strong dollar could impact demand. It might take some more weeks before it all unfolds, but in the meantime the situation is expected to remain stable. All in all, SIPEF is looking at a healthy price outlook for the medium to long-term.

The consumption of bananas, known to be very accessible fruits for the average European consumer, continues to record a constant increase. At the same time, the volumes supplying the European market are expected to remain stable. This suggests a good commercial window for the fourth quarter of the year, being an ideal season for banana consumption.

3.3. Results

In a reasonably steady palm oil market with, from a historical perspective, continuing high price levels, SIPEF was able to sell 82% of its projected palm oil volumes at an average ex-mill gate price of USD 855 per tonne, premiums for sustainability and origin included. At the same time last year, SIPEF had contracted 88% of the volumes at a 21.1% higher average price of USD 1 035 per tonne ex-mill gate equivalent.

The current 2023 sales correspond to almost the entire projected production volume of Papua New Guinea, at an average ex-mill gate price of USD 1 029 per tonne. The 73% of the volumes of the Indonesian operations were sold at an average ex-mill gate price of USD 731 per tonne. In Indonesia, local sales prices continue to be impacted by a combined export tax and levy, fixed every two weeks by the Indonesian Government and currently being USD 118 per tonne. Given the uncertainty of the determination of the reference price for palm oil, which is the basis for the imposed tax and levy, most of the available palm oil volumes in Indonesia are placed in the market every two weeks.

Contrary to last year, the production cost of palm oil is no longer impacted by increasing inputs. Fertiliser and diesel prices, as well as high transport costs, have all declined compared with the price level of the previous 12 months. The wage increases for 2023, imposed by local governments, were in line with local inflation, being about half of the inflation rate recorded in Europe last year.

The prospect of annual production volumes in line with the previous year, combined with sustained strong palm oil markets and reducing cost of inputs, allows SIPEF to confirm a satisfying net recurring year result 2023. In all likelihood, they would be at the higher end of the range of USD 65 to 75 million. The final net recurring result will largely be determined by the continued strength of the palm oil prices, the achievement of the expected production, the maintaining of the current export tax and levy policy in Indonesia, and the evolution of cost prices in the remainder of the year.

3.4. Cash flow and expansion

In the first nine months of the year, the Group focused mainly on the investment programs in South Sumatra. These programs concern the further expansion of planted hectares and infrastructure in Musi Rawas and the completion of the replanting and infrastructure improvement in Dendymarker Indah Lestari (DIL). Good progress has been made on the construction of the first palm oil extraction mill in Musi Rawas. This 10th mill of the SIPEF group will be completed before mid-year 2024, and allows the processing of all crops from the South Sumatra developments to continue in the own mills of the Group.

The compensation and planting of new hectares in Musi Rawas were pursued with good progress. A total of 1 566 hectares were additionally compensated, while 1 806 additional hectares were cultivated. This brings the total cultivated area to 18 229 hectares, corresponding to 84.3% of the total compensated area of 21 630 hectares.

The replanting of the existing RSPO certified plantations of DIL acquired in 2017, is virtually completed, with at least 10 174 hectares of young mature and maturing palms, which will substantially contribute to the growing palm oil production of the SIPEF group in the coming years.

At the end of September 2023, the total of renewed and cultivated palm plantations in the South Sumatra business unit amounted to 28 408 hectares, of which 18 163 hectares were declared ‘young mature’ and have started generating crop.

Also, the expansion of the banana operations in Ivory Coast is evolving as planned. The planting at the Lumen plantation has been completed and 291 hectares of young plantations are supplying 2 separate packing stations. The planting in Akoudié is still ongoing with 130 hectares already planted, and will be completed early next year, to bring the total planted area of Plantations J. Eglin SA to 1 347 hectares, an increase with 69.6% on the historical size of 794 hectares.

Together with the usual replacement investments, the total capital expenditure budget will probably exceed USD 100 million by year end. The expected operational cash flow, supported by favourable forecasts for production and sales prices for palm oil, will not fully finance this investment program. With this in mind and considering the tax payments on last year's profits and the record dividend paid out early July 2023, the Group is expected to head for a limited net financial debt position at year end 2023.

4. Sustainability

Completion of integrated High Conservation Value (HCV) and High Carbon Assessment (HCA) by Hargy Oil Palms Ltd (HOPL)

The integrated HCV-HCSA assessment carried out by HOPL in Papua New Guinea in 2022-2023 was completed and submitted for peer review to the High Conservation Value Network (HCVN) in August 2023. The assessment encompassed existing estates, smallholders and areas surrounding these operations. A total of 5 610 hectares of HCV-HCS area was identified for conservation, as well as a potential for new development in and around existing smallholder estates. As a participatory mapping initiative, the assessment also enabled widespread community engagement with 35 villages and 15 hamlets, whereby customary landowners detailed their current land uses and future land use plans.

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.