**For Immediate Release**

# A turnaround for 2Q & 1H 2017 results

**Singapore, 14 August 2017** – **Kencana Agri Limited** ("Kencana" or the "Group"), today announced its financial results for the first half ended 30 June 2017.

## Summary of Results

| US$ '000 | 2Q 2017 | 2Q 2016 | Change | 1H 2017 | 1H 2016 | Change |
|---|---|---|---|---|---|---|
| Revenue | 27,158 | 32,959 | -17.6% | 66,617 | 61,806 | 7.8% |
| Gross profit | 2,473 | 511 | 384.0% | 12,887 | 2,863 | 350.1% |
| Operating profit/(loss) | 5,874 | (3,573) | n/m | 13,951 | (4,202) | n/m |
| EBITDA | 11,164 | 48 | n/m | 24,024 | 8,760 | 174.2% |
| Profit/(loss) before tax | 9,901 | (8,085) | n/m | 15,783 | (7,515) | n/m |
| Net profit/(loss) after tax | 7,112 | (6,733) | n/m | 11,373 | (5,965) | n/m |

*n.m: not meaningful

## Review of Group Financial Performance

2Q 2017 vs 2Q 2016

The Group's revenue decreased by 18% from US$33.0 million in 2Q 2016 to US$27.2 million in 2Q 2017. The decrease was mainly due to lower CPO sales volume due to shipment delay offset by a slightly higher Average Selling Price ("ASP") of CPO during the quarter. Sales volume of CPO decreased approximately 24% from 48,106 MT in 2Q 2016 to 36,778 MT in 2Q 2017, whereas ASP of CPO increased approximately 1% from US$611 to US$616.

The Group's Operating Profit ("OP") reversed from a loss of US$3.6 million in 2Q 2016 to a profit of US$5.9 million in 2Q 2017 and Net Profit After Tax ("NPAT") reversed from a loss of US$6.7 million to a profit of US$7.1 million. The increase in OP was mainly due to fair value gain on biological assets of US$6.6 million. The increase in NPAT was due to the same reasons mentioned above, plus a gain on disposal of joint venture, lower interest expense and lower losses from share of results of joint venture. The decrease in interest expense was mainly due to higher mix of USD loans incurring interests at a lower rate than IDR loans.

Cost of sales decreased by 24% from US$32.4 million in 2Q 2016 to US$24.7 million in 2Q 2017. The decrease was mainly due lower sales volume in Q2 2017 as compared to Q2 2016 resulting in higher closing inventory as of 30 June 2017 due to a shipment delay. Gross margin improved due to increased CPO production from 24,533 in 2Q 2016 to 32,512 MT in 2Q 2017 resulting in a lower cost per unit in 2Q 2017 as compared to 2Q 2016.

The Group recorded a decrease in distribution costs mainly due to lower CIF sales for the quarter. Administrative expenses decreased 7% from US$2.6 million in 2Q 2016 to US$2.4 million in 2Q 2017 mainly due to the absence of some bank refinancing charges incurred in 2Q 2016. Other losses comprise mainly of tax assessments results.

During the quarter, the Group disposed of its joint venture with the Louis Dreyfus Company Asia Pte Ltd. Net gain on the disposal amounted to US$8.2 million.

1H 2017 vs 1H 2016

The Group's revenue increased by 8% from US$61.8 million in 1H 2016 to US$66.6 million in 1H 2017. The increase was mainly due to higher ASP of CPO offset by lower sales volume during the period. ASP of CPO increased by approximately 17% from US$557 to US$649 while sales volume of CPO decreased approximately 15% from 98,370 MT in 1H 2016 to 83,461 MT in 1H 2017.

The Group's OP reversed from a loss of US$4.2 million in 1H 2016 to a profit of US$14.0 million in 1H 2017 and NPAT reversed from a loss of US$6.0 million in 1H 2016 to a profit of US$11.4 million in 1H 2017. The increase in OP was mainly due to higher ASP and fair value gain on biological assets. The increase in NPAT was due to the same reasons mentioned above plus a gain on disposal of joint venture, lower interest expense offset by less favorable foreign exchange movement in IDR as compared to 1H 2016 which led to a lower gain on foreign exchange and lower fair value changes in financial derivatives. Share of results from joint venture has also decreased from US$2.0 million in 1H 2016 to US$0.1 million in 1H 2017 mainly due to declining CPO prices for the period. The decrease in interest expense was mainly due to higher mix of USD loans incurring interests at a lower rate than IDR loans.

Cost of sales decreased by 9% from US$58.9 million in 1H 2016 to US$53.7 million in 1H 2017. The decrease was mainly due to lower sales volume in 1H 2017 as compared to 1H 2016. Gross margin improved from 5% in 1H 2016 to 19% in 1H 2017 mainly due to higher CPO production from 54,842 MT in 1H 2016 to 63,890 MT in 1H 2017.

The Group recorded a decrease in distribution costs mainly due to higher FOB sales in 2Q 2017 as compared to 2Q 2016. Administrative expenses remained fairly stable for the period. Other losses comprise mainly of tax assessments results.

During the quarter, the Group disposed of its joint venture with the Louis Dreyfus Company Asia Pte Ltd. Net gain on the disposal amounted to US$8.2 million.

Shareholders' equity increased from US$43.6 million as at 31 December 2016 to US$55.3 million as at 30 June 2017 mainly due to profit for the period of US$11.4 million and translation gain of US$0.4 million for the period.

The Group's total current assets increased by US$7.8 million from US$68.7 million as at 31 December 2016 to US$76.5 million as at 30 June 2017. This was mainly due to increase in cash and cash equivalents amounting to US$4.9 million as a result from cash inflow from operating and investing activities offset by cash outflow from financing activity, increase in inventory amounting US$4.4 million as a result of higher level of finished goods caused by some shipment delay and higher consumables as at 30 June 2017, increase in biological assets amounting to US$7.8 million due to fair value gain recognized for the period on anticipated production growth in second half of the year offset by decrease in other assets amounting to US$1.6 million as a result of reclassification to property, plant and equipment and decrease in assets held for sale amounting to US$7.4 million as a result of the completed sale of a joint venture

Total non-current assets increased by US$2.3 million from US$323.5 million as at 31 December 2016 to US$325.8 million as at 30 June 2017. This was due to increase in other receivables amounting to US$3.1 million mainly due to advances to plasma for capital and operating expenditures, increase in bearer plants amounting to US$1.8 million mainly due to additional investments and the capitalization of interest and depreciation for immature plantations, increase in other assets amounting to US$1.4 million due to deposits paid in relation to purchase of property, plant and equipment offset by decrease in properties, plant and equipment amounting to US$3.5 million mainly due to reclassification of vessels to assets held for sale and depreciation charge for the period.

Net asset value per share for the Group increased from 15.19 US cents as at 31 December 2016 to 19.28 US cents as at 30 June 2017.

## Review of Operational Performance

At the operational level, the group's mature area increased 2,427 ha to 55,621 ha.

FFB produced from nucleus increased by 30% from 202,569 MT in 1H2016 to 262,451 MT in 1H2017 due to recovery from the very dry spell in 2016. The oil extraction rates for CPO and CPKO were 20.4% and 43.5% compared to 22.3% and 43.2% in 1H2016 respectively.

## Outlook

Mr. Henry Maknawi, Chairman and CEO of Kencana said, "As the effect of El Niño wanes, we have seen our yields rebound significantly. We expect this recovery to be even stronger in the second half of the year. Prices however are expected to be volatile with some downward pressure due to higher production and rising soybean output. We will continue to focus our efforts on productivity and cost control in this challenging environment."

## About Kencana Agri Limited

Listed on the Main Board of the Singapore Stock Exchange on 25 July 2008, Kencana Agri Limited ("Kencana" or the "Group") is a fast-growing producer of Crude Palm Oil ("CPO") and Crude Palm Kernel Oil ("CPKO") with oil palm plantations strategically located in the Sumatra, Kalimantan and Sulawesi regions. As at 30 June 2017, Kencana's total land bank and planted area (including Plasma Programme) were 187,291 ha and 68,470 ha respectively. As part of its growth strategy and in line with its goal to be a leading palm oil producer and supplier of choice for both local and international markets, Kencana has streamlined its integrated plantation operations, which include palm plantations, palm oil mills, kernel crushing plants, as well as bulking and logistics facilities, to support its operations. In addition, Kencana strives to pursue sustainable palm oil production whilst remaining committed to being a good corporate citizen for the benefit of all stakeholders.

For more information about Kencana, please visit www.kencanaagri.com

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