

For Immediate Release

## Bottomline affected by weak market prices.

Singapore, 13 August 2019 – Kencana Agri Limited (“Kencana” or the “Group”), today announced its financial results for the first half ended 30 June 2019.

### Summary of Results

US\$ '000	2Q 2019	2Q 2018	Change	1H 2019	1H 2018	Change
Revenue	25,175	29,341	-14.2%	45,676	57,331	-20.3%
Gross profit	1,706	7,073	-79.5%	4,594	7,185	-36.1%
Operating profit	967	5,668	-82.9%	3,784	2,525	49.9%
EBITDA	4,006	(2,405)	n/m	10,593	(5,397)	n/m
Loss before tax	(2,848)	(8,863)	-67.9%	(1,392)	(20,758)	-93.3%
Net loss after tax	(2,359)	(7,603)	-69.0%	(1,757)	(17,449)	-89.9%

\*n/m: not meaningful

## **Review of Group Financial Performance**

### **2Q2019 vs 2Q2018**

#### **Revenue and profit**

The Group's revenue decreased by 14% from US\$29.3 million in 2Q2018 to US\$25.2 million in 2Q2019. The decrease was mainly due to lower Average Selling Price ("ASP") of Crude Palm Oil ("CPO") offset by higher sales volume. ASP of CPO decreased 19% from US\$553 in 2Q2018 to US\$447 in 2Q2019 whereas sales volume of CPO increased by approximately 16% from 42,338 MT in 2Q2018 to 49,241 MT in 2Q2019. The Group recorded an Operating Profit ("OP") of US\$1.0 million in 2Q2019 and a Net Loss After Tax ("NLAT") of US\$2.4 million in 2Q2019. The NLAT in 2Q2019 was mainly due to lower ASP and share of loss from equity accounted joint venture offset by fair value gain in biological assets and foreign exchange gain as a result of the IDR strengthening against the USD.

#### **Cost of operation**

Cost of sales increased by 5% from US\$22.3 million in 2Q2018 to US\$23.5 million in 2Q2019. The increase was mainly due to decrease in CPO production from 51,833 MT in 2Q2018 to 40,854 MT in 2Q2019 resulting in a higher cost per unit and lower gross margin.

Sales and distribution costs increased by 50% from US\$0.4 million in 2Q2018 to US\$0.6 in 2Q2019 mainly due to an increase in freight costs incurred.

The Group recorded a decrease in administrative expenses from US\$3.0 million in 2Q2018 to US\$2.6 million in 2Q2019 mainly due to decrease in staff cost.

Other gains comprise mainly of sale of waste and plasma management fee income.

Interest income decreased by 12% from US\$0.9 million in 2Q2018 to US\$0.8 million in 2Q2019 mainly due to repayment of loans from equity accounted joint venture.

Increase in interest expense is mainly due to one-off higher interest rate from a short-term bridging loan.

## 1H2019 vs 1H2018

### **Revenue and profit**

The Group's revenue decreased by 20% from US\$57.3 million in 1H2018 to US\$45.7 million in 1H2019. The decrease was mainly due to lower Average Selling Price ("ASP") of Crude Palm Oil ("CPO") offset by higher sales volume. ASP of CPO decreased 24% from US\$575 in 1H2018 to US\$437 in 1H2019 whereas sales volume of CPO increased by approximately 11% from 81,611 MT in 1H2018 to 90,226 MT in 1H2019. The Group recorded an Operating Profit ("OP") of US\$3.8 million in 1H2019 and a Net Loss After Tax ("NLAT") of US\$1.8 million in 1H2019. The NLAT in 1H2019 was mainly due to lower ASP and share of loss from equity accounted joint venture offset by fair value gain in biological assets and foreign exchange gain as a result of the IDR strengthening against the USD.

### **Cost of operation**

Cost of sales decreased by 18% from US\$50.1 million in 1H2018 to US\$41.1 million in 1H2019 mainly due to a lower mix of CPO purchased. Gross margin was lower mainly due to lower ASP. CPO production increased marginally from 80,069 MT in 1H2018 to 81,683 MT in 1H2019.

Sales and distribution costs increased by 50% from US\$0.8 million in 1H2018 to US\$1.2 in 1H2019 mainly due to an increase in freight costs incurred.

The Group recorded a decrease in administrative expenses from US\$5.7 million in 1H2018 to US\$5.1 million in 1H2019 mainly due to decrease in staff cost.

Other gains comprise mainly of sale of waste and plasma management fee income offset by expense from tax assessment results.

Interest income decreased by 5% from US\$1.8 million in 1H2018 to US\$1.7 million in 1H2019 mainly due to repayment of loans from equity accounted joint venture.

### **Review of financial position**

Shareholders' equity decreased from US\$22.1 million as at 31 December 2018 to US\$20.7 million as at 30 June 2019 mainly due to the loss for the period of US\$1.8 million offset by a translation gain of US\$0.3 million.

The Group's total current assets increased by US\$3.7 million from US\$69.2 million as at 31 December 2018 to US\$72.9 million as at 30 June 2019. Save for the movement in cash and cash equivalents as explained in the cash flow section below, the remaining movement in current assets arose mainly from:

- a) increase in biological assets amounting to US\$4.6 million mainly due to higher forecasted production; and
- b) decrease in inventories amounting to US\$1.4 million due to drawdown of CPO inventory.

Total non-current assets increased by US\$0.2 million from US\$288.1 million as at 31 December 2018 to US\$288.3 million as at 30 June 2019. This was mainly due to the following:

- a) increase in deferred tax assets of US\$2.2 million mainly due to additional deferred tax assets recognised in relation to certain subsidiaries which are making losses for the period;
- b) decrease in other receivables of US\$1.3 million due to receipts from plasma farmers and share of loss from Joint Venture; and
- c) decrease in bearer plants of US\$0.5 million mainly due to depreciation and transfer of bearer plants to plasma.

The Group's total current liabilities decreased by US\$5.6 million from US\$132.3 million as at 31 December 2018 to US\$126.7 million as at 30 June 2019. This was mainly due to the following:

- a) decrease in other financial liabilities of US\$9.9 million due to decrease in short-term borrowing as a result of refinancing of some loans;
- b) increase in income tax payables of US\$2.2 million due to additional estimated tax payable recognised in relation to subsidiaries making profit for the period; and
- c) increase in trade and other payables of US\$2.1 million due to new loans from related parties.

Total non-current liabilities increased by US\$10.9 million from US\$202.8 million as at 31 December 2018 to US\$213.8 million as 30 June 2019. This was mainly due to refinancing of some loans as mentioned above.

The Group reported negative working capital of US\$53.8 million as at 30 June 2019. This was mainly due to a portion of borrowings used to invest in plantation assets.

Net asset value per share for the Group decreased from 7.72 US cents as at 31 December 2018 to 7.21 US cents as at 30 June 2019.

## **Review of Operational Performance**

At the operational level, the Group's mature area increased by 889 ha to 60,833 ha.

FFB produced from nucleus decreased by 4% from 312,591 MT in 1H2018 to 299,983 MT in 1H2019. The oil extraction rate for CPO for 1H2019 increased to 20.7% as compared to 20.4% for 1H2018.

## **Outlook**

Mr. Henry Maknawi, Chairman of Kencana said, "Prices remained relatively weak for 2Q2019 but we have seen a slight recovery from the second half of July onwards. The market continued to remain volatile, dampened by news of the law passed in the EU to phase out palm oil use in biofuels. This effect was mitigated by news on biodiesel mandates in Indonesia and Malaysia. Demand from China has picked up and is expected to increase further as they continue to import less soy from the US as a result from the ongoing trade war.

In this challenging environment, we will continue to focus our efforts on our core business and improving productivity and cost efficiency."

## **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 2019, Kencana’s total planted area (including Plasma Programme) was 67,722 ha. 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 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](http://www.kencanaagri.com)

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