



Q3 2019 Results Presentation

14 November 2019

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Income Statement Highlights

US\$m	Q3 ended 30 Sept			9M ended 30 Sept		
	2019	2018 (Restated)	▲%	2019	2018 (Restated)	▲%
Revenue	513.1	552.9	-7.2%	1,425.0	1,602.7	-11.1%
Gross profit	26.9	32.5	-17.3%	92.6	101.6	-8.8%
Operating profit	(5.6)	7.9	n.m.	9.0	14.6	-38.2%
Operating (loss)/profit after working capital interest	(12.4)	2.4	n.m.	(9.9)	2.2	n.m.
EBITDA	2.4	15.0	-84.3%	25.5	36.3	-29.7%
EBITDA after working capital interest	(4.4)	9.5	n.m.	6.6	23.9	-72.4%
Net (loss)/profit	(16.6)	0.8	n.m.	(20.4)	(4.7)	331.0%
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Sales volume (mT)	333,682	374,380	-10.9%	946,172	1,055,096	-10.3%
Average selling price (US\$)	1,538	1,477	4.1%	1,506	1,519	-0.9%
Gross profit per mT (US\$)	81	87	-7.2%	98	96	1.7%
Operating (loss)/profit per mT (US\$)	(17)	21	n.m.	10	14	-31.1%
Operating (loss)/profit after working capital interest per mT (US\$)	(37)	6	n.m.	(10)	2	n.m.
EBITDA per mT (US\$)	7	40	-82.4%	27	34	-21.6%
EBITDA after working capital interest per mT (US\$)	(13)	25	n.m.	7	23	-69.2%

Note 1: We have made changes to our segmental reporting, where we consolidated all of our global processing assets under HRC. Please refer to announcement for the details of the changes.

Note 2: Please refer to the announcement for details of the restatement of Q3 2018 and 9M 2018 financials.

n.m.: Not meaningful

Q3 2019 Results Review

- Results in the quarter were impacted by a confluence of conditions that, while adverse to near-term results, point towards a turning point in the natural rubber price cycle:
 - **Continued downward pressure on demand** - Concerns about global economic growth adversely impacted demand, resulting in lower overall sales volume. While the long-term demand dynamics for natural rubber are intact, the end markets for our products are not immune to near term weakness and uncertainty, due to the challenging environment for global trade. It is expected that the overall demand will be continue to be under pressure in coming quarters.
 - **Reduction in raw material supply expected to outpace demand weakness** - On the supply side of the equation, a build up of factors has led to a structural shift in raw material supply. This reduction in supply is expected to materially exceed the reduction in demand which will inevitably lead to an upward normalisation of natural rubber prices.
 - **Near-term margin compression typical of a late-cycle phenomenon** - The simultaneous weakening demand and tightening of raw material supply without an adjustment in prices is a typical late price cycle phenomenon that will ultimately pass as prices rise. While it prevails, however, it significantly compresses operating margins.
- Solid execution capabilities and active cost management ensured that Halcyon Agri remained **operating cash flow positive** for both Q3 2019 and 9M 2019.
- With its scale and global diversification, Halcyon Agri is **well-placed to weather the storm and emerge profitably** as the price cycle turns.

Cash flows

US\$ in millions	Q3 ended 30 Sep		9M ended 30 Sep	
	2019	2018	2019	2018
Operating cash flows before working capital changes	10.3	19.9	24.3	38.0
Changes in working capital	28.2	10.2	2.1	(93.8)
Payment of taxes and working capital loan interests	(6.7)	(7.8)	(22.7)	(16.6)
Cash flow from operating activities	31.8	22.3	3.7	(72.4)
Cash flow from investing activities	(14.3)	(18.9)	(42.4)	(178.0)
Redemption of perpetual securities	-	-	(150.0)	-
Cash flow from financing activities	(39.4)	(7.4)	147.8	222.5
Net changes in cash and cash equivalents	(21.9)	(4.0)	(40.9)	(27.9)

- Maintained **positive** operating cash flow before working capital changes in Q3 2019, despite challenging market conditions.
- After taking account of working capital movements, cash flow from operating activities **solid at \$31.8m** for the quarter.
- Overall 9M 2019 cash inflow from operating activities of \$3.7m, a **significant turnaround** from 9M 2018.
- Ability to maintain an overall positive cash flows from operating activities during a period of adverse conditions, ensures Halcyon Agri to be well-positioned financially as market stabilises.

Balance sheet overview

US\$ in millions	Sep-19	Jun-19	Mar-19	Dec-18
<u>Assets partially funded by debt</u>				
Working capital employed	600.2	636.9	659.3	539.4
Working capital loans	599.2	630.9	636.4	520.4
% Efficiency of working capital funding	99.8%	99.1%	96.5%	96.5%
Operational long term assets	942.5	954.0	943.4	938.7
Other borrowings	473.4	481.6	561.7	391.6
% Fixed asset gearing	50.2%	50.5%	59.5%	41.7%
<u>Assets fully funded by equity</u>				
Cash and cash equivalents	38.9	60.3	133.0	122.9
Non-core assets	48.5	48.5	48.0	46.8
Total equity³	557.3	587.2	585.4	735.9
NAV per share (US cents)	34.9	36.8	36.7	46.1
NAV per share (SG cents) ²	48.1	49.8	49.6	63.0

Note 1: Please refer to the announcement for the definition of working capital employed, operational long term assets, cash and cash equivalents and non-core assets.

Note 2: Translated at the closing exchange rates for each respective period.

Note 3: Inclusive of perpetual securities of US\$150m for Dec-18.

State of natural rubber demand and supply

Supply factors

The Jakarta Post

Plant disease threatens thousands of hectares of rubber plantations

Agriculture Ministry Plantation Director General Kasdi Subagyo said during a meeting at the Office of the Economic Coordinating Minister in Jakarta on Wednesday that the plant disease had affected at least 382,000 hectares of rubber plantations in the country.

He estimated the disease would reduce output by at least 15 percent this year, Kompas.com reported on Wednesday.

REUTERS

Top rubber producer Thailand hit by fungal disease outbreak

Krissada Sangsing, director of the agency's rubber research institute, said the disease threatens to cut output in the affected areas by up to 50%. The agency also told Reuters that damage was estimated to be around 100,000 rai (16,000 hectares) as of Sunday.

- The vast majority of world supply comes from smallholder farmers.
- Years of low natural rubber prices have resulted in overall lower planting/replanting, and forced subsistence farmers to tap the trees more regularly than sustainable levels, as well as cutting back on essential maintenance and fertilisers. In certain extreme cases, the trees are abandoned or replaced with other crops.
- This has resulted in rubber trees ceasing to yield effectively, and leaving the trees vulnerable to disease. This vulnerability allowed the outbreak of disease in each of the major producing countries (Thailand, Malaysia and Indonesia).
- These diseases - leaf blight (*fusicoccum/pestalotiopsis*) and white root (*rigodoporus microporus*) have led to yields from the affected trees falling by at least half¹.
- The effect of lost yields from the damaged trees are **permanent** and will significantly impact natural rubber supply for many years, at a minimum a replanting cycle of 6-7 years but more likely significantly longer.

Demand factors

- World economic outlook remain sturdy in the midst of the near-term challenges

IMF 2020 growth projection

3.4%

- End-user market sales remained strong, signalling end-consumer demand remains intact

Aggregated annualised net sales for Top 3 Tyre Majors²:

US\$73.2b FY2019E vs **US\$73.0b** FY2018 **↑ 0.3%**

- E-commerce and Mobility-as-a-Service (MaaS) will continue to bolster global vehicle miles travelled, consuming more rubber.

2020 estimated global vehicle miles travelled

7 trillion miles

(Expected to grow 15 billion miles per annum for next 20 years)

Note 1 – [Link](#)

Note 2 – As at 2018, based on data from Tire Industry Research, net sales figures collated from published financials

Halcyon Agri plays a central role in the road ahead

1 Greater impetus to realise the sustainability agenda for long term industry success

- As the **leading global natural rubber franchise** and a **leading disruptor** of this age-old industry, Halcyon Agri is well-poised in leading and advancing the sustainability agenda of the industry.
- Our assets are deployed strategically along the supply chain, allowing us to develop and demonstrate best practices first hand – which we believe will be our core competitive advantage moving forward.
- Our business is built based on United Nations’ Sustainability Development Goals (“UN SDG”) Framework:
 - We have launched **HeveaConnect** as an inclusive marketplace for HeveaPRO-certified sustainable natural rubber, and HeveaPRO framework addresses 15 out of 17 UN SDGs;
 - We are now strategising an industry framework which will define and promote sustainable natural rubber, as well as advocating for sustainable business practices in the supply chain.

2 Opportunities in a thinning competitive landscape, rise of third-party platforms/aggregators

- The recent demise of several processors and traders will likely to leave a void in the market that Halcyon Agri can capitalise quickly, as we **possess the requisite financial strength and strategic execution capabilities** to achieve our business goals and realise our commitment on Future Rubber.
- Through HeveaConnect, we are strategically positioned to service the natural rubber marketplace by offering certified sustainable natural rubber from globally acceptable origins.

3 Investing in market adjustments to address temporary demand weakness and long-term supply damage

- Halcyon Agri’s network of 38 processing assets are **distributed across globally acceptable origins, enjoys wide customer approvals** and have the highest number of INE-approved factories among the major natural rubber processing corporates. We have completed our major CAPEX investments in the factories, and **possesses sufficient capacity and financial headroom** to ride the resurgence in demand.
- In terms of supply chain management, we have deployed a **cluster management model** within operating countries to actively manage and coordinate the raw materials procurement across the Group and remain committed to sustainable business practices.
- Halcyon Agri will continue to advocate for **living wages for subsistence farmers, establish fully transparent and traceable supply chain and incentivise smallholder-farmers to fight climate change through sustainable farming practices.**

Concluding thoughts

“ Natural rubber is a strategic material; vehicles don't move without it. At some point, it stands to reason that we will enter a period of restocking, by which time the supply of natural rubber will be a problem that won't be easily solved.

The field is thinning, which is ultimately good for Halcyon Agri. We have the financial and corporate strength to withstand this brutal last chapter of consolidation. That strength is no coincidence – we have built, and continue to build the group to withstand what we knew would be highly challenging conditions. Over the last two years we have looked forensically at businesses within the group and taken steps to improve their efficiency and refine their sustainability strategy. We have left no stone unturned in analysing each part of the business and asking ourselves what it needs to do to help create a more sustainable supply chain for natural rubber.

That has taken significant time and investment, but we have every confidence that it will yield long term benefit, not just for Halcyon Agri, but for the farming communities that produce natural rubber, and the entire downstream supply chain.

There has been much done, but there is more to do. We have been looking at how we can influence and encourage the rest of the supply chain to follow our lead and ensure that the long-term supply of natural rubber is secured.

Financial sustainability has become the #1 point on the agenda for our supply chain. 2019 has seen more bankruptcies in our industry than ever before, and across the value chain: Consumers, Traders, Processors and Planters!

The real question that will have to be answered is whether futures-market price referencing for an equatorial smallholder crop is in itself sustainable. Rubber, coffee, cocoa - all share similar market characteristics and equally poor distribution of income.

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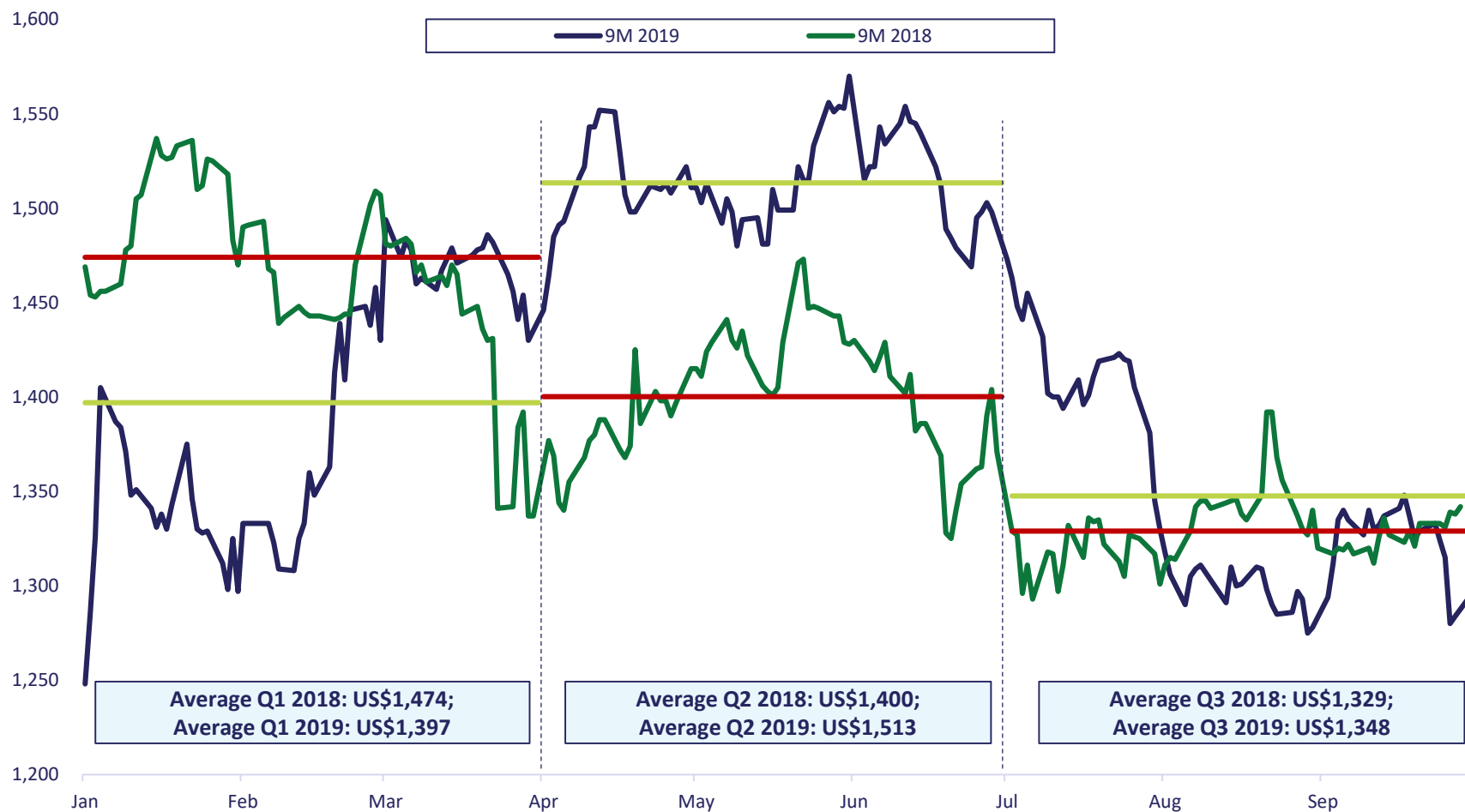
Watch this space!

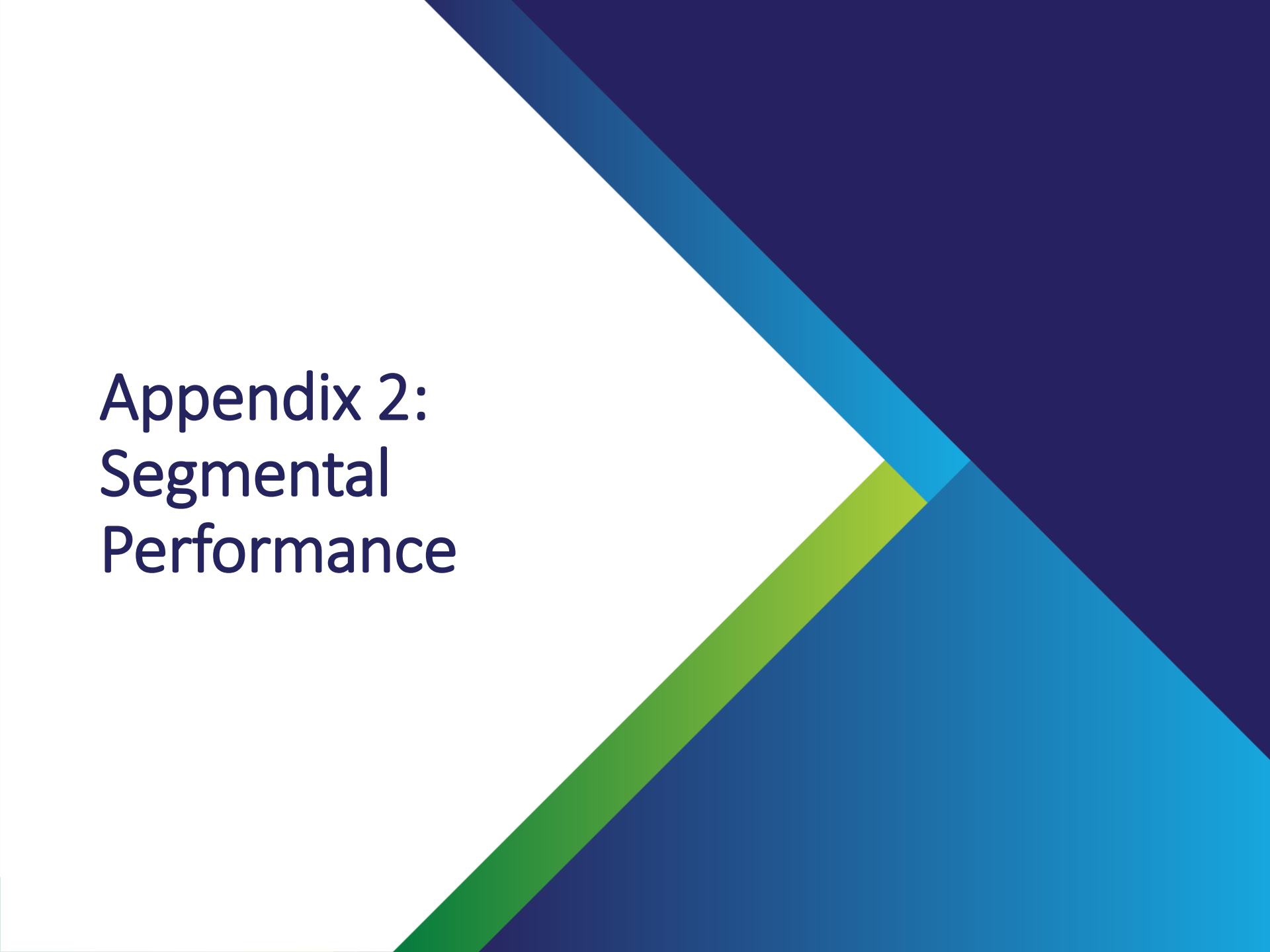
*Robert Meyer
Chief Executive Officer, Halcyon Agri*



Appendix 1: Market price movement

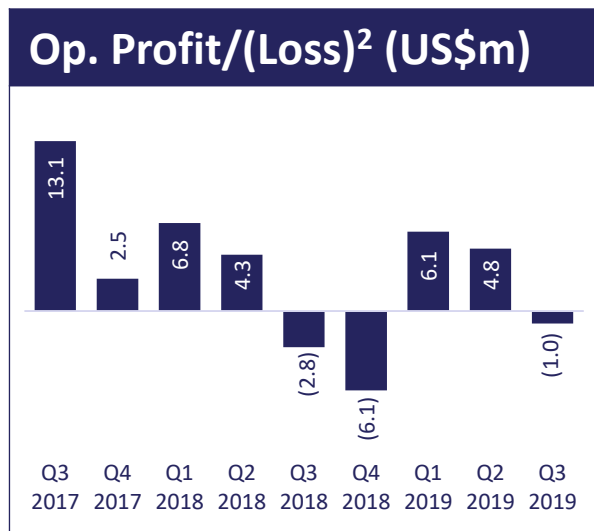
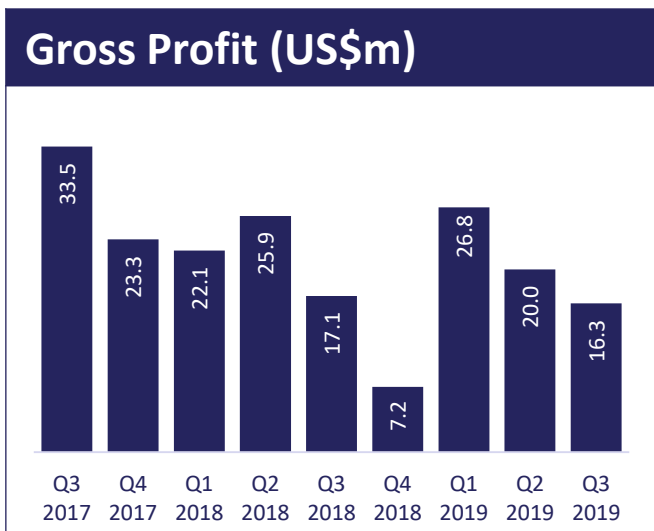
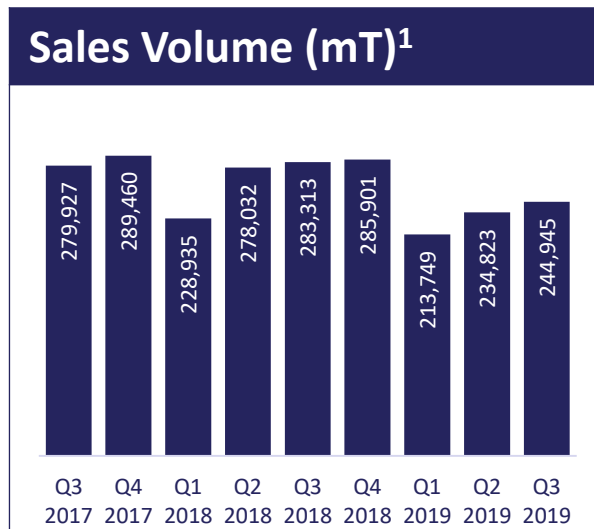
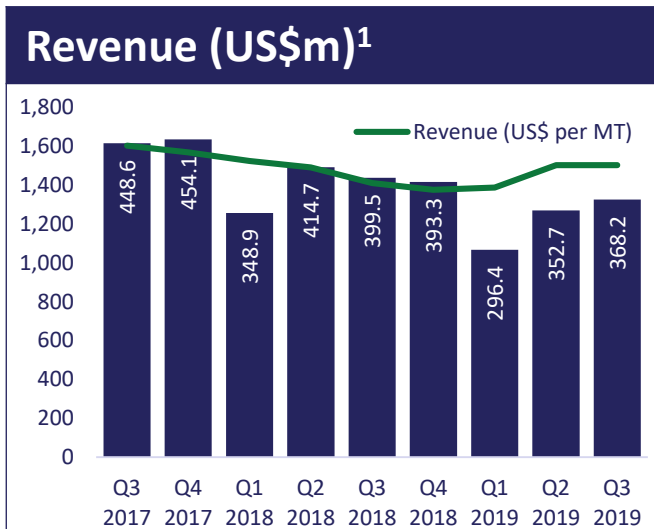
Movement in SICOM TSR20 1st position





Appendix 2: Segmental Performance

Halcyon Rubber Company (HRC)



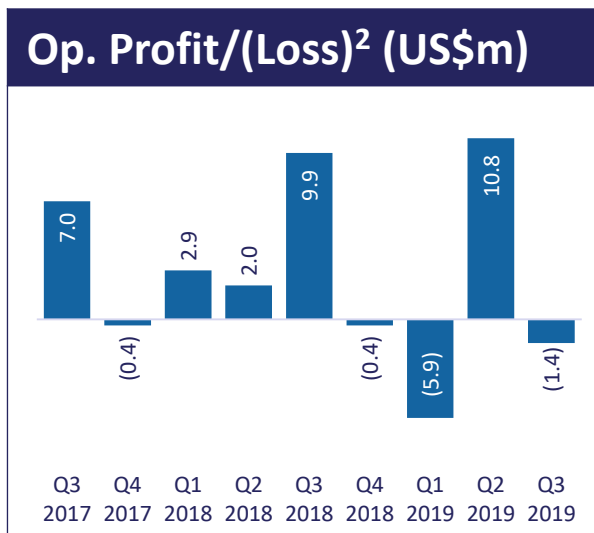
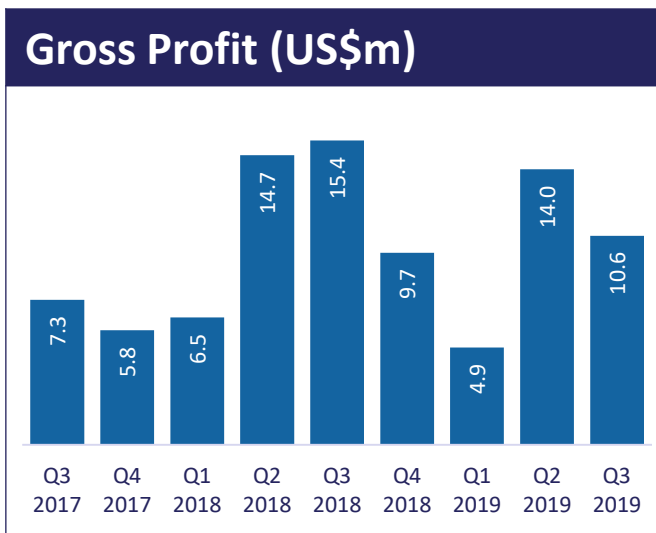
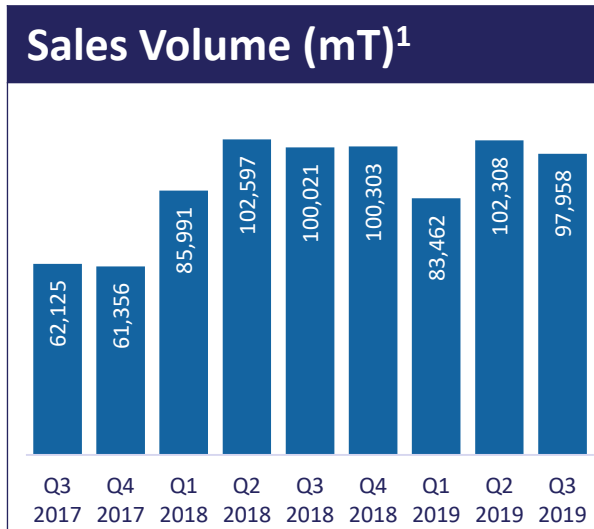
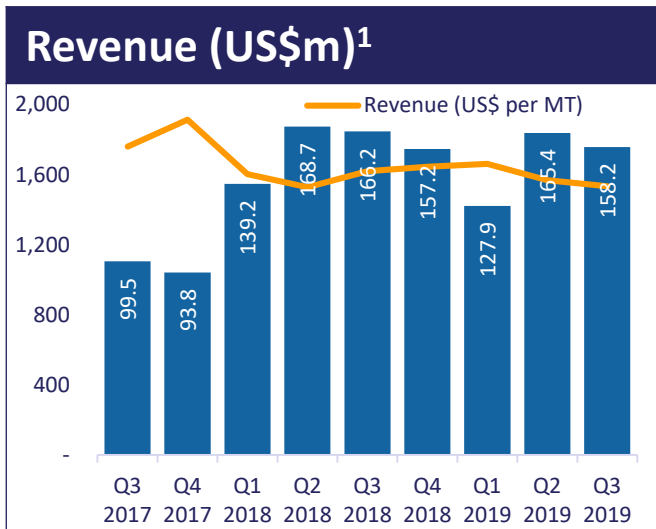
- Recent developments in natural rubber market, as well as convergence in quality requirement at consumers' end, have seen HAC consolidating all of its processing assets into a singular platform under HRC.
- The enlarged HRC will now contain processing assets from diverse origins: Indonesia, Thailand, Malaysia, China and Ivory Coast.
- HRC continues to be mired by tight raw materials situation, which led to erosion of processing margins.

¹ Includes intersegment figures

² Adjusted for management fees

* The Group's Ivory Coast operations has been recessed to SINRIO Group effective 1 Jan 2019, and the relevant financials have been readjusted to that effect..

Corrie MacColl (CMC)



- Slight decline in sales due to procurement cutbacks by consumers amid macro uncertainty.
- Compression in latex margins, on the back of declining volume, resulted in the decrease in operating profitability in this quarter.

¹ Includes intersegment figures
² Adjusted for management fees.

Updates on HeveaConnect (HC)

Digital marketplace for HeveaPRO-certified natural rubber

Platform traffic since Apr-19

28,000 MT

(YTD volume traded on platform since HC went live on Apr-19)

Solid capital base contributed by strategic partners

Secured strategic investments from **DBS** and **ITOCHU**

Gaining traction on the digital marketplace

HC offers cargoes from **40** approved factories and currently serving **4** cornerstone consumers

Proactive engagement and continuous platform improvement

Continuous integration of new features, proactively seeking feedback from consumers

Total contracted value of cargoes passes through HC

US\$38 million

(average US\$300k per trading day)

Full suite of sustainability workflow

Active capturing of supply chain traceability data, including factory processing metrics, raw material source mapping amongst others

- Six months since going live, HC has been charting encouraging progress in their quest to become the preferred marketplace for sustainable natural rubber.
- To date, secured commitments from two out the three largest tyre majors for exclusive trades of HeveaPRO Technically Specified Rubber through HC, with several more under negotiations to come on board.
- Planned rolling out of mobile apps and chat functions to extend service offering beyond existing web-based platform.



Thank you