Lambert Commodities

## A perspective on Trafigura's 2020 results

Trafigura opened the profit announcement season with a superb result for 2020. Thanks to their FY end a quarter earlier than their competitors, we have yet another evidence that the combination of high volatility and favourable forward curves during the year are magic ingredients for trading houses. 2020 will not be a year to remember for many, but for commodity trading houses in oil and metals, it could well be a record year. We should now wait for a few months to see if Trafigura's competitors were able to similarly take advantage of the market dynamics.

To take a good measure of the magnitude of Trafigura's results, let's observe that the 1.6bn$ net profit has yet allowed the trading house to provision 1.57bn$ on the fair-value valuation of their assets, Puma and Porto Sudeste, Nyrstar and the Colombian terminals and invest another 250mio$ in Nyrstar.

It is also worth noting that the ratio of contribution to revenues for metal and oil & products narrowed to 43/57. That shows that the metal division now forms a crucial part of Trafigura's business mix. Then again, that was expected after the Nyrstar restructuring.

Trafigura's balance sheet shows that the Contango play on crude oil (and also copper) played a major role in the profit generation this year. Inventories jumped from 13.4bn$ to 20.2bn$, much beyond the 6bn$ of stocks in transit required for regular trading activities (the shipping division is being commended for having found the many floating storage solutions required to hoist these huge quantities of crude).
Consequently, the net debt valuation sank from 5.3bn$ to 2.7bn$, since most stocks were hedged to secure the cash and carry play, hence deemed as readily marketable. Whilst this is entirely logical and fair, it is always somehow difficult to comprehend for non-commodity savvy analysts, as current borrowing naturally increased (from 22.4 to 25.8 bn$ at year end) to provide finance the cash to carry. It is also worth noting that trade receivables decreased by 18pct, showing marketing activities were somehow subdued amid the Covid19 economic stress. The recovery will dictate how fast the stocks will be sold when the contango play ends.

So overall extremely good results for Trafigura. Fossil fuels will remain a major tool for Trafigura for many years and we will witness with great interest how long it takes to the newly created Power and Renewables division to become a significant income earner. As to the metal division, they are already focused on the transition with cobalt, nickel, and copper trades.

Fortunately, Trafigura is not listed as 2021 may not be able to match the record results of 2020… However, if the trading house were to generate a 1bn$ result *only* next year, that would be entirely satisfactory for the 850 or so shareholders, or wouldn't it.

22 rue Rousselet
75007 Paris, FR

+44 7493 777 008 / +33 78 609 7018
www.lambertcommodities.com