

Commodity Trading Giants Hunting for Investors Find Few Takers

By [Andy Hoffman](#) and [Javier Blas](#)

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- ▶ Gunvor, Louis Dreyfus have failed to find minority investors
- ▶ Trading businesses prove too volatile for potential buyers



An oil tanker is anchored near the Port of Long Beach, California, U.S. *Photographer: Tim Rue/Bloomberg*

They make hundreds of millions of dollars in profits each year and have unparalleled knowledge of the flow of vital commodities around the globe. Yet when the world's biggest commodity trading houses have gone out looking for equity investors, they've found few takers.

From energy giant [Gunvor Group Ltd.](#) to storied agricultural merchant [Louis Dreyfus Co.](#), traders have tried and failed to get cash injections by selling minority stakes to strategic partners. Instead, the funds required to boost liquidity or monetize insiders' shareholdings have come from piling on debt or selling assets -- far from ideal at a time when earnings are

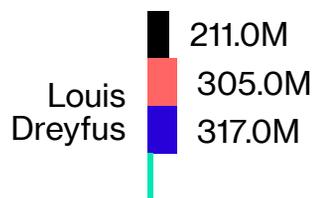
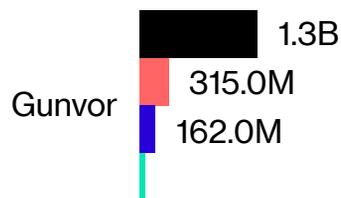
already weakening.

“The nature of the commodity trading business makes selling a minority stake very complicated,” said Jean Francois Lambert, an industry consultant and former trade finance banker at HSBC Holdings Plc. “This business relies on a handful of savvy traders and that is difficult to manage if you are not a trader yourself.”

Trending Down

Commodity traders' earnings have weakened amid market shifts

■ 2015 ■ 2016 ■ 2017 ■ 2018



Annual net income in U.S. dollars

Source: Company reports

Note: 2018 data not available for Gunvor and Louis Dreyfus

Part of the problem is that the commodity trading business, largely dependent on volatile markets and sophisticated risk management, is notorious for big swings in profit. Vitol Group Ltd., the world’s biggest independent oil trader, posted net income of almost \$2.3 billion in 2009, slumping to about \$837 million in 2013 before rising to \$2 billion in 2016 and then dropping to \$1.5 billion in the following year.

Tough Years

The past few years have been tough for the traders with declining earnings making it

difficult to find investors. It's been exacerbated by increased competition and a technology shift that's made key market information -- once known only to a handful of traders -- widely available to all.

For oil traders, a market structure that provided easy money in 2015 and 2016 from storing crude to sell later at higher prices has disappeared. Metals merchants are only starting to do better after years of lackluster results due to weak prices. Agricultural traders are still struggling with bumper crops and a lack of significant weather disruptions that have crimped profits and reduced the price volatility that traders crave.

[READ: Oil Traders Suffering Dismal Year as Easy Money Deals Vanish](#)

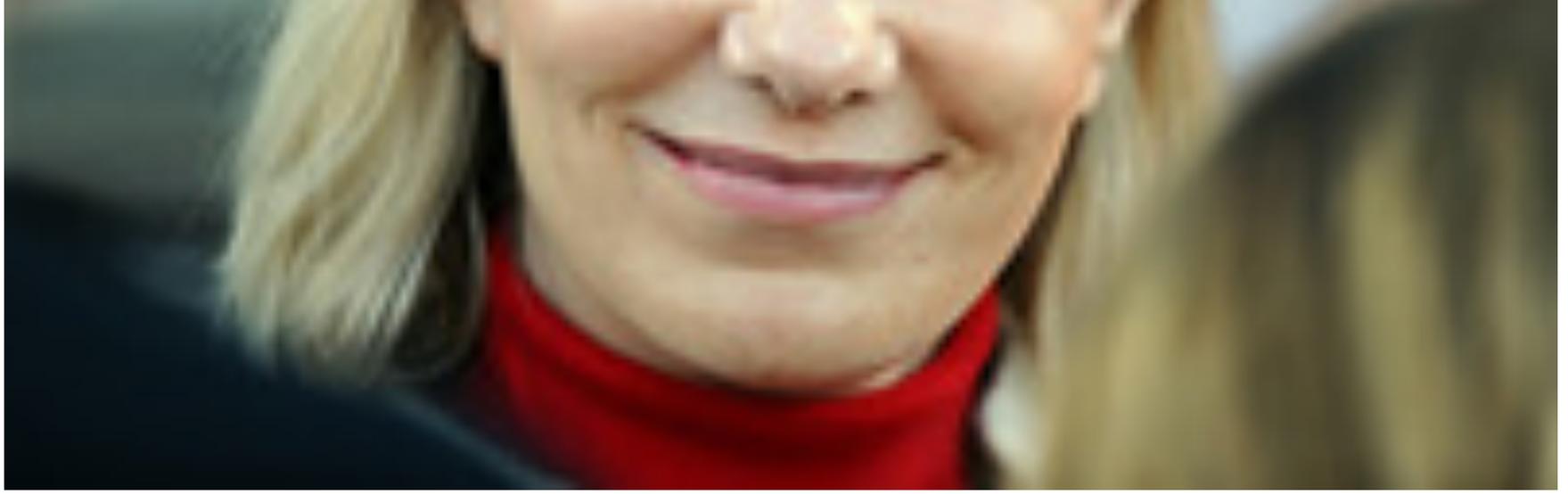
“The commodity trading industry is on a path that's not sustainable. The typical margin for a trading company is about 0.5 percent of turnover,” said [Mercuria Energy Group Ltd.](#) Chief Executive Officer Marco Dunand. “The trend is going to continue. It is not cyclical, it's structural. So we may need to see consolidation.”

Attempts to find minority investors have been complicated by the fact that many trading houses have one dominant shareholder in control, leaving any small holder with exposure to the business risks and earnings volatility but very little control over running the company.

Unsuccessful Attempts

Torbjorn Tornqvist, the billionaire who controlled about 64 percent of Swiss oil giant Gunvor as of last year, [approached rivals](#) about selling a stake in 2017 but failed. Gunvor has returned to the market more recently with preliminary talks with Algeria's state oil company Sonatrach about a possible joint venture or a [sale of the entire company](#).





Margarita Louis-Dreyfus *Photographer: NICOLAS TUCAT/AFP*

Louis Dreyfus boss Margarita Louis-Dreyfus is in a similar boat. She took out a loan last year to help fund an obligation to buy about \$900 million worth of other family members' shares. That left her with 96 percent of the holding company that controls the trading house.

She has recently signaled again she's open to selling a stake and opening the company to outside capital for the first time since it was founded more than 150 years ago. Louis-Dreyfus sought investors in 2015, but talks with investors including Singapore's Temasek Holdings Pte Ltd. proved unsuccessful.

[READ: Louis Dreyfus Makes It Easier to Pledge Shares to Third Parties](#) 

Trafigura Group Ltd., the world's third-biggest oil trader, also toyed with the idea of bringing in an outside investor. Russia's Rosneft PJSC proposed to take a 20 percent stake in the company in 2015, according to people familiar with the matter. It was rejected.

Officials at Gunvor, Louis Dreyfus and Trafigura declined to comment.

One trading house that has pulled off a deal is Geneva-based Mercuria, which sold a 12 percent stake to a consortium led by China National Chemical Corp. in 2016. That deal worked because both sides could bring something more than just money to the table, Mercuria's co-founder Dunand said.

“If you have worked with someone for a long time, and you see synergies, and it's real, it's natural to seek to strengthen the ties,” he said. “If the only motivation is money, it probably isn't going to work. ”

No IPO

Despite the failure to find investors, the traders aren't taking the initial public offering option. The troubles of Hong Kong's Noble Group Ltd., once Asia's largest commodity merchant, have highlighted the perils of a public listing for a trader. While Switzerland's Glencore Plc successfully sold shares, it evolved to become a full-blown mining company before the listing.

Instead they have sold stakes in non-trading businesses. Vitol has listed its Africa fuel-station business Vivo Energy Ltd. and its Australian counterpart Viva Energy Group Ltd. Trafigura, Gunvor and Louis Dreyfus have sold physical assets and issued bonds to raise capital.

“Financially, the traders are not having their best time right now,” said Lambert, the consultant. The only strategic buyers for minority stakes in trading houses are Chinese investors and “they have grown more experienced and want a good measure of control. This makes for quite a demanding minority partner.”

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