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Tough oil market conditions bite on profits at Trafigura

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Trafigura, one of the world's biggest commodity traders, reported an 9 per cent drop in annual profits and lower payout to senior employees as intense competition and plentiful supplies crimped margins in oil, one of its two core businesses.

Trafigura and its peers, which include Vitol and Glencore, were among the big winners during oil's slump from above $100 a barrel in 2014 to below $30 a barrel last year, recording some of their highest profits on record.

But as prices have recovered they have found it more difficult to make money from buying cheap crude, storing it, and selling the oil later at a higher price. Monday's results from Trafigura highlight that trend and show how independent oil traders are having to run hard just to stand still. They also underscore the importance of scale and diversification.

The Singapore-based company, which is led by Jeremy Weir, reported net income of $887m for the year to September, against $975m a year earlier, bolstered by a gain of $135.7m on debt securities related to an investment in Brazil

Revenue increased by 39 per cent to $136bn from $98.bn, reflecting higher commodity prices and a big increase in trading volumes, which jumped 25 per cent to 325.9m tonnes.

Trafigura paid a dividend of $568.9m to its management and 600 senior staff, down from $719.1m a year earlier.

Its gross margin for the year was 1.6 percent, down from 2.3 per cent in 2016 — a reflection of intense competition and subdued price volatility in oil trading, the company said.

While its oil business struggled with tough market conditions, Trafigura's metals and minerals unit fared much better as markets tightened. This created lucrative arbitrage opportunities as consumers scrambled to lock in supplies of zinc and copper and other metals.

Against this mixed backdrop, Mr Weir said Trafigura delivered a strong performance, with profits broadly in the range of the past five years.

"Now more than ever commodities trading is a business where global scale and scope count," he said.

For the first time, gross profits in Trafigura's metals and minerals business exceeded $1bn, matching the contribution from the company's muscular oil and petroleum business, which trades 5.3m barrels of oil a day.

"This year, oil margins have been under pressure owing to market conditions, while the metals business has turned in its best performance in years. This diversification helps to produce a stable overall profit stream and mitigates risk", added Mr Weir.

Trafigura's adjusted net debt was almost unchanged on a year ago at $8.64bn. But the company's ratio of adjusted net debt to equity fell to 1.35 times from 1.48 in 2016.

After years of heavy investment and spending on ports, storage terminals and other assets, Trafigura has cut investment and spending. It aiming to reduce its leverage so that adjusted net debt to equity does not remain significantly above 1 over the long term.

"In a conducive trade environment, Trafigura can generate net income of more than $1bn," said Jean-François Lambert of Lambert Commodities. "That they are able to achieve almost $900m in a

more complex one is therefore rather encouraging."

Looking ahead, Mr Weir said Trafigura saw a better balance between supply and demand in its key markets, which should lead to greater volatility and money-making opportunities.

"In oil, we believe a supply deficit is likely to emerge in 2019 as production capacity fails to keep pace with rising demand," he said. "The zinc market already has a supply shortfall and a deficit is expected to emerge in copper by 2019; even aluminium, a market plagued by oversupply for many years, is tightening due to Chinese cutbacks."

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