

# Metal Bulletin

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## Trafigura strengthens grip on Nyrstar's Port Pirie with liquidity bridging loan deal

Trafigura's rescue package for Nyrstar comes at a price, with the trader taking greater ownership of one of the world's largest zinc smelter's prized assets in return for helping it bridge a nine-day liquidity crunch.

Nyrstar announced on Wednesday November 21 that its biggest shareholder, Trafigura, had granted it a committed working capital facility of \$650 million, effective November 30.

The Belgian producer also took on a \$220 million metal prepayment agreement with Trafigura effective today, with shares in its Australian Port Pirie lead smelter pledged as collateral.

This agreement, known as a "bridging loan", is aimed at ensuring Nyrstar gets through a nine-day liquidity gap and the financing overall will provide Nyrstar much needed muscle to meet its daily working capital requirements.

But in providing the facility, Trafigura has gained deeper control over one of Nyrstar's prime assets and while shares in Nyrstar have received a much needed boost, bond valuations have continued to slide.

Nyrstar will continue to be pledging shares in Port Pirie to Trafigura when the \$650 million capital facility comes into effect to replace the nine-day bridging loan, Fastmarkets understands.

"Trafigura has managed overnight to position itself ahead of the unsecured bondholders, who have become more junior," ABN AMRO equities analyst Phillip Ngotho said via emailed comments.

"In case of a default the unsecured bondholders are likely to recoup less from their investment than what was the case pre-deal," he said.

### Liquidity crunch sees Port Pirie on the table

The origins of Nyrstar's liquidity gap stretch back to the transfer of offtake rights from Nyrstar's former partner, Glencore, to new 24.6% owner Trafigura, ING Bank equity analyst Stijn Demeester said by phone today.

"It's a technical issue – the Glencore agreement had a two-month rolling forward prepay agreement, and the new Trafigura one didn't have that in place yet. So that raised working capital requirements in the past couple of weeks," Demeester said.

At the center of the deal is Nyrstar's Port Pirie smelter; the jewel in the crown of the company's revival.

Nyrstar has spent AUD \$660 million (\$479 million) in redeveloping Port Pirie into a world class asset capable of gleaning value from all kinds of by-products from Nyrstar's other smelting operations in Europe and Australia.

This processing is key to Nyrstar in generating enough cash to repay the €350 million of outstanding high yield bonds due for collection next year.

"The gross profit margins are very high. And the reason those profit margins are so high is those materials [being processed] are carried at very low, generally, at very low accounting values. So it's all being paid for," Nyrstar chief executive officer Hilmar Rode said in the company's second-quarter results call this year.

"To the extent that they carried with some accounting value, that will create working capital liberation. And to the extent that they're not valued, which is most of it, that will create Ebitda [profit]," he added.

Port Pirie is expected to contribute €40 million to company profits this year, according to Nyrstar.

Through an existing commercial offtake agreement, Trafigura has access to 150,000 tonnes of lead ingots produced at the smelter each year. Trafigura is also marketing Nyrstar zinc in the United States and Europe.

"You can see that it's a trading act – they are in effect trying to get better control of the current assets of the company which makes sense because this is what they need," Jean-Francois Lambert of Lambert Commodities and former Global Head of Commodity and Structured Trade Finance for HSBC Group said.

Nyrstar declined to comment when questioned by Fastmarkets on how much of Port Pirie's equity value has been pledged to Trafigura as part of the prepayment financing.

"We have put the new financing in place as we strongly believe in the upside potential of the performance of Nyrstar's assets in the years to come," a Trafigura spokesperson said.

### Equities bump, bonds slump

News of the working capital facility was enough to cause a spike in Nyrstar shares to a two-day high of €1.32 (\$1.50) per share;

they have since declined to €0.92 but are still up from yesterday's close of €0.78.

Nyrstar shares are down 86.6% since the start of the year after a decline in zinc prices led the company to issue a profit warning in September.

The London Metal Exchange three-month daily official zinc price settled at \$2,575-2,576 per tonne on Wednesday, down from an annual peak of \$3,585-3,586 per tonne on February 16.

But the bond markets have been less forgiving; Nyrstar's eight-and-a-half-year bonds due for repayment in September next year are down 6.69 points today and are trading at €48.6 on the dollar.

"The market is pricing in that [Nyrstar] has another creditor in terms of guarantees and that is Trafigura," ING Bank's Demeester said.

Nyrstar is unable to use the additional liquidity provided by Trafigura to repay their bonds.

Nevertheless, the world's largest pure commodities trader has been able to strengthen its grip on Nyrstar through a weak point in the zinc and lead producer's financing.

"It gives them control of elements where they may not have had control before, so I think that it's a smart commodity trading move by Trafigura," Lambert said.

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