Financial review

Profits rise as oil trading shows strong recovery

Christophe Salmon, Group Chief Financial Officer

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Performance Indicators[1]

Group revenue
$86.3bn

2019	**86.3**
2018	86.9[2]

Total assets
$56.1bn

2019	**56.1**
2018	53.8[3]

Gross profit
$1,471.6m

2019	**1,471.6**
2018	979.0[2]

Total non-current assets
$8.3bn

2019	**8.3**
2018	8.8[3]

Gross profit margin
1.70%

2019	**1.70**
2018	1.13[2]

Total group equity
$6.6bn

2019	**6.6**
2018	6.2[3]

Profit for the period
$425.7m

2019	**425.7**
2018	221.8[2]

EBITDA
$1,112m

2019	**1,112**
2018	658[2]

[1]Six-month period ended 31 March 2019.

[2]Six-month period ended 31 March 2018.

[3]As at 30 September 2018.

Trafigura Group registered a sharp increase in profit for the first half of its 2019 financial year, with margins on oil trading showing an especially strong recovery.

In the six months ended 31 March 2019, Group revenues were flat compared to the same period a year ago, reflecting trading volumes that remained largely stable and average commodity price levels broadly in line with last year. Profit for the period, however, rose by 92 percent to USD426 million from USD222 million, principally due to a strong performance in Oil and Petroleum Products trading. In commodity markets that remained fiercely competitive, the company prioritised profitable business over further volume growth and maintained a very robust financial position with ample access to liquidity.

As in the first half of FY 2018, the global oil market remained in a state of backwardation during the period, meaning that spot prices were higher than forward prices. By having repositioned our oil trading book a year ago in response to the change of the term structure, we were able to benefit from increased price volatility resulting from geopolitical events during this period. Our performance was also enhanced by our market-leading position in strategic commodity flows, notably the increase in exports of crude oil and liquefied natural gas from the US.

Gross profit was USD1,472 million, a 50 percent increase on the level of USD979 million registered in the first half of 2018. Gross profit margin was 1.70 percent, up from 1.13 percent a year ago. EBITDA was close to a record at USD1,112 million, compared to USD658 million.

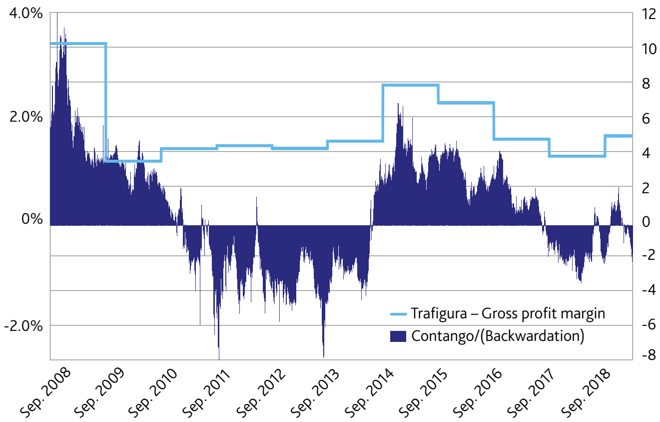
Gross profit in Oil and Petroleum Products trading was USD1,035 million, nearly three and a half times higher than in H1 2018. Whilst all of the division's books performed well during the period, the crude oil, gasoline, LNG and wet freight desks were the stand-out contributors. Gross profit in Metals and Minerals trading fell by about a third to USD437 million compared to this time last year, reflecting a slow start for the non-ferrous concentrates and refined metal books.

As a whole, these results once again demonstrate the benefits of our diversified business model, focused on two commodity clusters whose market cycles are largely uncorrelated. In the first half of 2018, for example, strong profit performance in Metals and Minerals offset weaker trading in Oil and Petroleum Products.

In the first half of 2019, the recovered performance of the Oil and Petroleum Products segment more than compensated for the weaker performance in Metals and Minerals. This led to stronger profit generation across the board in H1 2019, reflecting the critical mass and market share we have attained in all the commodities we trade and the efficient and scalable infrastructure we have developed to support our trading activity.

After four years of rapid volume growth, Trafigura is in a phase of consolidation across its trading books. Total volume traded in Oil and Petroleum Products reduced by seven percent from the same period a year ago to an average 5.5 million barrels per day, while Metals and Minerals total volumes increased marginally by three percent.

Trafigura's historical gross profit margin during periods of contango and backwardation in the oil market.



Source: Company information and public market data. Contango/(Backwardation) graph is calculated by subtracting CO1 (Generic 1st 'CO' Brent Future) from CO6 (Generic 6th 'CO' Brent Future). Gross profit margin calculated as Gross Profit as percent of revenues excluding Puma Energy.

Business highlights

A key event of the period was Nyrstar NV, the leading European smelting group in which Trafigura is the largest shareholder, negotiating to restructure its debts. The expected outcome of this process will be that Trafigura will eventually hold a 98 percent stake in the operating companies of the Nyrstar Group. The restructuring agreement that was signed after the end of the reporting period reduces Nyrstar's liabilities substantially and will lead to Trafigura consolidating the assets and remaining liabilities of the company within its balance sheet before the end of this financial year.

In our H1 results, the "other income/expense" line includes an impairment on non-financial assets of USD17 million on a prepayment related to Nyrstar and a final impairment of USD35 million on the carrying value of our equity accounted stake in Nyrstar.

Other key events included the appointment of Emma FitzGerald as the new CEO of our mid- and downstream investment Puma Energy. Emma's wealth of relevant experience and expertise gained from energy and utility industries put her in an ideal position to build on the strong foundations that Puma Energy has established over the last 15 years. Andrew Kemp will join as its CFO in June 2019. His deep experience of emerging markets will bring valuable insights to Puma Energy as their company implements its strategy to deliver sustainable growth.

Nyrstar is a global multi-metals business, with a market-leading position in zinc and lead, and growing positions in other base and precious metals. The company employs over 4,000 people and operates six smelters, one fumer and four mining operations located in Australia, Belgium, Canada, France, the Netherlands, Norway and the United States.

Trafigura has had commercial arrangements with Nyrstar since its inception in 2007 and longer term-structured arrangements since acquiring a substantial shareholding in the company in 2015. Nyrstar's assets have considerable potential upside; however, the company has been held back in recent times by an inappropriate capital structure.

In April 2019, Nyrstar entered into a Lock-Up Agreement with a majority of its financial creditors for the purpose of recapitalising the group. It has received the requisite support from the financial creditor groups and will now proceed to implement the scheme of arrangement which is expected to complete by financial year-end. The restructuring arrangement will result in Trafigura indirectly obtaining approximately 98 percent of the shares of the Nyrstar Operating Group.

Trafigura has a positive long term outlook for zinc. Following the restructuring of Nyrstar's structural debt and comprehensive recapitalisation of its balance sheet, we expect to see an improvement in Nyrstar's profitability which will provide a stable long term platform for its market leading operations worldwide.

In conjunction with entering into the Lock-Up Agreement, Trafigura is currently providing USD250 million of secured bridge financing during the interim period to ensure that operations continue on an uninterrupted basis until the completion of the formal restructuring. This bridge financing is in addition to the continued availability of the USD650 million Trade Finance Facility provided by Trafigura in December 2018.

As part of the agreement with bondholders and in exchange for the discharge of Nyrstar's obligations under the Nyrstar bonds and convertible notes, Trafigura will issue pro-rata to Nyrstar bondholders and convertible noteholders EUR262.5 million of Perpetual Resettable Step-up Subordinated Securities by Trafigura Group Pte. Ltd.; EUR80.6 million (USD equivalent) of Guaranteed Senior Notes by Trafigura Funding S.A. under the EUR3 billion Euro Medium Term Note Programme; and Trafigura Group Pte. Ltd. will guarantee a EUR225 million (USD equivalent) seven-year Zero Coupon Commodity Price Linked instrument.

As part of the agreement with Nyrstar's bank lenders, Trafigura Group Pte. Ltd. will also guarantee all of the reinstated Bank Facilities: the Structured Commodity Trade Finance facility (SCTF), the Unsecured Facilities composed of prepayments and bilateral facilities and the new Revolving Facility provided by lenders under the SCTF and the Unsecured Facilities.

Income, expenditure and balance-sheet

Revenue for the period was USD86,297 million, compared to USD86,935 million in the first half of FY 2018, as volumes and average commodity prices remained stable year-on-year. Revenue in Oil and Petroleum Products trading was USD57,986 million, or 67 percent of the total, while revenue in Metals and Minerals trading was USD28,311 million, or 33 percent. Results from operating activities were USD894 million compared to USD575 million a year ago. General and administrative expenses were USD510 million compared to USD447 million. Net financing costs increased to USD316 million from USD247 million, reflecting increased use of credit facilities and a 68 percent increase of the 1-week USD Libor, our reference base rate for most of Trafigura's facilities.

The increase in USD Libor is carefully monitored by Trafigura's Finance team. However, such an increase does not automatically affect Trafigura's profitability. In practice, before a trade is entered into, a forecasted trading profit and loss is established which captures all costs (cost of transport, storage, insurance, control, sampling, inspection and certification, cost of financing including Libor, taxes, etc.); this means that Trafigura can adjust the level of gross profit to the level of expected costs, subject to each market's competitive situation. Since Libor affects similarly all market participants, Trafigura's competitive position is generally not affected.

The income statement also includes a loss of USD64 million, which represents Trafigura's share of losses of equity-accounted investees. These include losses by Puma Energy, the Brazilian iron ore export terminal Porto Sudeste and Indian refining and distribution company Nayara Energy, partly offset by profits from our share in the MATSA mining company in Spain, the Empresa Mineral del Caribe mining venture in Cuba and the deconsolidated Impala Terminals infrastructure assets now managed in a joint venture with IFM Investors.

As at 31 March 2019, total assets stood at USD56,106 million, compared to USD53,801 million on 30 September 2018. Fixed and non-current assets were USD8,268 million compared to USD8,836 million; the decrease is related to a drop of other non-current assets, see note 24h. Acquisitions in the period, included in the "property, plant and equipment" line, amounted to USD84 million, reflecting investments in a number of individually smaller projects. Non-current liabilities were steady at USD8,971 million.

Current assets rose by six percent during the period to USD47,772 million. Inventories were little changed at USD14,899 million, but prepayments rose, reflecting increasing demand for structured trade finance arrangements in which Trafigura advances credit to a counterparty and is repaid in commodity offtake over time. Current prepayments (with maturities of one year or less) rose to USD4,295 million by 31 March 2019 from USD3,064 million six months earlier, while non-current (longer-term) prepayments rose to USD753 million from USD596 million. Trafigura lays off a substantial portion of such credit risks through insurance and bank syndication arrangements. The increase in prepayments was driven mostly by new short-term transactions closed with Nayara and Nyrstar; these new transactions will be repaid, or converted to intercompany lending in the case of Nyrstar, in the coming months.

In terms of operational leverage, loans and borrowings barely changed from six months earlier. We assess the Group's financial leverage by calculating a ratio of adjusted net debt to equity. Adjusted net debt corresponds to the Company's total non-current and current debt less cash, fully-hedged and readily marketable inventories, debt related to the Group's securitisation programme and the non-recourse portion of loans from third parties. As at 31 March 2019, our adjusted debt-to-equity ratio stood at 1.16x, close to our medium-range target of 1x.

Cheniere Energy's Sabine Pass LNG terminal in Louisiana, US which is providing LNG to Trafigura under a 15-year agreement.

Liquidity and financing

In terms of financing and liquidity, Trafigura maintained in the first half of 2019 total credit lines of USD59 billion from a record total of around 135 banks around the world to support our trading activity, retaining a significant buffer of unused credit in case of unforeseen events. In all respects, our credit and market risk parameters remained unchanged.

As per our financing policy, the majority of our day-to-day trading activity is financed through uncommitted, self-liquidating trade finance facilities, while we use corporate credit facilities to finance other short-term liquidity requirements, such as margin calls. This gives us the necessary flexibility to cope with periods of enhanced price volatility by increasing or decreasing usage of trade finance facilities as required. Trafigura also maintains an active programme of capital markets debt to secure longer-term finance in support of our investments.

During the six months ended 31 March 2019, the Group completed a number of important transactions, both in established markets and in promising new ones.

In October 2018, Trafigura refinanced its Asian Revolving Credit Facility (RCF) and Term Loan Facilities (TLF) at USD1,945 million-equivalent with the support of 28 banks. The transaction comprised three tranches: two US Dollar denominated tranches (a 365-day RCF and a three-year TLF) and a one-year CNH denominated Term Loan Facility.

In March 2019, Trafigura refinanced the 365-day tranche of its European RCF at USD2,050 million, achieving tighter pricing with the support of a larger and more diverse bank group. In addition, similar to 2017, Trafigura decided to exercise the first extension option available on its USD3,550 million three-year tranche, extending the facility by 365 days, hence resetting the facility maturity to three years.

Having completed a significant amount of capital markets financing in full year 2018, taking advantage of an attractive market backdrop, Trafigura had effectively pre-financed two upcoming maturities, the EUR607 million Eurobond, which matured in November 2018, and a SGD200 million Perpetual Bond, which the Company redeemed in February 2019, on its first call date.

In addition, Trafigura took the opportunity to build on successful efforts made the previous year to expand into new financing markets. In October 2018, Trafigura raised RMB700 million through the third tranche of its Panda Bond programme. This issuance was followed by a fourth tranche, which came after the end of the reporting period in May 2019, which raised an additional RMB540 million. Both tranches were placed in the Interbank Market under a Private Placement format for a three-year maturity. The final coupon of the fourth tranche was significantly tighter than that of the first tranche issued in April 2018, confirming the strong appetite of the Chinese market for Trafigura's long-term debt. The total amount raised under the company's Panda Bond programme is circa USD337 million. The proceeds of these two tranches were hedged via cross-currency swaps.

Cash flow

After adjusting profit before tax for non-cash items, the operating cash flow before working capital changes for the half-year rose to USD1,079 million from USD681 million in H1 2018. Trafigura believes its financial performance is best assessed on the basis of operating cash flow before working capital changes, as the level of working capital is primarily determined by prevailing commodity prices and price variations are financed through the Group's self-liquidating finance lines. Cash flow from working capital changes was negative due to an increase in prepayments. This section also includes a cash inflow of USD1.3 billion due to recovery of margin calls paid under the hedging instruments relating to tolling, transportation and offtake agreements; the liquidity effect of these hedging instruments was also partially managed by entering into a structured OTC swap, with zero margining levels and an assignment of certain contract rights with a large financial institution. Investing activities show a net outflow of USD5 million (H1 2018: net outflow of USD62 million), including a cash inflow of USD247.9 million in December 2018 on the receivable of the sale of 50 percent of Simba Holding S.à.r.l., the ultimate parent company of some of the Impala Terminals entities, that took place on 27 September 2018. Cash from financing activities amounted to a net inflow of USD350 million (H1 2018: net inflow of USD2,097 million). The overall balance of cash and cash equivalents stood at USD4,566 million as of 31 March 2019.