Kippreport

Chemoil turns to derivatives business for growth -
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Monthly bunker volumes double on-year in Singapore, Fujairah.

Marine fuel supplier Chemoil Energy Ltd will offer hedging services to shipping customers next month and expects its derivatives volume to match its physical trades within three to five years, its chief said on Tuesday.

The Singapore-listed company has hired 30 risk, credit and marketing staff in the past 10 months primarily for its new derivatives business, said Chairman and Chief Executive Clyde Michael Bandy.

"It's a very lucrative market. The margins are at least as good or better than the physical market," Bandy told Reuters. "The start-up will be slow but over the years we can expect substantial growth."

Chemoil will introduce a suite of risk management tools, including fixed forward price contracts, swaps and maximum price agreements to help its customers manage bunker price fluctuations.

The company currently uses swaps and other risk management products to hedge its own physical inventory.

Swiss commodities trading giant Glencore, Chemoil's 51 percent shareholder, will be the preferred counterparty for these derivatives trades.

"The intention is to use Glencore. As long as their paper pricing is as attractive as what the banks can offer, we will use them," he said.

In its core physical bunker business, Chemoil has doubled its monthly bunker sales volumes this year versus 2009 in the world's top bunkering ports of Singapore and Fujairah, Bandy said.

Chemoil's volumes in Singapore, the world's largest bunker port by volume, rose to 250,000-400,000 tonnes a month, versus the city-state's monthly volumes of 3.3-3.4 million tonnes.

Chemoil's volumes have doubled to 100,000-120,000 tonnes monthly in the United Arab Emirates port of Fujairah, where it will expand the capacity of its joint-venture storage terminal with Gulf Petrol Supplies LLC to 675,000 cubic metres (cu m) from 90,000 cu m.

SUCCESSION, EXPANSION PLANS

Chemoil plans to split the chairman and CEO roles, and is looking for a new chief executive, Bandy said.

"It was always in our sights to split the roles. We have to find young talented individuals who can potentially be CEO. That is my number one key priority," he said, without saying whether he would retain the chairman role.

Bandy was appointed as CEO and Chairman after Chemoil founder Robert Chandran was killed in a helicopter crash in January 2008.

The company is also looking to expand its geographic presence and expects to announce its entry into the China market in the next 12 months. "We are talking to parties in China," Bandy said.

The company is also looking at opportunities in South America and Africa, he added.

On its third-quarter earnings, which the company is due to report next month, Bandy said: "We are on track."

Chemoil said in August that second-quarter net profit fell 74 percent from a year earlier due to pressure on margins, although it reversed losses posted in the first quarter as a result of cost-cutting efforts.

Chemoil is a major supplier of marine fuels in Asia and the U.S. West Coast and has a 482,000 cu m storage terminal in Singapore.

Glencore, the world's largest independent commodities trader, took a controlling stake in Chemoil in December 2009. Japanese trader Itochu Group holds a 37.5 per cent, with the remaining 11.5 per cent in public hands.

Chemoil shares rose 3.0 percent on Tuesday, outperforming the the 0.6 percent drop in the main index.