

Wall St. Cheat Sheet

Should You Buy this Omnipresent and Controversial Swiss Trading Firm's IPO? February 25, 2011

By Dave Friedman

Reuters has a long article about the planned IPO of Glencore International, a Swiss commodities trading and brokerage firm. They describe the company:

In the world of physical trading—buying, transporting and selling the basic stuff the world needs—Glencore is omnipresent and controversial, just as Goldman Sachs (NYSE:GS) is in banking. Bigger than Nestle, Novartis (NYSE:NVS) and UBS (NYSE:UBS) in terms of revenues, Glencore's network of 2,000 traders, lawyers, accountants and other staff in 40 countries gives it real-time market and political intelligence on everything from oil markets in Central Asia to what sugar's doing in southeast Asia. Young, arrogant and often brilliant, its staff dominate their market. The firm's top executives have forged alliances with Russian oligarchs and well-connected African mining magnates. Like Goldman, Glencore uses its considerable heft to extract the best possible terms in every deal that it does.

(See the company's home page for more information.)

US investors and geopolitical strategists should be interested in this company because some of its large customers include BP (NYSE:BP), Total (NYSE:TOT), Exxon Mobil (NYSE:XOM), ConocoPhillips (NYSE:COP), Chevron (NYSE:CVX), Vale (NYSE:VALE), Rio Tinto (NYSE:RIO), ArcelorMittal (NYSE:MT) and Sony (NYSE:SNE), as well as the national oil (NYSE:USO) companies of Iran, Mexico, Brazil (NYSE:EWZ) and public utilities in Spain (NYSE:EWP), France (NYSE:EWQ), China (NYSE:FXI), Taiwan (NYSE:EWT) and other countries.

Financial highlights for the company for 2010 include (all units are in USD except where noted otherwise):

* Revenues of \$70,007 billion

* EBITDA of \$2,630 billion

* Net income of \$1,563 billion

* An increase in EBITDA and net income of 69% and 42% respectively, compared to 2009.

* Compared to the first half of 2009, profitability from Glencore's industrial activities increased more than threefold primarily due to increased commodities prices.

* Liquidity, comprised of cash and short-term credit facilities, or the company's current assets, stood at \$6.5 billion.

* It completed a refinancing of its revolving credit facilities at a record size of \$10.3 billion and issue 7 year 5.25% Eurobonds for EUR 1.25 billion.

* In March 2010, Glencore exercised its \$2.25 billion option to repurchase Prodeco from Xstrata. It also completed the purchase of a 51.5% stake in Chemoil for \$237 million and the remaining 60% of Vasilkovskje Gold for \$200 million in cash and shares.

* It advanced oil exploration and development projects in West Africa, commissioned a gold mining operation in Kazakhstan, and other related projects.

* Net debt increased to \$13.6 billion from \$10.2 billion, however, debt coverage ratios were unaffected, due to offsetting earnings and increased cash flow from operations.

In short, the company is global in scope and minting money. See you at the IPO!