

CASE STUDY

Analysis of a Commodities Portfolio for a Large Global Commodity Trader

The experts at FTI Consulting estimated various early monetization scenarios for the physical commodities and derivative portfolio of a leading global commodity trader (the “Company”) in advance of the Company’s balance sheet restructuring.

SITUATION

The Company had exposure to physical commodities off-take contracts, marketing contracts, financial hedging derivatives contracts, and other trades in coal, oil, iron, copper, freight, and other commodities.

Due to market disruptions created by the COVID-19 pandemic, the Company anticipated that a balance sheet restructuring might be required.

FTI Consulting was retained to prepare an entity priority model (“EPM”), which included as a part of the analysis an assessment of the potential stakeholder claims, costs, and recovery values in the event a wind-down of the trading operations was necessary.

OUR ROLE

FTI Consulting experts reviewed the physical commodity contracts of the Company and analyzed their termination clauses, maturities, and opportunities to transfer them to another party. We also met with key trading staff to further analyze the portfolio risk and the hedging operations.

After reviewing the Company's trades and operations, we considered two scenarios: a managed wind-down and an immediate liquidation of all business.

We estimated the costs and potential recoveries to the Company under each scenario. We considered separately physical and financial derivative contracts:

- For physical contracts, we evaluated the likelihood of the Company servicing or completing the contract or the value that it might receive if the contracts or business units were sold.
- For financial derivatives, we estimated the liquidation cost and discount due to liquidity constraints.

FTI Consulting experts also reviewed the trade finance and margin balances and the terms of the Company's trading derivatives agreements to calculate recoverable collateral under each scenario and the expected timeline to exit each position supported by the Company's financing.

OUR IMPACT



FTI Consulting experts evaluated the close-out costs and expected unwind sequence of the Company's physical contracts and derivative portfolios following best practices and through consideration of each commodity type, the counterparties, and local markets for each trade.



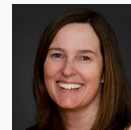
The team at FTI Consulting presented an EPM that relied upon the economic review of the managed wind-down and liquidation scenarios. This helped set the foundations for the successful refinancing of the Company balance sheet.

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