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Grupa Azoty posts stable financial results despite challenging market environment

Grupa Azoty's second-quarter 2022 results were strongly impacted by the turmoil caused by Russia's invasion of Ukraine, which adversely affected the availability and prices of feedstocks, pushing up prices of final products across all business segments. As a result of lower exports, the volumes of fertilizer supplied by Grupa Azoty to the domestic market were significantly larger compared with the same period last year.

In the second quarter of 2022, the Grupa Azoty Group generated consolidated revenue of PLN 6,410m, EBITDA of PLN 1,240m, EBITDA margin of 19.3%, and net profit of PLN 800m.

In the first half of 2022, the Grupa Azoty Group reported consolidated revenue of PLN 13,237m, EBITDA of PLN 2,575m, EBITDA margin of 19.5% and net profit of PLN 1,682m. The reported results are in line with the estimates published by Grupa Azoty.

The results were bolstered by product prices prevailing in the European markets where Grupa Azoty operates but were adversely affected by record prices of feedstocks used in production processes and lower sales volumes of most fertilizer, chemical and plastic product categories.

'The second quarter saw stable financial results across all business segments amid a challenging market environment. In this context, we are particularly pleased with the strong performance delivered by the Chemicals business. The market turmoil caused by Russia's invasion of Ukraine was enormous, unpredictable and completely beyond the Company's control. In the first half of 2022, Grupa Azoty was operating at full available capacity, actively responding to fertilizer demand in the domestic market at the peak of the spring fertilizer season. Record natural gas prices drove fertilizer prices to levels that became unacceptable to end customers in the third quarter. This led to the decision to reduce production at three Group companies. Our Plastics business faced a similar market situation, with temporary production cuts implemented at the Tarnów and Puławy plants. To note, the production cuts were planned so as to ensure the availability of sensitive products, including liquid CO₂, ammonia water and mixed acids. In parallel with its day-to-day operations, Grupa Azoty commenced the implementation of its key 2021–2030 strategic objectives, including the strategic Green Azoty project designed to diversify its own energy sources towards renewables and zero-carbon sources. With this goal in mind, we have expressed our interest in the project to build the Brzezinka solar PV power plant with a capacity of up to 270 MWp and the integration with Zespół Elektrowni Wodnych Niedzica S.A.', said Marek Wadowski, Vice President of the Management Board of Grupa Azoty S.A.

Chemicals

In the second quarter of 2022, the Chemicals Segment saw year-on-year price increases across all product categories, with declines in sales volumes reported for most products. The fast-growing prices of feedstocks used in the production of chemicals strongly pushed up product prices, leading to weaker demand. The melamine market was affected by the impending expiry of anti-dumping duties on imports of melamine from China to the European Union. Sulfur prices increased as a consequence of Russia's invasion of Ukraine and supply constraints created by the cut-off of distribution channels from Russia and Kazakhstan. Higher sales volumes were reported mainly for technical-grade urea and OXO alcohols. The segment posted an EBITDA margin of 22.0% for the second quarter of 2022.

Agro

In the Agro Segment, high prices of fertilizer feedstocks, particularly natural gas, potassium chloride and phosphate rock, continued into the reporting quarter. The challenging conditions in commodity markets were a consequence of Russia's invasion of Ukraine, which resulted in Russia reducing or completely halting gas supplies to European Union countries. The supply chains for some key feedstocks and intermediates supplied to Grupa Azoty experienced shifts or disruptions. As leading European fertilizer producers implemented production cuts in response to record commodity prices, natural gas in particular, the supply of fertilizer across Europe significantly decreased. Prices of natural gas, a key feedstock in fertilizer production, were in a strong uptrend at the end of the second quarter of 2022 and hit new record levels in the third quarter of 2022. The average market price of natural gas in the second quarter of 2022 surged around 290% year on year. These changes and the prevailing market environment led to a significant rise in product prices. In the second quarter of 2022, sales volumes in the segment went down 11% year on year, with a decline of 21% reported for compound fertilizers. The Agro Segment posted an EBITDA margin of 18.0% for the second quarter of 2022.

Plastics

In the second quarter of 2022, the Plastics Segment recorded year-on-year increases in prices of key feedstocks, benzene and phenol, of 18% and 24%, respectively, with a concurrent rise in prices of polyamide produced by Grupa Azoty. Polyamide sales volumes were slightly down year-on-year as demand from the automotive industry weakened on the back of shortages of semiconductors and other components, which were not filled after the COVID-19 pandemic. This resulted in temporary production cuts and shutdowns by end users. Demand from the packaging sector remained stable and strong. The segment posted an EBITDA margin of 8.6% for the second quarter of 2022.