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Grupa Azoty posts solid results despite record-high feedstock costs

Consolidated revenue for the third quarter of 2021 was PLN 3,882m, up PLN 1,466m year on year. EBITDA came in at PLN 300m (up PLN 50m year on year). However, comparable EBITDA adjusted for one-off items comprising sectoral compensation payments and the government anti-crisis shield scheme was PLN 130m higher year on year in the third quarter of 2021. EBITDA margin was 7.7%.

In the nine months to September 2021, the Group posted revenue of PLN 10,417m, EBITDA of PLN 1,067m and EBITDA margin of 10.2%, a year-on-year increase of PLN 2,628m (revenue) and PLN 64m (EBITDA), with EBITDA margin down 2.6pp year on year.

In the nine months to September 30th 2021, comparable EBITDA adjusted for one-off items comprising sectoral compensation payments and the government anti-crisis shield scheme was PLN 258m higher in 2021.

Consolidated EBITDA for the three and nine months to September 30th 2021 was supported by high prices of most products in the core segments of Fertilizers, Chemicals and Plastics, and higher total sales volumes in Chemicals and Plastics.

The main factors adversely affecting the results were record-high prices of feedstocks (notably gas, but also propylene, phenol, benzene and phosphate rock) and rising prices of electricity and CO₂ emission allowances.

'The third quarter saw market changes unfolding at a pace not seen in many years. Prices of the key feedstock used for fertilizer production, natural gas, experienced unprecedented volatility and hit levels not seen in years, strongly affecting profits earned by the Group's key business segment. Despite the feedstock pressure, Group companies decided not to halt or cut fertilizer production as opposed to many of their competitors in Europe. They also took steps to secure fertilizer demand on the domestic market, which is of fundamental importance to the Group. In late October, the Company adopted and presented to stakeholders the New Strategy for 2021–2030 including the key 'Green Azoty' project. Its key goals for the coming decade include responding to the challenges of the European Green Deal and Circular Economy, and decarbonisation of production and emissions reduction across the Group. Grupa Azoty is set to implement green projects in production and energy generation and decarbonisation projects with a total budget of nearly PLN 2.7bn,' said Tomasz Hinc, President of the Management Board of Grupa Azoty S.A.

Fertilizers

In the three months to September 30th 2021, the Fertilizers segment generated revenue of PLN 2,110m (PLN 1,441m the year before), with EBITDA margin at 0.1% (down on the 13.8% reported the year before). Year to date,

the segment generated total revenue of PLN 5,770m and an EBITDA margin of 7.2% (compared with PLN 4,769m and 13.7% the year before). The factor with the largest adverse impact on the segment's performance in the third quarter of 2021 year on year was the record-high increase in natural gas prices. The positive factors included higher sales volumes and prices across all fertilizer product categories, which, however, failed to offset the impact of the cost factors. The high fertilizer prices reflected increased production costs. Another important market factor were production cuts and shutdowns at leading fertilizer producers in Europe.

Plastics

In the three months to September 30th 2021, the segment posted revenue of PLN 510m (up 108.2% year on year), with a positive EBITDA margin of 14.9% (compared with a negative margin of 5.8% the year before). Year to date, revenue totalled PLN 1,353m (up PLN 61.6% year on year), with a positive EBITDA margin of 8.1% (negative EBITDA margin of 4.3% reported the year before). The largest contributor to the segment's performance in the three months to September 30th 2021 were wider margins recorded year on year along the entire product chain (benzene/phenol – caprolactam – polyamide 6), reflecting demand from end-user markets rising despite the ongoing problems with electronic component shortages faced by the automotive industry. Furthermore, in the third quarter of 2021 Grupa Azoty discontinued its polyoxymethylene (POM) business operations and sold some of the related assets, which had a beneficial one-off impact on the segment's performance.

Chemicals

Year on year, Chemicals delivered revenue of PLN 1,102m for the third quarter of 2021, up 80.1% year on year, with EBITDA margin at 12.1% (up from 0.1% recorded in the same period last year). The year-on-year improvement in the segment's quarterly results was attributable to a strong growth in the prices of all product categories, notably melamine, OXO alcohols, plasticizers and sulfur, which was driven by increased demand. Margins were adversely affected by higher prices of feedstocks and slightly lower sales volumes.