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Grupa Azoty Group financial results significantly affected by market conditions in Europe

Grupa Azoty Group's financial results for the second quarter of 2023 are in line with the estimates presented on September 18th 2023. In the three months ended June 30th 2023, the Grupa Azoty Group generated consolidated revenue of PLN 3,491m, EBITDA of PLN -608m, and an EBITDA margin of -17.4%. As highlighted in the press release regarding estimated results, the reporting period witnessed the convergence of adverse market factors impacting all producers in the European fertilizer and chemical industry. Those adverse developments arose as a consequence of Russia's aggression against Ukraine and the European Union's decision to suspend tariffs on imports of urea and ammonia from countries outside the EU.

Since the third quarter of 2023, the Grupa Azoty Group has been seeing a pronounced uptick in demand in its largest segment, Agro. In August this year, the Group companies manufactured an estimated 251,000 tonnes of nitrogen fertilizers, a substantial rise from 140,000 tonnes in May.

"The Group's performance in the second quarter was materially affected by low demand in areas of key importance to the Group. This was primarily due to an influx of products into the European market from Eastern and Asian sources, produced using lower-cost raw materials and without the burden of the expenses associated with the European climate policy. We have observed a resurgence in demand within the AGRO segment since the third quarter, and we anticipate that agricultural producers will continue to increase their purchasing activity in the coming months. The other segments – Plastics and Chemicals – are also showing signs of halting the negative trends seen in the first half of 2023. On August 31st 2023, the Grupa Azoty Group signed waiver and amendment letters with 13 financing institutions whereby the institutions agreed to waive certain covenants laid down in agreements on the provision of financing to Grupa Azoty and Grupa Azoty Police. It is important to highlight that the Grupa Azoty Group posted excellent results in both 2021 and 2022, without which the situation in the first half of 2023 would have been considerably more challenging.

Concurrently, we are actively pursuing decarbonization projects aimed at substantially reducing the Group's emissions while bolstering its competitiveness. For the near term, priorities include the ZEW Niedzica and the Brzezinka photovoltaic power plant projects. Another important event was the launch of a polypropylene unit at our new plant, Polimery Police, in June.

Despite challenging market conditions in the first half of 2023, the Grupa Azoty Group fulfils all debt service and repayment obligations under the financing agreement on an ongoing basis, and the available limits ensure secure financing for the Group as well as continuity of operations.

Simultaneously, the Grupa Azoty Group is enacting a series of measures to uphold the highest level of financial discipline. *These measures encompass stricter cost control, aligning production with current demand, reducing inventory levels, and intensifying sales efforts in both its own and partner networks,*" **says Marek Wadowski, Vice President of the Grupa Azoty S.A. Management Board.**

In the three months to June 30th 2023, the Grupa Azoty Group experienced subdued demand for its products and a sustained significant downward pricing pressure (contrary to the prevailing inflationary trends). Reduced sales volumes, alongside weak demand, forced the Group companies to flexibly adjust their production to align with market requirements in critical business segments. Furthermore, the reported quarter witnessed turmoil in the raw materials markets, with consistently elevated prices in Europe, resulting in considerable margin erosion. The Group's performance was also adversely affected by the deteriorating economic conditions in Europe, particularly in Germany, a market of vital importance for the Grupa Azoty Group.

The results for the second quarter of 2023 were bolstered by the sale of CO2 emission allowances purchased on the market in previous periods by the subsidiaries: Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A. and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., contributing a total of PLN 289m to the Group's results for the period under review.

In the six months ended June 30th 2023, the Grupa Azoty Group generated consolidated revenue of PLN 7,386m, EBITDA of PLN -1,009m, and an EBITDA margin of -13.7%.

Agro

In the three months to June 30th 2023, there was a 24% year-on-year decrease in total fertilizer sales by volume due to a relatively low demand, with compound fertilizers experiencing an even steeper sales decline of 49%. Unfavourable conditions prevailed in Polish agriculture, with grain prices following a downward trend in the domestic market. The European Union's suspension of tariffs on urea and ammonia remained in effect until June 17th 2023. There was an increase in imports of fertilizers into the European and domestic markets. Prices of natural gas, a key feedstock for fertilizer production, were in a downtrend. During the second quarter, TTF spot prices were EUR 35/MWh, marking a 63% year-on-year decrease. This, coupled with factors in the agricultural market and the supply-demand dynamics within the fertilizer market, led to diminished demand and exerted downward pressure on fertilizer prices.

Due to weak demand, the Grupa Azoty Group aligned production levels at its own facilities with the prevailing supply and demand conditions in the European market during the quarter under review. Total fertilizer production in the three months to June 30th 2023 was 43% lower year on year. Production of compound fertilizers fell 49% year on year, and the quarterly results were adversely affected by a year-on-year rise in prices of energy carriers.

The Agro Segment posted an EBITDA margin of -28.8% for the second quarter of 2023.

Chemicals

In the Chemicals Segment, the second quarter of 2023 saw reduced purchasing activity in the segment's key economic sectors, namely construction and furniture manufacturing.

During the period, all product prices experienced year-on-year declines, with the largest decreases recorded for sulfur, melamine, and technical grade urea. Also the sales volumes of the segment's products declined across the board, except for sulfur. Prices of key raw materials for OXO alcohols and plasticizers production (propylene and terephthalic acid) dropped year on year, whereas the unit cost of ilmenite, which is used in the production of titanium white, saw an increase.

The segment posted an EBITDA margin of -43.3% for the three months ended June 30th 2023.

Plastics

The Plastics Segment saw a decline in polyamide 6 sales volumes in the second quarter of 2023, which were down by one-third year on year as a result of reduced internal demand in Europe and limited export opportunities. Prices of polyamide 6 produced by the Grupa Azoty Group were under continuous downward pressure. Prices of raw materials (benzene and phenol) were lower year on year.

European producers faced competitive imports of cheaper products in the PA6 chain, particularly from Asia. Increased production in the automotive sector and rising new car sales in the EU did not translate into higher orders, let alone an overall surge in demand for polyamide 6.

The segment posted an EBITDA margin of -47.7% for the second quarter of 2023.