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Grupa Azoty Group's third-quarter 2022 financial results driven by unprecedented rise in commodity prices

In the third quarter of 2022, the Grupa Azoty Group's financial results were driven primarily by the impacts of Russia's military aggression against Ukraine and an unprecedented rise in prices of natural gas as the key feedstock used in fertilizer production. These factors led to a temporary curtailment in production on some of the Grupa Azoty Group companies' units in Tarnów, Puławy and Kędzierzyn-Koźle.

In the third quarter of 2022, the Grupa Azoty Group generated consolidated revenue of PLN 6,314m, EBITDA of PLN 267m, EBITDA margin of 4.2%, and net profit of negative PLN 79m.

In the nine months of 2022, the Grupa Azoty Group generated consolidated revenue of PLN 19,551m, EBITDA of PLN 2,842m, EBITDA margin of 14.5%, and net profit of PLN 1,603m. The reported results are in line with the estimates published by Grupa Azoty.

'Commodity prices continued in an uptrend, reaching all-time highs in the third quarter. This resulted in unprecedented cost pressures that led to production cuts at some Grupa Azoty Group companies, mainly in the Agro and Plastics segments. It should be noted that in the case of nitrogen fertilizers, production cuts were implemented across Europe, and the Grupa Azoty Group was among the last producers in the EU to halt production at its units. The trend reversal and declines in commodity prices seen in the second part of the reporting quarter allowed production to be resumed in October. Importantly, with production resumed, the fertilizers offered by the Agro Segment are marketed at the lowest prices in the European Union. The key negative driver of the Grupa Azoty Group's performance were high feedstock prices and production cuts that resulted in lower sales volumes. The progress of the Group's flagship project, Polimery Police, was not affected by the production curtailment. The overall progress of the project at the end of September was 97%, and we expect polypropylene production to start on schedule as early as next year,' said Marek Wadowski, Vice President of the Management Board of Grupa Azoty S.A.

Chemicals

The third-quarter 2022 performance of the Chemicals Segment was primarily driven by the situation on the demand side and by rising feedstock prices. Demand in target markets was relatively weak, and European producers were under significant competitive pressure from non-EU imports. As a result of unfavourable market conditions, melamine production at Grupa Azoty Zakłady Azotowe Puławy S.A. was temporarily halted and subsequently resumed on October 27th at about one-third of maximum capacity. Sales volumes of sulfur and NO_x rose year on year. The segment posted an EBITDA margin of 0.8% for the third quarter of 2022.

Agro

During the reporting quarter, the Agro Segment saw further increases in prices of feedstocks used in fertilizer production, notably natural gas, which was a consequence of Russia's military aggression against Ukraine. The rapid growth in natural gas prices that began in the second quarter of 2021 continued into the reporting period, hitting all-time highs in late August 2022. The average market price of natural gas for the third quarter of 2022 surged over 300% year on year. As a consequence of the record market prices of natural gas, a decision was made in August 2022 to temporarily curtail production at three key companies of the Grupa Azoty Group: Grupa Azoty S.A., Grupa Azoty Zakłady Azotowe Puławy S.A. and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. The Grupa Azoty Group companies were among the last producers in the European Union to implement production cuts. Fertilizer production was resumed by the Group companies in October. The Agro Segment posted an EBITDA margin of 1.6% for the third quarter of 2022.

Plastics

In the third quarter of 2022, the Plastics Segment reported significant volatility in prices of key feedstocks: benzene and phenol. The prices climbed to record highs in July 2022 to start a steep decline in August. The high cost of feedstocks dictated the decision made in August to temporarily halt production, with production restored in October. The situation in the Plastics Segment was affected mainly by subdued demand from the key polyamide application markets, further exacerbated by the summer holiday season. The exception was the packaging sector, where demand remained stable throughout the reporting period. No signs of any major rebound in demand were seen in the EU automotive industry, a key customer for the Plastics Segment's products. Moreover, imports of more attractively priced polyamide products and derivatives into the European market increased during the reporting period. The segment's EBITDA margin generated in the third quarter of 2022 was negative at -2.7%.