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Grupa Azoty Group announces third quarter 2018 results

The Grupa Azoty Group recorded EBITDA of PLN 44m for the third quarter of 2018 on revenue of PLN 2.32bn. EBITDA fell PLN 211m year on year despite revenue having increased almost PLN 130m, which demonstrates that fluctuations in the Group's 2018 performance continue to be largely driven by costs. Year-to-date EBITDA came in at PLN 573m, with revenue at PLN 7.2bn and EBITDA margin at 8%, compared with 13.7% for the first nine months of 2017.

The key drivers of the Group's financial performance in the third quarter of 2018 included:

1. Rising natural gas prices;
2. Rising prices of energy commodities;
3. Rising prices of carbon emission allowances;
4. Lower sales volumes.

"The Grupa Azoty Group made every effort to implement its strategy until 2020 despite the highly challenging business conditions in the third quarter of 2018. We entered into a series of agreements with financing institutions to secure funding for our corporate projects until 2026, and we completed the acquisition of COMPO EXPERT Group. We expect the transaction will boost revenue and provide access to innovative technologies, thus enhancing our competitive position in the long term. With the launch of the Corporate Agro Sales Department, we started operating on the fertilizer market as a single entity, leveraging the strength of Grupa Azoty brand. Despite the difficult macro environment, we strived to mitigate fertilizer price increases and did our best not to pass the entire burden of higher production costs onto farmers, in line with our commitment to supporting the economy. Having exhausted all available options to mitigate price increases single-handedly, we had no choice but to raise prices of fertilizers by up to 20 percent in the third quarter of the year. As price rises were inevitable, we decided to implement cost optimisation efforts, demonstrating our commitment to fair treatment of our customers. We seek cost savings across the board provided they do not affect our business," says Wojciech Wardacki, President of the Grupa Azoty Management Board.

"The Group's performance should be assessed based on a multifaceted analysis of the market environment in

a late phase of the economic cycle. The third quarter saw the dominance of raw material players, supply and demand forces, strong competition and regulatory issues (CO₂), which had a direct impact on the actual operating costs across our industry. The investor sentiment and global stock market correction factor was also in play, affecting the Grupa Azoty stock price as well. Aware of these threats, we respond proactively. We have taken measures to improve our cash flow by enhancing working capital, which has helped us to strengthen the balance sheet. We actively manage our CAPEX, making sure to keep covenant ratios at levels acceptable to our financial partners. Transactions planned to be executed in the fourth quarter will allow us to get a quick win in a relatively short time. They will boost our revenue and generate additional margin,' said Paweł Łapiński, Vice President of the Grupa Azoty Management Board, in charge of the Group's finance.

Fertilizers

The largest margin erosion was reported for the Fertilizers business. Due to a significant (50% yoy) increase in gas prices at the beginning of the fertilizer season (July–September) (when most sale transactions are stock purchases and prices hit a low) coupled with prices of ammonia and urea remaining low relative to production costs, the losses brought about by unfavourable trends in raw material prices could not be offset.

In addition, logistics problems caused by railway works, unplanned plant shutdowns and adverse weather conditions (prolonged drought) exacerbated the negative impact on the segment's margins.

Also, strong pressure from importers necessitated steps to strengthen the domestic market. Enhancements to the product range for Polish farmers helped to redirect imports to Western European countries. Despite temporary drops in margins, this created room for recouping losses in subsequent quarters that coincide with the fertilizer peak season. The Fertilizers business generated revenue of PLN 1.1bn and PLN 3.4bn with EBITDA of PLN -83m and PLN 15m for the third quarter and the nine months of 2018, respectively.

Plastics

The performance of the Plastics business deteriorated amid growing feedstock and product pressures. An increase in crude oil prices pushing up petrochemical feedstock prices (benzene and phenol), combined with the market's growing tendency to negotiate polyamide prices, had an impact on the segment's operating performance. In addition, a significant year-on-year rise in energy costs reduced EBITDA by approximately PLN 25m, with sales up (PLN 363m vs PLN 352m) on increased PA6 production capacity.

Chemicals

The Chemicals segment, combining B2B businesses, delivered an 11% sales growth, to PLN 755m, driven chiefly by higher sales of urea derivatives (technical grade urea and urea solutions in the form of AdBlue NO_x), demonstrating the Group's ability to flexibly manage nitrogen in pursuit of wider margins. Sales were further supported by mining operations (sulfur sales). An over 60% increase in sulfur prices was a major contributor to the segment's performance.

The segment's EBITDA fell by over PLN 53m (PLN 31m vs PLN 84m in Q3 2017), mainly reflecting higher natural gas prices, rising prices of petrochemical feedstocks in the OXO segment (with lower production rates due to the timing of maintenance shutdowns), and a 13% rise in raw material costs in the Pigments segment that was coupled with a downward pressure on titanium white prices (down 8% during the quarter).

The Grupa Azoty Group is the undisputed leader of the fertilizer and chemical market in Poland and one of its key players in Europe. It is the second largest EU-based manufacturer of nitrogen and compound fertilizers, and its other products, including melamine, caprolactam, polyamide, oxo alcohols, plasticisers and titanium white, enjoy an equally strong standing in the chemical sector, with a wide range of applications in various industries. In May 2017, the Group unveiled its updated strategy until 2020. The key development areas include completion of the Group's consolidation, reinforcing its leadership in agricultural solutions on the European market, strengthening the second operating pillar through expansion of the non-fertilizer business, as well as generating and implementing innovations to accelerate growth in the chemical sector.