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Grupa Azoty Group posts solid financial results despite ongoing pandemic

In 2020, the Grupa Azoty Group posted consolidated revenue of PLN 10.5bn, delivering EBITDA of PLN 1.3bn, EBITDA margin of 12.6% (unchanged year on year) and net profit of PLN 355m.

Following the pandemic outbreak 2020 posed some major challenges, ending with slightly weaker financial results for the Group compared with the previous record-breaking year. Its performance was supported by sustained demand in the key segment of fertilizer products combined with relatively low costs of raw materials across all segments. The Fertilizers segment accounted for 60% of the Group's total revenue and 62% of EBITDA margin. The Plastics segment had been struggling with oversupply even before the pandemic struck, which only exacerbated these unfavourable market trends. As for the Chemicals segment, where the Group offers a diversified product range, its importance grew in the period. For the first time in three years, the segment closed 2020 with a double-digit EBITDA margin. In Q4 2020 alone, the Group saw a year-on-year increase in both revenue (PLN 2.7bn, up by 3.5%) and EBITDA (PLN 319m, up by 47.3%).

"Despite the extremely challenging market environment and the need to adapt quickly to the new reality and restrictions induced by the coronavirus pandemic, we are optimistic about our 2020 financial performance. The agricultural sector proved resilient to the headwinds, with sales volumes on the rise. Our segment of Agro Fertilizers again contributed the largest slice of the Group's overall margin. We are aware of challenges faced by the Plastics segment, but we assume that – once the pandemic is over – the situation will go back to normal, bringing an increase in demand for polyamide and products of its further processing. Key developments of last year included the continued construction of our flagship project Polimery Police, further development of our product portfolio in line with the European Green Deal and work on R&D projects to reinforce the Group's foothold on the European market. In our operations and plans, a strong focus is placed on clean energy technologies and infrastructure. We are running projects to improve our energy efficiency and reduce emissions, especially of greenhouse gases, including carbon dioxide. We have set up a carbon footprint team and are fleshing out our decarbonisation plans and projects. We will present all these factors when unveiling the Grupa Azoty Group's new strategy for 2021–2030," says Tomasz Hinc, President of the Management Board of Grupa Azoty S.A.

In 2020, the Group also stepped up efforts to roll out products compliant with the requirements of the European Green Deal. A case in point was Pulrea+INu, a urea fertilizer treated with a urease inhibitor, which is the Group's response to the NEC Directive requirements to reduce ammonia emissions into the atmosphere. Importantly, although the use of urea with inhibitors will only become obligatory in Poland from August 1st 2021, the product has already been available from the Grupa Azoty Group for several months.

Fertilizers

In 2020, the Fertilizers segment generated revenue of PLN 6,364m relative to PLN 6,716m the year before, recording an EBITDA margin of 12.9%, slightly down from the previous year's level of 14.4%. The segment's results suggest that the pandemic did not adversely impact its margin or sales volume, which went up 3.5% on 2019. Stable demand meant that logistics and security of supplies were key issues for the segment. While gas prices in Q4 2020 rose above the levels seen in the same period of the year before, its average price for 2020 was substantially lower year on year (by 25.6%), supporting high profitability despite a decline in the average prices of fertilizer products. The only exception were speciality fertilizers from COMPO EXPERT, for which the average prices went up 8.4% year on year. The segment's Q4 2020 performance was slightly better year on year, both at the level of revenue (up 4.5%) and EBITDA (up 2.9%). The fertilizer prices stayed put during the period, despite clear over-liquidity in the agricultural market. An impulse for a seasonal price increase was only seen in January 2021.

Plastics

The segment's aggregate revenue in 2020 was PLN 1,135m, down by approximately 1/5 year on year (from PLN 1,458m). Earnings figures deteriorated on the lower revenue, with EBITDA margin down from 3.4% in 2019 to

-2.8% in 2020. The negative margin was a combined effect of steadily falling demand (with a 9.3% year-on-year decline in sales of natural polyamide in volume terms) and the price crisis (with prices down by 16.2%). No other segment was as badly affected by the COVID-19 pandemic, which caused major supply chain disruptions due to temporary closures of automotive plants, etc. The prices of the segment's key raw materials, i.e. benzene and phenol, were also low (down by ca. 20% year on year). Comparing the segment's performance in Q4 2020 with the year before, it posted lower revenue (down by PLN 30m year on year) with positive EBITDA of PLN 4m, against an EBITDA loss of PLN -17m at the end of Q4 2019. The improved result was driven by a slight recovery in demand from the automotive sector.

Chemicals

Year on year, the segment's 2020 revenue fell a little (by 4.4%) to PLN 2,522m, with EBITDA margin up (by 2.7pp), to 10.5%. Sales growth was recorded across a full range of the segment's products, especially for OXO alcohols (up 27.3% year on year), but also for plasticizers (up 11.6%) and technical grade urea (up 9.3%). At the same time, the prices of all products fell, by a segment-wide average of 9.8%. On the other hand, margins were buoyed by the low prices of raw materials. Although the past year was a challenging period for the sulfur market (with limited sales and downward price trends), clear symptoms of a recovery are already there, with the prices picking up in Q4 2020 and a prospect of further growth in both demand and prices driven, among other factors, by limited supply of refinery sulfur competing with the Grupa Azoty Group's product. The Q4 results clearly show an upward trend (relative to the same quarter of the year before), both in revenue, where the year-on-year growth reached 10.1%, and EBITDA, with a more than twofold increase.