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Financial results of Grupa Azoty for Q4 and full year 2023

In 2023, Grupa Azoty achieved consolidated sales revenues of PLN 13,545 million and an EBITDA result of minus PLN 1,366 million, with an EBITDA margin of minus 10.1%. The net loss amounted to PLN 3.29 billion. In 2023, Grupa Azoty relied significantly more on external financing, including loans and factoring, increasing debt by PLN 2.8 billion from PLN 7.1 billion at the end of 2022 to PLN 9.9 billion as of December 31, 2023.

Grupa Azoty's results in 2023 were primarily determined by the lack of adjustment measures in response to increasingly demanding market conditions. The first signs of adverse market trends were visible as early as 2022. In June of last year, Grupa Azoty approached financial institutions with a request to waive selected covenants. Despite the clear deterioration in financial results, the company did not develop a comprehensive recovery program in subsequent quarters. This resulted, among other things, in weakened market relations and high production costs due to excessive gas purchase costs relative to market prices.

The record level of losses for 2023, as well as the increase in net debt, clearly indicate the difficult situation the current management of Grupa Azoty inherited. Last year was a period of many market challenges for the chemical industry, which, in our opinion, Grupa Azoty was not prepared for over the past few years. Our most urgent task is to finalize the recovery program and implement it across the entire Capital Group. We hope to start this process in the coming weeks, after obtaining approval from financial institutions, said Adam Leszkiewicz, President of the Management Board of Grupa Azoty S.A. Other priorities include updating the strategy and defining a realistic concept for decarbonization efforts. The minimal progress on the 'Green Azoty' projects between 2021 and 2023 means we must quickly develop solutions that will allow Grupa Azoty to compete effectively with producers already undertaking ambitious greening initiatives. Another critical task will be the full commercial launch of Polimery Police – an investment that has heavily strained the Group's financial resources. Concurrently, we are intensively optimizing production and sales across all segments. We are also preparing a package of development projects. We believe that the potential of Grupa Azoty, the recovery measures, and cooperation with our market and surrounding partners will yield positive results and restore stability and growth to the Group, emphasized the President of Grupa Azoty.

The total impact of the impairment write-downs on non-financial fixed assets, resulting from the conducted impairment tests, led to a reduction of Grupa Azoty's consolidated EBIT for Q4 2023 by PLN 1,562 million. According to Grupa Azoty's Accounting Policy, write-downs amounting to PLN 1,425 million are one-time non-cash events and do not affect the issuer's consolidated EBITDA, while the remaining amount of PLN 137 million reduces Grupa Azoty's EBIT and EBITDA.

During the reporting period, gas prices and most key raw materials stabilized, particularly compared to the dynamic fluctuations of 2022, forcing a decrease in Grupa Azoty's product prices. Financial results were also affected by unfavorable global macroeconomic conditions, including the lack of significant recovery in many sectors of the European and global economies and high inflation, especially at the beginning of 2023. Demand in key markets was insufficient to ensure profitable production levels, although it gradually improved during 2023. Simultaneously, Grupa Azoty did not undertake effective production optimization measures.

In Q4 2023, Grupa Azoty achieved consolidated sales revenues of PLN 3,083 million and an EBITDA result of minus PLN 10 million, with an EBITDA margin of minus 0.3%. The net loss for Q4 last year was PLN 1.449 billion. The financial results for Q4 2023 were significantly impacted by substantial impairment write-downs on non-financial fixed assets. The information regarding these write-downs was disclosed in the current report dated April 5, 2024.

Agro Segment

In Q4 2023, the main factors influencing the Agro Segment were the stabilization of natural gas, coal, and most other raw material prices, an increase in electricity prices, a continuing downward trend in agricultural product prices, and relatively stable year-over-year demand for nitrogen fertilizers, although weakening in the later months of Q4 2023.

Natural gas prices during the analyzed period showed a declining amplitude of changes towards relative stability. Spot prices for the TTF index ranged from 28 to 55 EUR/MWh, with an average of 41 EUR for the entire quarter, which was 57% lower than in Q4 2022.

The purchasing power of the agricultural sector was limited by low agricultural product prices and anticipation of further fertilizer price reductions. Additionally, European producers remained under pressure from low-priced fertilizers imported from outside the EU. In Q4 2023, compared to the same period last year, demand for nitrogen and multi-component fertilizers increased. As a result, the total production volume of fertilizers by Grupa Azoty was 16% higher in Q4 2023, with a 13% increase in sales volume.

The EBITDA margin for the Agro Segment improved in Q4 2023 compared to Q4 2022, reaching plus 5.5%. The segment's results were reduced by the impairment write-downs.

Chemicals Segment

In Q4 2023, the Chemicals Segment experienced low demand due to unfavorable global macroeconomic conditions, including the lack of expected economic recovery in China. Inventory levels among segment customers were high, with competitively priced products imported from Asian markets being a significant source of supply. Sales volumes for most products were significantly lower compared to the same quarter of the previous year, while volume increases were recorded for titanium dioxide, melamine, urea for technical purposes, and plasticizers. Weak demand for segment products and their oversupply on the market led to a decrease in average prices for all Grupa Azoty products in this segment compared to the same period last year, with the most significant price drops for urea for technical purposes (-66% y/y), melamine (-65% y/y), and NOx (-60% y/y).

Due to technical issues, Grupa Azoty Zakłady Azotowe "Puławy" S.A., a subsidiary of the Issuer, completely halted melamine production in November 2023, which had already been limited due to market conditions.

The EBITDA margin for the Chemicals Segment was plus 2.7% in Q4 2023. The segment's results were reduced by the impairment write-downs.

Plastics Segment

In Q4 2023, the Plastics Segment recorded a decrease in raw material (phenol) and product prices compared to Q4 of the previous year. Key sectors consuming PA6 operated at significantly reduced rates due to weak end-consumer demand and unfavorable macroeconomic conditions. Although indicators in the automotive sector improved, their levels were still lower than pre-pandemic. Demand in other PA6 application sectors, including packaging, textiles, and consumer goods, was stable but at a low level.

Due to the difficult supply-demand situation, caprolactam production was halted in March 2023 at Grupa Azoty Zakłady Azotowe "Puławy" S.A., a subsidiary of the issuer, and was not resumed by the end of the year.

The EBITDA margin for the Plastics Segment was minus 79.8% in Q4 2023, primarily due to the high startup costs incurred by Grupa Azoty Polyolefins S.A., a subsidiary of the issuer.