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Grupa Azoty posts solid first-quarter 2022 financial results

In the first quarter of 2022, Grupa Azoty faced high and volatile prices of feedstocks, mainly natural gas, phosphate rock, potassium chloride, benzene, phenol, and propylene. Despite the challenging market landscape and feedstock pressure, Grupa Azoty delivered solid financial results by maintaining fertilizer production at levels reflecting maximum available capacity throughout the first quarter of 2022, which also enabled it to fully meet domestic demand.

As in the fourth quarter of 2021, the first-quarter 2022 performance was supported by the consistent business diversification efforts, which allowed Grupa Azoty to post strong results in the non-fertilizer segments (Chemicals and Plastics).

In the first quarter of 2022, Grupa Azoty delivered consolidated revenue of PLN 6.83bn (up PLN 3.47bn year on year), EBITDA of PLN 1.33bn (up PLN 930m year on year), and EBITDA margin of 19.6% (up 7.6pp year on year). In the first quarter of 2022, net profit came in at PLN 882m, having increased PLN 796m year on year.

The key drivers of Grupa Azoty's performance in the first quarter of 2022 were much higher prices of key feedstocks, including natural gas, phosphate rock, potassium chloride, benzene, phenol, and propylene. Importantly, in view of increased fertilizer demand in Poland, in the first quarter of 2022 Grupa Azoty continued its efforts initiated in the second half of 2021 to redirect products from foreign markets to the domestic market. By rerouting extra volumes of fertilizer to the domestic market, Grupa Azoty was able to fully cater to the needs of Polish farmers ahead of the peak of the fertilizer application season. It should be noted that the Agro segment accounts for the largest share of Grupa Azoty's consolidated results in the first quarter of each year because of seasonality of mineral fertilizer sales. The first quarter of 2022 was no exception.

An upward trend was seen not only in feedstock prices, but also in prices of fertilizer, chemical and plastic products. Sales volumes in the Agro and Chemicals segments declined year on year. However, this was mainly due to a one-off event, which was a failure of the power generation system at the subsidiary Grupa Azoty Zakłady Chemiczne Police S.A.

In the Plastics segment, sales volumes remained largely unchanged year on year.

'For quite some time, the business environment in which Grupa Azoty operates has been extremely demanding and dynamic. The Group's performance has been significantly affected by the COVID-19 pandemic, which broke out several quarters ago and continues to cause logistic problems and supply chain disruptions. This negative impact was compounded by soaring prices and shortages of most feedstocks, further aggravated by Russia's invasion of Ukraine. Despite these headwinds, Grupa Azoty delivered positive EBITDA across all business

segments. Although gas prices are at all-time highs, we have been able to maintain nitrogen fertilizer production *at levels reflecting maximum available capacity, ensuring fertilizer availability ahead of the peak of the application season,*' said **Tomasz Hinc, President of the Management Board of Grupa Azoty S.A.**

Agro

In the first quarter of 2022, the Agro segment saw an increase in prices of almost all feedstocks (including a nearly five-fold rise in natural gas prices), pushing up prices of fertilizer products. Both feedstock and product prices were impacted by a shift in the economic situation in Europe caused by Russia's invasion of Ukraine, resulting mainly in a demand-supply imbalance, especially with regard to feedstocks, significantly affecting product availability at the peak of the fertilizer season. The Group posted lower sales volumes, reflecting mainly reduced output of compound fertilizers resulting from a failure of power steam generators at the subsidiary Grupa Azoty Zakłady Chemiczne Police S.A. On a consolidated basis, these negative financial impacts were mitigated by measures taken to utilise some of the subsidiary's energy commodities during the downtime. The Agro segment's significant contribution to Grupa Azoty's consolidated results is attributable to seasonality, typical of mineral fertilizers, and higher demand for fertilizers for spring application in the first quarter of each year. The Agro segment was also impacted by restrictions on imports of fertilizers originating in Russia following the imposition of sanctions against that country for its military aggression against Ukraine, as well as fertilizer production cuts or stoppages at European competitors of the Group. In the first quarter of 2022, the Agro segment reported a year-on-year increase in revenue, from PLN 2,019m to PLN 4,216m. In the face of production stoppages at European producers and the natural gas price turmoil, the key to the Agro segment's solid performance in the first quarter of 2022 was the strategy to maximise internal production of nitrogen fertilizers while keeping product prices among the lowest in the EU.

Chemicals

The Chemicals segment recorded revenue growth (from PLN 815m to PLN 1,786m, or 119.1% year on year), with EBITDA margin at 21.1% (up 11.2pp year on year). The Chemicals business saw an increase in the prices of products and feedstocks, with the largest increases reported for NO_x, melamine, technical-grade urea, and sulfur. The sharp rise in sulfur prices was brought about by rising crude prices and logistics problems experienced by Russian ports as well as reduced deliveries through Black Sea ports. High prices of melamine and NO_x were attributable to rising gas prices. Prices of technical-grade urea were also trending upwards, and Russia's invasion of Ukraine sparked concerns about potential supply disruptions. Sales decreased in almost all of the segment's product categories, mainly on account of the failure of power steam generators at Grupa Azoty Zakłady Chemiczne Police S.A. (discussed in the section on the Agro segment) and temporary stoppage of titanium white, NO_x and technical-grade urea production. No declines in NO_x and urea volumes were reported for the other plants (Puławy and Kędzierzyn-Koźle). a

Plastics

The Plastics segment posted 63.0% year-on-year revenue growth (from PLN 387m to PLN 631m), translating into a positive EBITDA margin (up from 4.1% to 10.9%). The Plastics business saw an increase in prices of feedstocks (benzene, phenol) and products. Demand from end-user markets was strong, except for the continuing shortages of microprocessors for the automotive sector, leading to temporary production stoppages at automotive manufacturing plants in Europe. The situation was further exacerbated by Russia's armed aggression against Ukraine, which caused car makers in Russia to suspend production, with the availability of certain materials from across Poland's eastern border (including palladium, nickel, neon, wire harnesses, carbon black), previously supplied by Russia and Ukraine, significantly curtailed.

[Q1 2022 Result Presentation PDF \(13.69 MB\)](#)