

Friday, January 17, 2020 | special comment

Grupa Azoty - Forecast of 2019 Q4 Results

Rating: hold | target price: PLN 32.75 | current price: PLN 30.00

ATT PW; ATT.WA | Chemicals, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

- We expect the **2019 Q4 EBITDA** of Grupa Azoty to be **flat-to-slightly-up relative to the comparable year-ago period** due to worse-than-anticipated market conditions for fertilizers, combined with likely operating losses in the segments of plastics and chemicals. Based on this, we are prompted to **adjust our EBITDA estimate for the full year 6% lower** to PLN 1,463m, with the net profit estimate also cut by 18% to PLN 400m.
- In terms of **sales volumes**, we expect to see a 4% y/y decline in nitrogen **fertilizers** in Q4 2019, combined with a 5% drop in NPK fertilizers, driven by market oversupply observed in December, underpinned by negative base effects. The reduced fertilizer demand in December, together with low prices of natural gas, also put downward pressure on sales prices in the period.
- Grupa Azoty's **Plastics and Chemicals** segments experienced increased competition in Q4 2019 from higher imports of cheaper substitutes, and as a result they are expected to post respective **quarterly EBITDA losses** of PLN 17m and PLN 7m.
- When it comes to the **outlook for Q1 2020**, we see **little room for recovery** in Fertilizers from a high year-ago earnings base, and in Chemicals and Plastics market conditions remain challenging amid weak demand.
- The 2019 Q4 bottom-line profit will probably be weighed down by impairment charges in an estimated amount of PLN 15m.
- The weaker-than-originally expected fourth-quarter results, and the worsened outlook for FY2020, suggest **downside risk for ATT share price**.

2019 Q4 and FY estimates

(PLN m)	4Q'19E	4Q'18	y/y	2019E	y/y
Revenue	2,871.8	2,797.3	2.7%	11,538.2	15%
EBITDA	205.8	191.4	7.5%	1,463.1	91%
EBITDA (adj.)	220.8	210.3	5.0%	1,511.6	88%
EBITDA margin	7.2%	6.8%		12.8%	
EBIT	0.6	81.0	-	641.8	692%
Net profit	-22.5	-60.4	-	400.0	-

Source: Grupa Azoty, E - estimates by mBank

Historical quarterly EBITDA results and 2019 Q4 estimates by operating segment

(PLN m)	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19E
Agro Fertilizers	168.2	-68.2	-84.1	66.4	411.8	208.9	196.3	190.3
Plastics	60.1	60.1	32.0	40.1	54.2	26.9	2.9	-17.0
Chemicals	126.7	91.1	30.7	33.8	102.4	64.8	42.1	-6.9
Power Generation	34.4	18.0	22.5	19.1	25.2	10.8	36.6	14.6
Other	14.0	24.6	43.0	32.0	14.8	21.1	38.5	24.9
Total	403.3	125.7	44.1	191.4	608.4	332.5	316.4	205.8

Source: Grupa Azoty, E - estimates by mBank

List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank S.A.
Senatorska 18
00-950 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszczyk
director
+48 22 438 24 02
kamil.kliscz@mbank.pl
energy, power generation

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
financials

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Sales, Foreign Markets

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl