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Grupa Azoty: Forecast of 2020 Q3 Results

Rating: hold | target price: PLN 25.83 | current price: PLN 23.10

ATT PW; ATT.WA | Chemicals, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

We expect Grupa Azoty to report a year-on-year decline in Q3 2020 results (excluding one-off events). Although supported by compensation for higher CO2 emission costs and aid received from the Anti-Crisis Shield, EBITDA will still be down by ca. 30% YoY. In all likelihood, following the release of the Q3 2020 results, we will be revising our forecasts upwards to take account of the greater impact of one-off events and slightly downwards as far as figures net of one-offs are concerned. Due to a rebound in gas prices observed in Q4 2020 we remain cautious about Grupa Azoty.

- In Q3 2020 we expect the **fertilizer business** to increase the sales of ammonium nitrate fertilizers by 4% YoY (driven mainly by higher sales of urea; on the other hand, we forecast a drop in the sales volume of ammonium nitrate and nitro-chalk, and a rise in UAN) with stable sales of compound fertilizers. The impact of rising gas prices on the segment's profitability made itself felt strongly in mid-September; in addition, we expect the pressure on margins on compound fertilizers to mount. To sum up, we expect the segment's Q3 2020 EBITDA excl. one-off events to drop by 58% YoY to PLN 84 million.
- In the plastics segment the sales volume of PA6 and CAP will be down by ca. 30% YoY, but with rising phenol and benzene prices the pressure on production margins will continue. The segment's EBITDA excluding one-off events is expected to stand at -PLN 4 million in Q3 compared with PLN 3 million a year before.
- In the chemicals segment the sales volume of melamine will slide by approx. 10% in Q3 2020 with sales of other products roughly unchanged compared with Q3 2019. Amid rising prices of raw materials the segment's performance is likely to come under greater pressure compared with Q2 2020, and consequently, EBITDA excluding one-offs may plummet by 88% to PLN 5 million in Q3 2020.
- Q3 2020 results are likely to be positively affected by **one-off events**, such as higher compensation for rising prices of CO2 emission allowances in 2019 (PLN 5 million), subsidies received to set off higher costs of CO2 emissions (PLN 22 million) in 2020 and aid received from the Anti-Crisis Shield (PLN 56 million). It is worth stressing that in 2021 Grupa Azoty will be eligible for only PLN 10 million in compensation for higher costs of CO2 emissions annually.
- In our opinion **net debt** will exceed PLN 3.5 billion at the end of Q3 2020, which corresponds to a net debt-to-EBITDA (12m) ratio of 3.

2020 Q3 and FY estimates

(PLN m)	3Q'20E	3Q'19	YoY	2020E	YTD
Revenue	2,389.7	2,563.9	-6.8%	9,502.1	82%
EBITDA	225.3	316.3	-28.8%	1,101.6	92%
EBITDA (adj.)	142.0	317.2	-55.2%	1,101.6	77%
EBITDA margin	5.9%	12.3%		11.6%	
EBIT	28.8	105.6	-72.8%	297.0	148%
Net profit	-6.7	59.7	-	134.4	162.3%

Source: Grupa Azoty, E - estimates by mBank

Historical quarterly EBITDA results and 2020 Q3 estimates by operating segment

(PLN m)	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20E
Agro Fertilizers	168.2	-68.2	-84.1	66.4	411.8	208.9	196.3	147.7	312.6	161.5	121.1
Plastics	60.1	60.1	32.0	40.1	54.2	26.9	2.9	-17.7	7.5	-13.8	4.1
Chemicals	126.7	91.1	30.7	33.8	102.4	64.8	42.1	-1.6	104.6	108.6	38.4
Power Generation	34.4	18.0	22.5	19.1	25.2	10.8	36.6	29.7	25.1	18.7	24.5
Other	14.0	24.6	43.0	32.0	14.8	21.1	38.5	8.7	25.9	40.1	37.4
Total	**403.3**	**125.7**	**44.1**	**191.4**	**608.4**	**332.5**	**316.4**	**166.8**	**475.7**	**315.1**	**225.3**

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

Research Department

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

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

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

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

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

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

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

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

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

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

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

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

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