

# **LSB Industries, Inc. (LXU) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

April 30, 2024 Tuesday

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**Length:** 6528 words

**Byline:** SA Transcripts

**Body**

LSB Industries, Inc. (LXU)

Q1 2024 Earnings Conference Call

April 30 2024 10:00 AM ET

Company Participants

Fred Buonocore - Vice President of Investor Relations

Mark Behrman - President and Chief Executive Officer

Cheryl Maguire - EVP and Chief Financial Officer

Damien Renwick - EVP and Chief Commercial Officer

Conference Call Participants

Josh Spector - UBS

Adam Samuelson - Goldman Sachs

David Begleiter - Deutsche Bank

Andrew Wong - RBC Capital Markets

Rob McGuire - Granite Research

Charles Neivert - Piper Sandler

Presentation

Operator

Hello and welcome to the LSB Industries' First Quarter 2024 Earnings Conference Call. [Operator Instructions] A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Fred Buonocore, Vice President, Investor Relations. Fred, please go ahead.

Fred Buonocore

Good morning everyone. Joining me today are Mark Behrman, our Chief Executive Officer; and Cheryl Maguire, our Chief Financial Officer. Also joining today is Damien Renwick, our Chief Commercial Officer.

Please note that today's call includes forward-looking statements. These statements are based on the company's current intent, expectations and projections. They are not guarantees of future performance and a variety of factors could cause the actual results to differ materially.

On the call we will reference non-GAAP results, please see the press release in the Investors section of our website, lsbindustries.com for further information regarding forward-looking statements and reconciliations of non-GAAP results to GAAP results.

As a reminder, we have a Stockholder Rights Plan to protect certain tax attributes. Please see the Investors section of our website at lsbindustries.com for further important details.

At this time, I'd like to go ahead and turn the call over to Mark.

Mark Behrman

Thank you, Fred. Turning to Page 4 of our presentation. First quarter results were in line with our expectations. Pricing was down year-over-year but this was offset somewhat by stronger sales volumes and lower natural gas costs. We continue to generate positive free cash flow in the first quarter and used our strong cash position to repurchase our stock, returning capital to our shareholders.

We also reduced our debt by repurchasing notes during the quarter further de-risking our balance sheet. We continue to selectively repurchase our stock and notes post the first quarter and will opportunities to further both of those efforts.

Lastly, on the low-carbon ammonia initiatives, our two projects remain on track with the timelines that we discussed back in March, and I'll provide more color on these later in the call.

Now I'm pleased to turn the call over to Damien Renwick, our Chief Commercial Officer, who will discuss the current market dynamics and pricing trends. Damien?

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Damien Renwick

Thanks, Mark, and good morning, everyone. I'm glad to speak with you today. On Page 5 of our presentation, you'll see an overview of our agricultural end market. Corn prices remain at levels that should translate into healthy income levels for farmers. Despite expectations for increasing U.S. corn supply in the coming months, the December '24 corn futures price currently exceeds $4.60 per bushel.

The USDA recently reduced 2023-'24 global stock estimates for key grains, including corn, providing some price support. In addition, the EPA recently extended the sale of 15% ethanol gasoline, or E15, during the summer, which should provide further support for corn prices. We believe that farmers will remain motivated to maximize corn yields through the application of nitrogen fertilizers for the balance of the spring planting season and again in the fall after the harvest.

Ammonia prices have been underpinned by robust demand over the past several months, with a strong pre-plant application season in the US. We also saw a variety of factors constraining global supply. This includes a number of cold weather-related events in the U.S. impacting domestic production. the disruption of shipping through the Suez Canal, the delayed start-up of new ammonia production capacity that was expected to come online early this year, and natural gas supply issues in Trinidad.

We also saw improved UAN pricing develop through Q1, as we continued to successfully execute our direct-to-customer marketing strategy. This allowed U.S. to target pockets of demand where supply was limited, as the UAN import pace continued below previous years.

Urea prices were volatile in the quarter due to expectations of a resumption of Chinese exports, a dynamic that has historically had a negative impact on global urea prices. However, the Chinese government recently implemented further restrictions on urea exports, delaying the infusion of additional supply into the global market. While we don't sell urea, we do pay close attention to its pricing dynamics, since urea pricing can impact pricing for our UAN and HDAN products.

As we look forward through the remainder of the fertilizer season, our order book is well positioned across our products to support our market perspectives on pricing and demand through May and early June. We have a good balance of forward orders, with room to take advantage of spot sales through the application period, depending on the product.

On Page 6, we show pricing trends and forecasts for the key commodities that drive our agricultural business. The upper left-hand chart shows the price trend for the TTF, the European natural gas pricing benchmark relative to the price for Henry Hub, the benchmark price for U.S. natural gas pricing.

European gas prices have increased over the last month, as instability in the Middle East has offset some of the price decrease seen through the end of 2023 and through Q1 following a warm winter and heavy LNG imports. Still, gas prices in the U.S. remain a fraction of those in Europe, representing significant competitive advantage to U.S. producers. We believe the U.S. cost advantage will persist in the coming years, as the chart indicates.

Page 7 summarizes some key dynamics at play in our industrial and mining end markets. Overall demand remains steady in our industrial business, reflecting the resilience of the U.S. economy. A significant amount of the nitric acid we sell is used to produce polyurethane. Polyurethane, used to make phones, is a major input to both auto and furniture manufacturing. As such, we closely track data related to U.S. auto production and furniture orders.

The first two charts on the right-hand side show trends in U.S. auto production and furniture manufacturing. The trends depicted on these two charts reflect the solid level of demand remaining generally stable over the past year that we experienced in our nitric acid sales.

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As the third chart on Slide 7 indicates, mining production activity also remained relatively stable over the past several years. The recent decline in activity shown in the chart is largely due to a reduction in coal production volumes, reflected in the steep drop in the price of coal over the past year. We have very little exposure to the coal market, so this weakness had minimal impact on our business.

On the contrary, we've experienced strong demand for ammonium nitrate, driven in part by healthy metals mining activity in support of electric vehicle production and other applications. The strong demand for metals is reflected in recent price trends for gold and copper, both of which are up significantly this year. As we look at both sides of our business, we expect fundamentals for nitrogen producers to remain attractive and stable for the foreseeable future.

Now, I'll turn the call over to Cheryl to discuss our first quarter financial results and our outlook. Cheryl?

Cheryl Maguire

Thanks, Damien, and good morning. On Page 8, you'll see a summary of our first quarter 2024 financial results. We generated adjusted EBITDA of $33 million and EPS of $0.08 for the first quarter.

Page 9 bridges our $33 million of adjusted EBITDA to our first quarter 2023 adjusted EBITDA of $51 million. Weaker selling prices relative to the prior year were once again the primary factor in the year-over-year change in EBITDA. The weaker pricing was partially offset by stronger sales volumes and lower natural gas costs.

Page 10 provides a summary of our key balance sheet and cash flow metrics. We continue to use our strong cash position as an opportunity to further de-risk our balance sheet. In the first quarter, we repurchased $33 million of our notes, and year-to-date we've repurchased $75 million of debt.

We also repurchased approximately 700,000 shares of our stock during the first quarter and approximately 1.5 million shares year-to-date. We expect to opportunistically repurchase stock as the year progresses while continuing to invest in our assets to improve their performance.

As a reminder, we have turnarounds scheduled at our Pryor and Cherokee facilities during the second half of this year. These turnarounds will be integral to our goal to improve plant reliability and efficiency.

Looking forward, the second quarter of 2024, Tampa ammonia currently sits at $450 per metric ton and NOLA UAN is currently around $270 per ton. We expect some weakening in pricing for both products in the second quarter as we move into the normal seasonal slowdown as the spring planting season closes.

More specifically, we expect a sequential decline in our realized pricing for ammonia and our ammonia sales volumes given the strong spring ammonia run in the latter part of the first quarter. Additionally, the second quarter typically marks the transition away from ammonia fertilizer application, which is usually done prior to planting, to the application of other fertilizers such as UAN, which are typically applied post-planting. As a result, we expect higher UAN sales volumes both sequentially and year-over-year.

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Furthermore, although we anticipate lower realized fertilizer selling prices compared to last year's second quarter, we do expect that impact to be largely offset by lower natural gas costs, which we expect will be approximately $2.10 per MMBtu in the second quarter, inclusive of transportation.

With respect to costs, we are ramping up our preparation for our Pryor and Cherokee turnarounds planned for the second half of 2024. We expect to incur approximately $2 million to $3 million of expense related to this prep work during the second quarter.

Putting it all together, we expect our second quarter adjusted EBITDA to be lower than the second quarter of 2023, primarily due to lower realized selling prices. However, we expect a meaningful sequential increase in adjusted EBITDA over the 2024 first quarter as a result of higher sales volumes and lower natural gas costs.

Looking beyond the second quarter, after six consecutive quarters of year-over-year declines in product selling prices, we expect pricing to be more in line with prior year quarters during the second half of this year.

And now I will turn it back over to Mark.

Mark Behrman

Thank you, Cheryl. Pages 11 and 12, pertain to the two low-carbon ammonia projects that we currently have underway. Page 11 summarizes the key information relating to our project with Lapis Energy at our El Dorado facility. This project remains on track with the timeline we discussed in early March. The main gating factor remains the approval of our Class VI permit application from the EPA.

Receiving the Class VI approval will enable Lapis to commence construction and then begin capturing and permanently sequestering more than 450,000 metric tons per year of CO2 that we produce at El Dorado. We are in regular contact with the EPA about the permit application. We have been encouraged by the recent feedback indicating that the timeline for approval could be accelerated to mid 2020-2025 relative to our previous expectations at the end of 2025.

As a reminder, we expect Lapis to receive the 45Q tax credit of $85 per ton of CO2 sequestered since they will own the capture facility, but they will buy the CO2 from us. At the same time, we will be producing more than 375,000 tons of low-carbon ammonia annually. Collectively, we expect this to yield approximately $15 million to $20 million in annual incremental EBITDA for LSB.

As we indicated last quarter, our commercial team is actively pursuing markets for the low-carbon products that we will be producing at El Dorado, and our conversations to-date have been very productive.

Page 12 summarizes the key aspects of our Houston Ship Channel low-carbon ammonia project. As a reminder, the project entails the design and construction of a world-scale ammonia plant that will produce approximately 1.1 million metric tons of low-carbon ammonia. Samsung Engineering is performing our pre-FEED, and that is expected to be completed during the third quarter of this year, at which point we expect the FEED to begin. We anticipate a final investment decision in the second half of next year.

Regarding long-term off-take, we continue to work with potential customers to secure long-term off-take for the anticipated ammonia production. Based on our ongoing conversations, we expect off-takers to come from Asia, Europe, and the U.S. The markets for low-carbon ammonia continue to take shape, with many positive developments emerging in recent months.

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JERA, Japan's largest power company, has a three-month trial underway using 20% ammonia to co-fire one of its coal-burning power plants, with the goal of eventually using 100% ammonia in its plants as a means of dramatically reducing its CO2 emissions. The success of this trial would be groundbreaking in terms of providing the viability of ammonia use for large-scale power generation.

While Japan is a first mover in this regard, Europe, which has previously been entirely focused on green zero-carbon power generation, is increasingly considering blue or low-carbon ammonia as a more practical emission reduction option. This is largely due to the currently prohibitive high costs of producing green fuels.

European governments are currently working on legislation intended to make low-carbon ammonia eligible for the incentives that now cover only green products. If this legislation passes, the global market for blue ammonia would be considerably larger than anticipated when we initially began the process of developing our projects.

The marine industry is also keenly focused on ammonia as a potential fuel for large ships instead of high CO2-emitting diesel or bunker fuel. Fortescue, an Australian materials and industrials company, successfully used ammonia in combination with diesel as a marine fuel on one of its Singapore-based vessels. Interest in ammonia as a fuel continues to grow, and there are numerous ammonia-powered vessels on order and scheduled for delivery and entry into service as soon as 2026.

We're very excited to be involved in this emerging clean fuel trend and expect to be one of the leading suppliers of low-carbon ammonia to these and other industries in the coming years. We have a lot of initiatives ongoing to approve our current operations that we believe will provide a meaningful increase in profitability and, in turn, shareholder value. Combining those with our low-carbon activities, we believe we're on our way to creating a profitable play on the energy transition. I'm excited about our future.

Before we open it up for questions, I'd like to mention that we'll be participating in the following conferences in June. The Stifel Cross Sector Insight Conference in Boston on June 5th, The Deutsche Bank Industrials Conference in New York on June 6th, The Wells Fargo's Industrial Conference in Chicago on June 12th, and The Jefferies Virtual ESG Conference on June 20th. We look forward to speaking with some of you at those events.

That concludes our prepared remarks, and we will now be happy to take your questions. Thanks.

Question-and-Answer Session

Operator

Thank you. We're now conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Josh Spector from UBS. Your line is now live.

Josh Spector

Yeah, hi, good morning. So, I wanted to ask one of your prepared comments when you talked about UAN price is higher because the supply-demand is tighter in the U.S. through the second quarter. If you can kind of compare that to your comments about pricing moving down through the quarter? Obviously, there's seasonal factors as a part of that, but when do you think the supply-demand in North America becomes maybe more balanced and links back to the cost curve versus a tighter dynamic.

Mark Behrman

Damien, why don't you take that one?

Damien Renwick

Yeah, Yeah. Hi, Josh, how you doing? Look, I think there's a couple of elements to your question. So, first of all, we're seeing pretty stable UAN prices. I mean, they took a turn up through Q1 and the early part of Q2. And really what we've seen, one of the key dynamics playing out here in the U.S. is, UAN imports have been tracking much lower than prior years and so that's created some pockets of opportunity, as I said in my earlier remarks, where we've been able to sort of take advantage of that.

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You know, other factors that are going to come into play, we've got urea at the moment. The volatility in urea has, I guess, created a little bit of uncertainty for farmers and buyers. And so there's forward buying to a limited extent, but we should see stable prices up until we start to see the reset. And at this stage, we're not sure when that will be, but it'll be towards the end of Q2.

Mark Behrman

We think there's a bunch of pent up demand though, right?

Damien Renwick

Yeah, I think so. In terms of the retailers and co-ops, they're buying closer to hand to mouth. So, there'll be a time when the application really starts and kicks in and there'll be a surge of buying activity and that'll support pricing right through until we get to the end of season.

Josh Spector

Thanks, Damien. I appreciate that. And I wanted to follow up on some of the guidance comments that Cheryl made. I'll skip Q2, but it seemed like when you were walking through the rest of the year, you were talking about, I don't know if I heard you in terms of flat EBITDA for 3Q and 4Q versus prior year, or if you're talking about flat volume? And if it's flat EBITDA, I guess, 4Q would be surprising that you'd be calling that this early when I think your guidance on volumes was that volumes would be higher and I expect prices would probably seasonal lift. So can you maybe clarify and talk through some of that? Thanks.

Cheryl Maguire

Yeah, sure, Josh. I think, let me just clarify your question. I did say in the script that, after six consecutive quarters of lower pricing on a comparative basis that post Q2, we would start to see normalization of pricing against the prior years. So we wouldn't have that big decline versus prior year comparative periods. Is that the point that you were referring to?

Josh Spector

Yeah, maybe I misheard pricing versus EBITDA. I thought you were starting to guide towards second half EBITDA flat year-over-year. So if I heard that wrong, then that's, pretty much answers it.

Cheryl Maguire

Yeah, just in relation to pricing, not EBITDA.

Josh Spector

All right, thank you.

Cheryl Maguire

Thank you.

Operator

Thank you, next question today is coming from Adam Samuelson from Goldman Sachs. Your line is now live.

Adam Samuelson

Yes, thank you, good morning, everyone.

Mark Behrman

Good Morning, Adam.

Cheryl Maguire

Good morning.

Adam Samuelson

Morning. Maybe picking up on that last kind of line of questioning is we obviously just kind of gave some framework on EBITDA for the second quarter no longer thinking pricing would be a year-on-year headwind in the second half of the year. I guess as we would think about what that would net to from a full year earnings perspective and then bridging to kind of the normalized EBITDA performance that you framed back at the Analyst Day a little over a year ago, help us think about the operational uplift still to be realized after this year as we think about operating rates at the plants. Obviously there'd be the incremental uplift from carbon sequestration and the clean ammonia, but just on the plant reliability point, what can that contribute kind of in '25 and '26 and what's your confidence level in actually getting there?

Cheryl Maguire

Yeah, sure, Adam. I think what I would probably do is bridge from 2023, which we were around $133 million of EBITDA. You know, we've spoken to in the past about, call it $35 million to $40 million of uplift from improved reliability. And I think what I would point out there is when we're talking about going to 95%, that's not just on ammonia. We also are assuming that we're not going to sell that product as ammonia. We've got capacity to go downstream in nitric acid AN solution and UAN. So there's additional uplift there on that impact from the downstream production.

So if you take the $133 million, add another $35 million to $40 million from improved production, we are carrying some higher costs right now as we try to accelerate some of these initiatives that we have on the go. That's another call it $10 million to $15 million of EBITDA. We've got the area expansion that we're doing at Pryor here in the third quarter. Some of those margin enhancement projects should add another $5 million to $7 million of EBITDA. And then we've talked about the Lapis agreement and that's another, call it, $15 million from carbon sequestration coming online in 2026. So that's how we think about the EBITDA uplift as we go through the next, call it 24 months.

Mark Behrman

Yes, Adam, as far as confidence in our ability to do it, it's a great question actually. And so we spent probably the last month really spending time with our sites and our manufacturing leadership to create a roadmap on how we get to 95% and what it will take. And so I would say that we're highly confident that we can get there.

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Adam Samuelson

And that's helpful. And then maybe another one for Cheryl just on the balance sheet. You bought back some stock, you also bought back some of the notes in the quarter and seemingly further in April. Do you have a total target in mind for what you would be looking at from a capital deployment perspective in terms of buyback and debt repurchase this year?

Mark Behrman

Yeah, I think that, so we bought back $75 million of debt to-date and we've bought back another --

Cheryl Maguire

$10 million to $12 million of stock, yeah.

Mark Behrman

Of stock, so I think we've allocated about $125 million to buy back a combination of debt and stock. And then we'll kind of take a breather there, see where we are, see where some of our projects are and what our cash needs are. And then we'll make a decision on whether we move forward with continued purchases or not.

Adam Samuelson

All right, that's really helpful. I'll pass it on, thank you.

Mark Behrman

Yeah.

Operator

Thank you, next question is coming from David Begleiter from Deutsche Bank. Your line is now live.

David Begleiter

Thank you, good morning. Mark, just looking at natural gas prices, how are you thinking about taking advantage of these lower prices over the longer term?

Mark Behrman

Well, you know, it's a great question and we debate this internally and we've debated it for the last five years. We seem to want to take some, we've tried taking some, I call it forward purchases because they're not really hedges. And we've won some of them and last year, unfortunately, we actually lost in a big way, right? We lost the potential for call it $40 million based on locking in at higher prices when the actual prices were somewhat lower.

So I think we're taking the position right now that we lock in, we make sure that we have enough gas at the beginning of every month to lock in 90% of our gas needs. And that's combined with, if we have any forward purchases of product, primarily on the fertilizer side where we lock in the gas to lock in our margin there. If we've got any customers on the industrial side, since they're primarily gas pass-through that want to lock -- wanted to lock it in, which doesn't happen very often, very infrequent actually, we'll lock that in as well.

But going in and purchasing forward to really make a bet on where natural gas prices are going to be, there's a lot of conflicting views in the marketplace on prices going up, come towards the end of this year and into next year. And then you read a whole lot of other conflicting views on how much natural gas is actually coming out of the ground and of course, we've got LNG issues and what's going on there. So I think our strategy right now is to continue to buy primarily first of the month to lock in that gas. And then we're starting to think about the winter and do we actually hedge or buy forward some gas in the winter where it can be somewhat more volatile.

David Begleiter

Understood. And just on the buying debt versus stock, how do you decide the use of what's more beneficial to you guys, stock or debt at any point, any time? Thank you.

Mark Behrman

Well, I think first, we've -- Cheryl's been pretty public in saying that our target is 2.5 times leverage. And so we say 2.5 times leverage on mid-market EBITDA, which is the $200 million that Cheryl referred to earlier. So that would be $500 million. So we're pretty much at $500 million with that $75 million repurchase of debt. You know, to make ourselves a bit more bulletproof and to allow us to continue to weather any storms and also fund capital projects, I think we would consider delivering somewhat more just to give more comfort, right?

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We're in a somewhat volatile industry where pricing can move relatively quickly and the last thing we want to do is ever be in an over-levered position. So I think that's the first thing we think about. When we think about debt, we're lucky enough that we certainly have enough cash and liquidity that we can do both debt and stock. And right now, I hope I'm not going out there on a limb, but I think we all believe that our stock is pretty undervalued. So I think that buying back some stock at these levels makes a lot of sense for us.

David Begleiter

Thank you very much.

Operator

Okay, the next question today is coming from Andrew Wong from RBC Capital Markets. Your line is now live.

Andrew Wong

Hey, good morning. Thanks for taking my questions. Could you just maybe talk about your view on ammonium nitrate prices and going forward, it seems like the premiums have come down a little bit versus urea, maybe just what's driving that and could we see that rebound going forward?

Damien Renwick

Yeah, good morning, Andrew. I think you'll see a little bit of rebound going forward as we get into more application and some of that natural demand for AN comes through. But in terms of some of those trends, I think there's been some changes in demand in the marketplace. And so what we tend to see is that if pricing for AN gets too high, then you'll start to incentivize and switching to urea. So we're constantly sort of working against some of those dynamics. But I think we're happy with where things are at right at this very minute.

Andrew Wong

Okay, thank you. And then, let me just talk about the collaboration with Amogy, I think I'm seeing that right. Looks like initial testing is in Q3, what is the opportunity for LSB around that if it's a successful test?

Mark Behrman

Well, look, I think one of the things that people are now starting to really talk about when we're talking about, you know, low-carbon development and this whole energy transition is we can build all the facilities we want, but it's really going to be demand-driven. And I think when we started our conversations with Amogy and talking about how we can work together, so they've got, a system Power-to-X, that allows people to basically convert existing engines to run on ammonia because they've got ammonia to a fuel cell, fuel cell to hydrogen and hydrogen into the engine.

So part of what we talked about was really working together to develop the inland marine marketplace here in the United States. That's a big market, a lot of vessels going up and down the rivers, a lot of dirty fuel used. And so for them to sell systems, there needs to be the availability of low-carbon ammonia. And for us to sell low-carbon ammonia into that marketplace, there needs to be engines that could run on that. So it really, it's kind of like hand and glove in the way that it fits.

So we're really working with them to try and develop that market and really work with Washington to really understand the opportunity and work with U.S. Coast Guard to get them to understand what it would take and get the right permitting. And I think that's why, I believe that's why their test has been delayed, which was supposed to happen towards the end of last year, is that it's, you know, taken longer to educate, you know, the political scene and as well as Coast Guard. But I think they've made a lot of progress, so we're excited about that.

Andrew Wong

That's great. Thank you.

Operator

Thank you. [Operator Instructions] Our next question is coming from Rob McGuire from Granite Research. Your line is now live. Rob, perhaps your phone is on mute.

Rob McGuire

Thanks so much. Good morning. Could you please talk about your healthy increase in downstream production volumes? Perhaps just elaborate on what's behind that and if you think it could continue on a year-over-year basis for the remainder of 2024?

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Damien Renwick

Yeah, good morning, Rob. Basically, we're sold out on all of our downstream plants, so as we get improved performance from those assets, then we're in a good position to sell them and increase the volumes. And that's exactly what we've been doing right across the board, so it's pretty simple in that aspect.

Mark Behrman

Yeah, I think, in fact, we've got about 200,000 tons of ammonia that we sell in El Dorado and inject into the pipeline to a customer that we'd love to find a way, and we're working diligently to find a way to upgrade, so I think we've still got some more upgrading capabilities. Will take some more capital to do that, like an expansion that we've talked about in the past, but we think that there's certainly margin enhancement as we move forward.

Damien Renwick

Yeah, and the other bit of margin enhancement that we continually revise is basically what's the mix, right? And how do we optimize that mix and what's the position on pricing or term of contract or whatever we take on those upgrades, so yeah.

Cheryl Maguire

Yeah, and I think one other thing I would point out, Rob, is when you're thinking about Q1 to Q2, and I kind of alluded to it in the script, we expect to see further increase in volumes on all of our downstream production for UAN, AN, and nitric acid. And then, of course, you'll see a corresponding decrease in ammonia sales as we look to continue to upgrade further.

Rob McGuire

That's helpful from all three of you. Thank you. Moving on, how would you characterize the strength of the spring application, and what does that tell you about future demand? In other words, could you also talk about it, you know, if you think there was a pull forward from 2Q into Q1, you kind of touched on it in the comments, but if you could elaborate, I'd appreciate it.

Damien Renwick

Yeah, look, I think the way the season is setting up, it's looking pretty good. Planting is running ahead of the five-year average, I think in the last report we were about 27% versus 22% on average, so that's all pointing to a good season. Look, clearly we had a really strong pre-plant run on ammonia, but we're now really focused on what that means for UAN and some of the other nitrogen products, and we think we're well positioned to take advantage of whatever the season throws at us, and we're confident that it will be a pretty healthy spring this year.

Rob McGuire

Okay, I appreciate that, and then lastly, could you -- you kind of touched on this in the past, but can you discuss the mining industry's push to decrease its carbon footprint? Are they under different pressure than the rest of corporate America, or is it just simply they're keeping up with everyone else?

Damien Renwick

That's an interesting question, it's probably a bit of both, I think. You know, look, the mining industry is trying to decarbonize and some of the big producers have a really strong effort on that. They've all got sustainability reports and people responsible for driving improvements there, so we're seeing some of that come through in some of our discussions with them on our low carbon offerings as we look to commission our project at El Dorado, so I think we're well placed to take advantage of that, and we hope that they continue to try and push to decarbonize their supply chains.

Rob McGuire

But just to follow on, do you think that there's more demand for low carbon ammonia in the next few years when you start producing, coming from mining or industrial, or is it probably going to look about the same?

Damien Renwick

I think it'll look about the same, it's hard to split the --

Operator

Please stand by.

[Technical Difficulty]

Operator

Now rejoining our speakers. The speaker line has now rejoined. I believe Rob, you were online for a question.

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Rob McGuire

Yes, indeed. Just touching base on, sorry about that, I'm just going to move on if you don't mind. Are there any meaningful upgrades taking place in the turnarounds to uptick your onstream rate?

Damien Renwick

Yeah, Rob, we've got a urea expansion that we're pursuing and implementing at Pryor and that'll help us produce another 60,000 tons to 70,000 tons of UAN per year. And the rest of the turnaround scope's really for both sites. Pryor and Cherokee's really going to be focused on improving reliability.

Mark Behrman

Yeah, so we expect to come out of the turnarounds with much higher operating rates and that obviously would just improve product for sale. So yeah, we're looking for, these are major turnarounds for us. We're very focused on them and actually it's a fair amount of capital that we're deploying into the turnarounds.

Rob McGuire

Thank you.

Operator

Thank you. Our next question today is coming from Charles Neivert from Piper Sandler. Your line is now live.

Charles Neivert

All right, guys, just one quick question. The SG&A percentage seems to be on the rise lately. Is there any particular reason for it? Should we expect it to stay at the higher level or is it going to come back to where it had been over the last couple of years?

Mark Behrman

Yeah, Charlie, I think you're going to see us carry an extra $10 to $15 million in SG&A for the next 12 months to 18 months, maybe 24 months as we push reliability programs. Some of that is obviously rolling up to the cost of sales, but some of it we're carrying up as corporate overhead. So we would see, once we achieve the reliability rates that we've outlined, we definitely should see some reduction in expense.

Charles Neivert

And then in terms of the net debt-to-EBITDA multiple, do you guys have a target in mind? I mean, admittedly, EBITDA has been moving around a little bit over the last year, so you're trailing 12 months and seeing some big movement. But when things, the life of [bad terms] begin to level off and get less volatile, do you guys have a target in mind as to where you'd like to be when it all works its way through?

Mark Behrman

Yeah, no more than 2.5 times levered.

Charles Neivert

That's all for me, thanks. Gas has come down quite a bit. Obviously, it's still much higher than the U.S. But having seen where it was, forgetting the obviously incredibly high numbers, but where it is now, does it seem like you're going to see some of that European production come back online? At $450 for ammonia, it might not be extremely profitable, but it might be enough to keep them in the game, considering they've got the protection of somebody having to move product into the area. It just might be easier for them that way. Do you see any increase in European production because of the lower gas numbers coming out of there?

Damien Renwick

Look, I think the European producers will probably want to see some more sustained pricing levels in order to get some confidence to restart operations. So I think there's still a lot of water to pass under the bridge in that aspect. I think that plants that have restarted will continue on, and I think we'll see a little bit of the status quo continue for some months.

Mark Behrman

I also think it depends on import prices versus cost of production, right, and so where those levels are.

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Charles Neivert

Right.

Mark Behrman

And so I think if gas is low here and gas is much higher in Europe but relatively low compared to where it's been over the last several years, yeah, that puts a cap sort of on ammonia prices in general, it might be still cheaper for them to import. So I think it's really just a total economic decision.

Charles Neivert

Do you see anyone throwing in the towel completely, sort of like in the way CF chose to close the UK ammonia operation but to supply ammonia from the outside? Any of those, any of the current players in and around Europe who might consider closure and either substitution or is it outright closure of the facility?

Damien Renwick

Not that we've heard of, of late. I think most of the producers like CF and BASF, they've already made their moves.

Mark Behrman

A couple of Eastern Europeans have closed down facilities.

Damien Renwick

Yeah, but I think the rest are probably, those that are operating are happy to do so, and those that are suspended or shut down, we haven't heard anything of that turning into a permanent closure.

Mark Behrman

I think the only thing that people will start to face after some period of time is you can't just shut down a facility. It's expensive to maintain it, right, because you have to be able to maintain it so that you can turn it back on. So at some point, I think the cost of maintenance will force some decisions.

Charles Neivert

Okay, that's it for me. Thanks, guys.

Mark Behrman

Yeah.

Operator

Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Mark Behrman

Thank you. As always, thanks so much for your interest in LSB Industries, and if you have any follow-up calls or follow-up questions, feel free to call us and we'll be happy to answer them. Thank you. Have a great day.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

**Load-Date:** April 30, 2024

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