

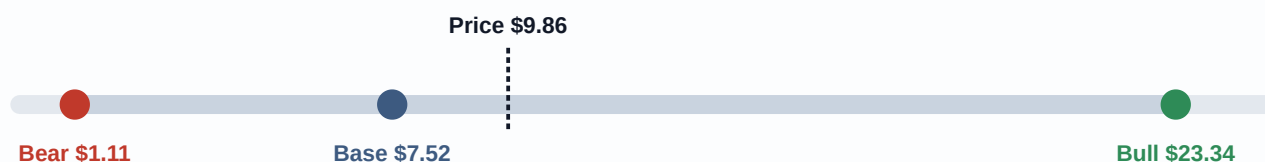
Initiated 2026-10-04 · Price \$9.86 (as of 2026-10-02 close, StockAnalysis) · Mkt cap \$0.71bn · Materials / nitrogen chemicals & fertilizer · Model: verified

Rating: Sell — Conviction: Low

LSB's 2026 earnings rest on war-driven nitrogen prices: Q2 Tampa ammonia averaged \$787/t against \$416/t a year earlier. The price is already rolling over, with Tampa down four straight months to \$555 in September. Once realized prices return to FY2025 levels, sustaining capex plus recurring turnarounds leave thin free cash flow. Both valuation methods then sit below today's price. Only a multi-year extension of the Middle East supply loss justifies the stock.

Conviction tests (3a-v-c): T1 fail (Sell → Hold at -1pp: base -13.5%; -32.1% at +1pp) · T2 pass (Gordon \$6.74 -32%, exit \$8.29 -16%) · T3 pass · T4 pass

MODEL VALUE RANGE VS PRICE



Business overview

LSB makes nitrogen chemicals at three US plants: El Dorado (AR), Cherokee (AL) and Pryor (OK). In FY2025 it sold 1.51mm short tons. AN & nitric acid (641k t) made up 39% of sales, UAN (550k t) 31%, ammonia (316k t) 24%, and other products 6% (FY2025 release; 10-K). AN and nitric acid go mainly to industrial and mining buyers; UAN and much of the ammonia go to agriculture at spot-linked prices. Five customers took ~32% of FY2025 sales (10-K). Three variables drive earnings: realized nitrogen prices, which follow Tampa ammonia and NOLA UAN; US natural gas cost (\$2.96/MMBtu in Q2 2026 vs \$3.50 a year earlier); and plant reliability. Turnaround costs are excluded from Adjusted EBITDA.

Competition

The listed comparables that matter are CF Industries (CF), the dominant North American ammonia/UAN producer; CVR Partners (UAN), a UAN pure play; and Nutrien (NTR). All three sell into the same Gulf-import-parity prices. Pressure shows up in price, not share. Tampa ammonia peaked at \$825/t in May 2026 and fell to \$555 in September (Fertilizer Daily, 2026-09-10). The causes: China released urea export quotas in June, Iran and Oman agreed a Hormuz safe-shipping framework, and Trinidad raised utilization. September is still ~15% above the early-2026 baseline of ~\$480. On one TTM definition (StockAnalysis, 2026-10-02), CF trades at 4.79x EV/EBITDA, UAN at 6.32x and NTR at 8.01x, against 6.52x for LXU. All sit on war-elevated trailing earnings. Current US import trade measures were not checked; the thesis does not rely on them.

Bull case

- 1. **Disruption persists** — the Middle East war (now in its eighth month per the macro log) keeps Gulf ammonia and urea exports impaired, so realized prices hold near the 2026 run rate (~\$440–455/t vs \$408 in FY2025) through 2030. Plays out if the Hormuz framework fails and Chinese export quotas tighten again. *Model: realized_price*
- 2. **Reliability finally sticks** — El Dorado has run above nameplate since its Q2 turnaround (~1,375 t/day, its best since 2016). With no major turnaround in 2027, volumes recover ~6%. Plays out if FY2027 production guidance comes in above FY2025's 1.51mm t sold. *Model: volume_growth*
- 3. **Low-carbon premium** — the El Dorado CCS project (Q1 2027, subject to an EPA Class VI permit) captures 400–500k t of CO₂ a year. It is guided to add \$25–30mm of annual earnings over a 12-year credit period, and could earn a premium multiple. Plays out if the permit arrives on time and 45Q credits survive. *Model: fixed_costs, exit_ev_ebitda*

Bear case

- 1. **Prices normalize** — Hormuz flows resume and Chinese urea returns, so realized prices fall back to FY2024 levels (~\$375–385/t). Plays out if Tampa settles below \$500 into the 2027 spring season. *Model: realized_price, exit_ev_ebitda*
- 2. **Turnarounds and capex eat the cash** — LSB has a history of unplanned outages, and its turnaround costs (\$28.8mm in Q2 2026 alone) sit outside Adjusted EBITDA. Sustaining capex plus turnarounds roughly equal D&A (~\$85mm). At mid-cycle prices, base free cash flow is only ~\$50–60mm a year. Plays out if 2027–28 capex stays near the FY2024–25 level of \$77–92mm. *Model: capex_pct_rev, volume_growth*
- 3. **CCS slips** — no Class VI permit, so the \$25–30mm/yr never arrives while ~\$45mm (est.) is spent on it in 2026. Plays out if the permit is still pending at the Q4 2026 call. *Model: fixed_costs*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (mkt cap – cash & ST inv. + debt; Adj. EBITDA, no leases)	5.78x FY2025 · 4.68x LTM	FY2021–25 Adj. EBITDA \$129.5–414.7mm	n/a on this basis	Model; FY2025 & Q2 2026 releases
EV/EBITDA, TTM (aggregator definition)	6.52x	n/a (unverified)	CF 4.79x · UAN 6.32x · NTR 8.01x	StockAnalysis, 2026-10-02
Forward P/E (aggregator consensus)	9.36x	n/a	CF 9.04x · NTR 14.19x · UAN n/a (8.23x trailing)	StockAnalysis, 2026-10-02
P/B (aggregator)	1.32x	n/a	CF 3.03x · UAN 3.80x · NTR 1.29x	StockAnalysis, 2026-10-02

Model-implied value range (from `model-summary.json` ; energy module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$1.11 · Base \$7.52 · Bull \$23.34 per share, i.e. implied returns of –88.7% / –23.7% / +136.7% vs \$9.86. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits ~15% of the way from base to bull, so the market is paying for only modest persistence of 2026 pricing. **Re-rating.** The two base methods differ by more than 10%. The **exit method (\$8.29)** uses 6.0x Y5 EBITDA. That is a 4% re-rating against today's 5.78x on FY2025 and 28% against 4.68x on LTM. The **Gordon method (\$6.74)**, at an 8.6% WACC and 1% growth, embeds a lower terminal multiple; the gap is the exit method's higher one. No tail sensitivity was run: no customer is ≥50% of sales, and the bear case is already near zero.

Balance sheet: net leverage 1.38x FY2025 EBITDA (model), ~1.1x LTM. Coverage is 5.9x on the 6.25% coupon. Liquidity is \$218.0mm of cash and short-term investments (2026-06-30). The nearest material maturity is \$438.6mm of 6.25% senior secured notes due October 2028, the whole debt stack. Ratings: n/a (unverified).

Model note: Built and LibreOffice-verified (3,511 formula cells match). EBITDA is company Adjusted EBITDA, which adds back turnaround expense. Turnarounds are treated as a recurring cash cost inside capex: ~\$40mm (est.) in 2026 and ~\$15mm/yr after. The variable/fixed

cost split (unit cash cost ~\$140/t, fixed ~\$244mm) is my estimate, calibrated to FY2025 cash costs; it is not a disclosed line. Volume history before FY2025 is blank because consistent product tonnage was not retrieved. 2026 capex (~\$80mm core per call summaries; CCS ~\$45mm est. vs \$10.8mm H1 actual) is partly unverified. Unverified inputs: none flagged **est**. Assumptions without basis: none. Scenario consistency: all OK. No EPS guidance; base 2026 EPS (\$1.01) is within 5% of the ~\$1.05 implied by the 9.36x forward P/E. WACC 8.6% uses a judgment beta of 1.2 vs a reported 0.31; at ~6% WACC the base would sit near the price, which with T1 is why conviction is Low.

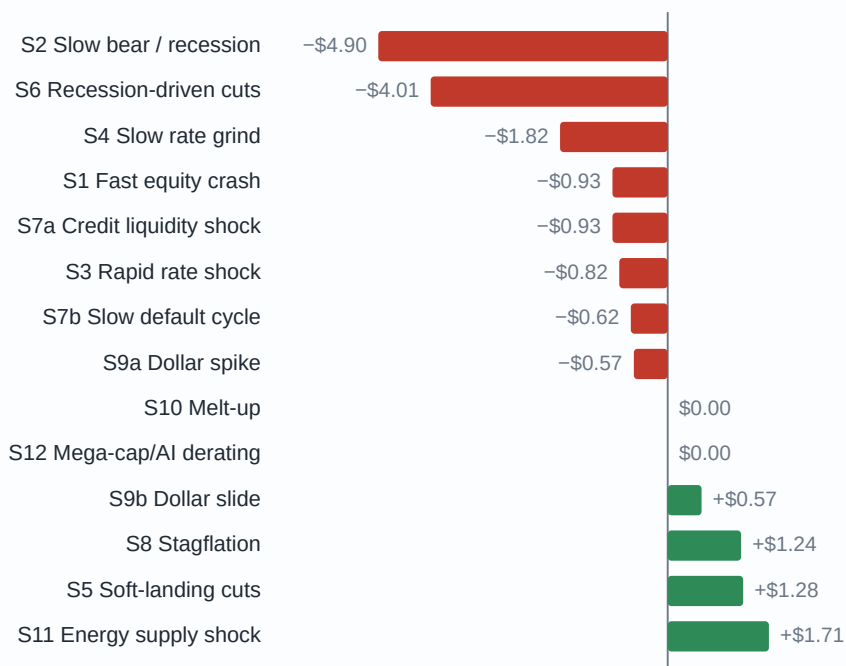
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Small-cap de-rating; fertilizer demand unaffected over weeks	Low	–\$0.93
S2 Slow bear / recession	–	Industrial and mining AN/nitric acid volumes fall and nitrogen prices soften; corn demand cushions part	High	–\$4.90
S3 Rapid rate shock	–	Higher discount rate on a levered equity; notes fixed to 2028	Low	–\$0.82
S4 Slow rate grind	–	2028 notes refinance at higher coupons; input-cost and gas inflation	Med	–\$1.82
S5 Soft-landing cuts	+	Steady industrial demand, lower discount rate	Med	+\$1.28
S6 Recession-driven cuts	–	Recessionary volume and price drop outweighs lower rates	High	–\$4.01
S7a Credit liquidity shock	–	HY spreads gap; secured high-yield issuer de-rates	Low	–\$0.93
S7b Slow default cycle	–	2028 maturity refinances into a wider-spread market	Low	–\$0.62
S8 Stagflation	+	Nitrogen reprices with energy and grain faster than US gas; partly offset by input-cost inflation	Med	+\$1.24
S9a Dollar spike	–	Strong dollar cheapens imported nitrogen into the US Gulf	Low	–\$0.57
S9b Dollar slide	+	Weak dollar lifts import-parity pricing	Low	+\$0.57
S10 Melt-up	0	No material effect, not modeled	Low	+\$0.00
S11 Energy supply shock	+	Middle East ammonia/urea supply lost; global nitrogen priced off EU gas while US gas stays cheap. Two-year shock, so it doesn't reach the price	Med	+\$1.71
S12 Mega-cap/AI derating	0	No material effect, not modeled	Low	+\$0.00

Currently active/on watch per the playbook: S3 partially active; S8, S10, S11 on watch (state.md). S11 is the live driver of 2026 nitrogen prices.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Tampa ammonia re-firms above ~\$650/t into the 2027 spring season and Q3/Q4 2026 realized prices hold at or above ~\$440/t; or the CCS permit lands and FY2027 guidance shows volumes above 1.55mm t, with capex plus turnarounds below ~\$85mm.

Downgrades if: n/a for a Sell. **Conviction rises** if Tampa settles below \$500 for Q4 2026 while the 2026 capex and turnaround bill comes in above ~\$160mm.

Watch items

- **W1:** Q3 2026 net sales per ton sold and Adjusted EBITDA — $\geq$ \$440/t supports bull 1; $\leq$ \$400/t confirms the base path — Q3 8-K release — ~late Oct 2026 — *Model: realized_price*
- **W2:** Monthly Tampa ammonia settlements — below \$500/t by the Jan 2027 settlement confirms bear 1; above \$650/t supports bull 1 — trade press — monthly — *Model: realized_price*
- **W3:** EPA Class VI permit and CCS start-up at El Dorado — permit granted and operations by Q1 2027 vs further slippage — 8-K / Q4 2026 release — Q1 2027 — *Model: fixed_costs*
- **W4:** FY2027 volume and capex guidance — sales volumes vs 1.55mm t, capex plus turnaround vs ~\$85mm — Q4 2026 release — ~Feb 2027 — *Model: volume_growth, capex_pct_rev*

Sources

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- StockAnalysis statistics: LXU, CF, UAN, NTR (2026-10-02 close) — <https://stockanalysis.com/stocks/lxu/statistics/> — accessed 2026-10-04
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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.