



# Freeport-McMoRan Inc. (FCX)

Updated January 28<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	-1.6%	<b>Market Cap:</b>	\$58 B
<b>Fair Value Price:</b>	\$43	<b>5 Year Growth Estimate:</b>	-5.0%	<b>Ex-Dividend Date:</b>	04/14/2022
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.5%	<b>Dividend Payment Date:</b>	05/03/2022 <sup>1</sup>
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$33	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	50%

## Overview & Current Events

Freeport-McMoRan is a leading global mining company that is headquartered in Arizona. The company operates large, long-lived, geographically diverse mines with significant reserves of copper, gold, and molybdenum. The geographical footprint includes Indonesia, North America, South America, and Africa. It produces roughly four billion pounds of copper annually, and more than 2 million ounces of gold. Freeport-McMoRan should generate about \$25 billion in revenue this year and has a market capitalization of \$58 billion.

Freeport reported fourth quarter and full-year earnings on January 26<sup>th</sup>, 2022, and results were mixed. Earnings-per-share on an adjusted basis came to 96 cents, which was two cents ahead of estimates. Revenue was \$6.2 billion, which was a very strong 37% gain year-over-year. However, the company missed revenue estimates by a full \$320 million in the fourth quarter. Total sales of copper came to 1.02 billion pounds, 395 thousand ounces of gold, and 19 million pounds of molybdenum for the quarter. For the year, sales were 3.8 billion pounds of copper, 1.4 million ounces of gold, and 82 million pounds of molybdenum. The company guided for sales of 4.3 billion pounds of copper, 1.6 million ounces of gold, and 80 million pounds of molybdenum for the coming year.

Q4 net income was \$1.11 billion, up sharply from \$708 million in the year-ago period. Average realized price surged 30% to \$4.42 per pound. Copper unit net cash costs rose less than 1% to \$1.29 per pound, so margins on copper in Q4 were outstanding.

Our initial estimate is for \$3.30 in earnings-per-share, which would represent modest growth over 2021, but investors should keep in mind that 2021 was a year of extraordinary growth.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.19	\$2.64	-\$1.26	-\$11.31	-\$3.16	\$1.25	\$1.78	-\$0.17	\$0.54	\$3.13	<b>\$3.30</b>	<b>\$2.55</b>
<b>DPS</b>	\$1.19	\$1.25	\$1.25	\$0.46	---	---	\$0.20	\$0.20	\$0.05	\$0.23	<b>\$0.30</b>	<b>\$0.40</b>
<b>Shares<sup>2</sup></b>	949	1038	1039	1246	1445	1448	1449	1451	1469	1482	<b>1500</b>	<b>1550</b>

Freeport endured a tough period given metals pricing was weak for some time. However, those days have passed and 2021 proved to be much stronger. However, it has become clear the pricing of copper in particular isn't sustainable, and we have moved our estimate of growth to -5% for the foreseeable future. With earnings expected to rise significantly, we see sustained growth from here as more challenging considering it would need another sustained rise in metals pricing. Freeport is cashing in on a massive move higher in copper, but we know from historical tendencies that these moves don't last.

Freeport's future growth will be heavily dependent upon copper pricing, as that is where it derives most of its revenue. With copper volume being highly dependent upon global economic activity, it is susceptible to recessions. However, copper pricing has been soaring for months and is still very near its all-time high. With the company saving money on every line item of cost, margins have reflatated extremely quickly. Still, we note that as with any commodity company,

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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Freeport's revenue and margins have significant volatility from year to year, so this forecast has significant upside and downside risk due to factors outside of Freeport's control.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.8	12.4	16.4	---	45.6	11.9	10.3	---	25.5	11.5	<b>11.5</b>	<b>13.0</b>
Avg. Yld.	3.2%	3.8%	3.8%	3.0%	---	---	1.3%	1.8%	0.3%	0.8%	<b>0.8%</b>	<b>1.2%</b>

Perhaps unsurprisingly, Freeport's price-to-earnings multiple has been quite erratic in the past decade. The company's wild swings in earnings have produced some very large and very small P/E multiples in the past, and shares trade for 11.5 times our earnings estimate after pulling back of late. We assign fair value at 13 times earnings given this volatility, and the fact that commodity companies tend to see lower valuations during times of economic stress. With this, we expect a 2.5% tailwind to total returns from the valuation.

Freeport reinstated its dividend in April 2021, paying a 7.5 cent per share dividend, which is good for 30 cents annually.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	48%	64%	---	---	---	10%	---	9%	7%	<b>9%</b>	<b>16%</b>

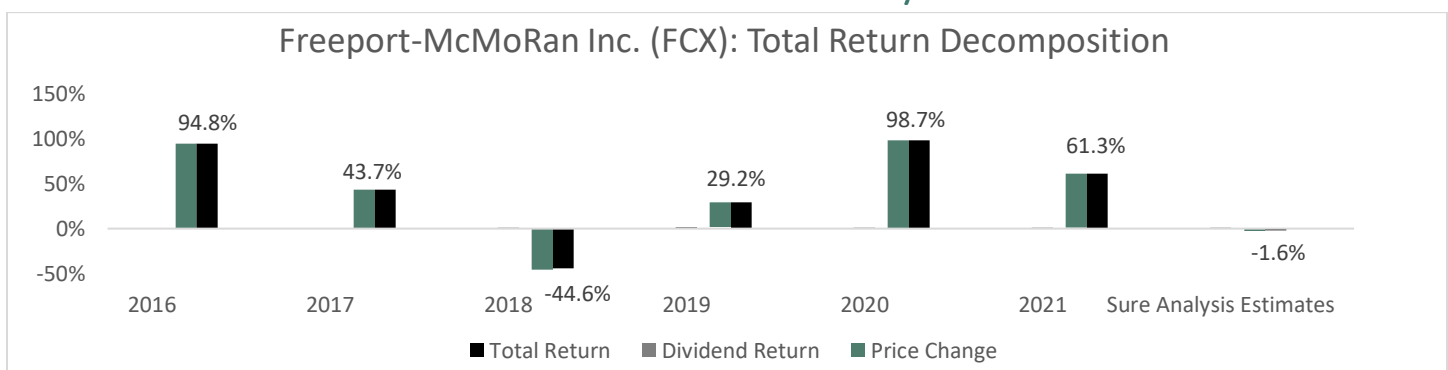
The new payout ratio is extremely low, so we believe it to be safe for the foreseeable future. We see growth in the payout from here as somewhat modest given the company very recently had to suspend its dividend altogether.

The company's competitive advantage – if it has one – is in its scale. Freeport produces enormous volumes of copper and can therefore generally achieve lower product costs. However, it is still a mining company and advantages are difficult to come by. The company also suffers greatly during periods of economic weakness due to its exposure to copper, and it has more than \$9 billion in debt on its balance sheet. It pays hundreds of millions of dollars annually just in debt servicing costs, so its prospects for getting out of debt are quite dim given unpredictable earnings. We see the balance sheet as a significant negative for Freeport and note that it greatly increases risks for shareholders.

## Final Thoughts & Recommendation

We see Freeport-McMoRan as a high-risk way to enter the commodity space. The company's exposure to copper is very profitable during times of strong economic activity but devastating in weak periods. We forecast -1.6% annual returns from here. This is up slightly from our last report, and we continue to rate the stock a sell given the significant uncertainty surrounding the recovery, and its highly leveraged balance sheet. We see the stock as pricing in extremely high copper pricing for the foreseeable future, which may not last.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	18,010	20,921	20,001	14,607	14,830	16,403	18,628	14,402	14,198	22,845
<b>Gross Profit</b>	6,449	6,284	1,507	-12,808	-2,704	4,423	5,162	1,277	2,543	8,815
<b>Gross Margin</b>	35.8%	30.0%	7.5%	-87.7%	-18.2%	27.0%	27.7%	8.9%	17.9%	38.6%
<b>SG&amp;A Exp.</b>	431	657	580	558	597	477	422	394	370	383
<b>Operating Profit</b>	5,755	5,351	702	-13,551	-3,378	3,609	4,546	674	1,964	8,286
<b>Operating Margin</b>	32.0%	25.6%	3.5%	-92.8%	-22.8%	22.0%	24.4%	4.7%	13.8%	36.3%
<b>Net Profit</b>	3,041	2,680	-1,268	-12,195	-4,315	1,817	2,602	(239)	599	4,306
<b>Net Margin</b>	16.9%	12.8%	-6.3%	-83.5%	-29.1%	11.1%	14.0%	-1.7%	4.2%	18.8%
<b>Free Cash Flow</b>	280	853	-1,584	-3,133	924	3,256	1,892	(1,170)	1,056	5,600
<b>Income Tax</b>	1,510	1,475	225	-1,951	371	883	991	510	944	2,299

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	35,440	63,473	58,674	46,577	37,317	37,302	42,216	40,809	42,144	48,022
<b>Cash &amp; Equivalents</b>	3,705	1,985	464	177	4,245	4,526	4,217	2,020	3,657	8,068
<b>Accounts Receivable</b>	927	1,728	953	645	1,126	1,322	829	741	892	1,168
<b>Inventories</b>	4,576	5,018	5,361	4,075	3,642	4,149	4,503	4,073	3,893	4,497
<b>Goodwill &amp; Int. Ass.</b>	334	2,296	334	316	305	307	398	402	401	---
<b>Total Liabilities</b>	14,129	37,526	35,449	33,769	28,060	26,006	24,324	23,361	23,476	25,003
<b>Accounts Payable</b>	1,568	2,144	2,439	2,251	1,540	1,546	1,661	1,654	1,473	3,495
<b>Long-Term Debt</b>	3,527	20,706	18,849	20,324	16,027	13,229	11,141	9,826	9,711	9,450
<b>Shareholder's Equity</b>	17,543	20,934	18,287	7,828	6,051	7,977	9,798	9,298	10,174	13,980
<b>LTD/E Ratio</b>	0.20	0.99	1.03	2.60	2.65	1.66	1.14	1.06	0.95	0.68

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	9.0%	5.4%	-2.1%	-23.2%	-10.3%	4.9%	6.5%	-0.6%	1.4%	9.6%
<b>Return on Equity</b>	18.3%	13.9%	-6.5%	-93.4%	-62.2%	25.9%	29.3%	-2.5%	6.2%	35.7%
<b>ROIC</b>	13.0%	7.5%	-2.9%	-32.4%	-14.8%	7.3%	9.7%	-0.8%	2.2%	14.2%
<b>Shares Out.</b>	949	1038	1039	1246	1445	1448	1449	1451	1469	1482
<b>Revenue/Share</b>	18.88	20.80	19.25	13.50	11.25	11.28	12.78	9.93	9.72	15.42
<b>FCF/Share</b>	0.29	0.85	-1.52	-2.90	0.70	2.24	1.30	-0.81	0.72	3.78

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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