



Freeport-McMoRan Inc. (FCX)

Updated October 29th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	2.6%	Market Cap:	\$47 B
Fair Value Price:	\$30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	01/13/2023 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	02/01/2023
Dividend Yield:	0.9%	5 Year Price Target	\$35	Years Of Dividend Growth:	2
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

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 \$22 billion in revenue this year and has a market capitalization of \$47 billion.

Freeport reported third quarter earnings on October 20th, 2022, and results were slightly better than expected on both the top and bottom lines. Earnings-per-share were 26 cents, which was one penny ahead of consensus. Revenue was down 18% year-over-year to \$5 billion, but was \$90 million ahead of expectations.

Average realized copper pricing was \$3.50 per pound at the end of Q3, which was well below the year-ago period of \$4.20 per pound. Copper production was up 2% year-over-year to 1.06 billion pounds from 987 million pounds in the year-ago period.

Gold sales were up 19% to 480k ounces, as molybdenum sales were down 15% to 17 million pounds. Average realized pricing for gold was \$1,683 per ounce, while molybdenum was \$17.05 per pound.

The company said that current copper pricing is insufficient to support new mine development, implying the company expects much higher copper pricing going forward.

Net income was \$404 million, which was down sharply from \$1.4 billion a year ago. We now see \$2.30 in earnings-per-share for this year following Q3 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.19	\$2.64	-\$1.26	-\$11.31	-\$3.16	\$1.25	\$1.78	-\$0.17	\$0.54	\$3.13	\$2.30	\$2.67
DPS	\$1.19	\$1.25	\$1.25	\$0.46	---	---	\$0.20	\$0.20	\$0.05	\$0.23	\$0.30	\$0.40
Shares²	949	1038	1039	1246	1445	1448	1449	1451	1469	1482	1500	1550

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 wasn't sustainable. However, given the decline in earnings estimates for this year, we're moving our growth estimate from 2% to 3%. With earnings expected to decline in 2022, we see sustained growth from here as more challenging considering it would need another sustained rise in metals pricing. Earnings have now been reset lower to account for lower copper pricing.

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. With the company saving money on every line item of cost, margins reflat extremely quickly with higher copper prices. Still, we

¹ Estimated date

² Share count in millions

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note that as with any commodity company, 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	13.9	13.0
Avg. Yld.	3.2%	3.8%	3.8%	3.0%	---	---	1.3%	1.8%	0.3%	0.8%	0.9%	1.2%

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 13.9 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 1.3% headwind 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%	13%	15%

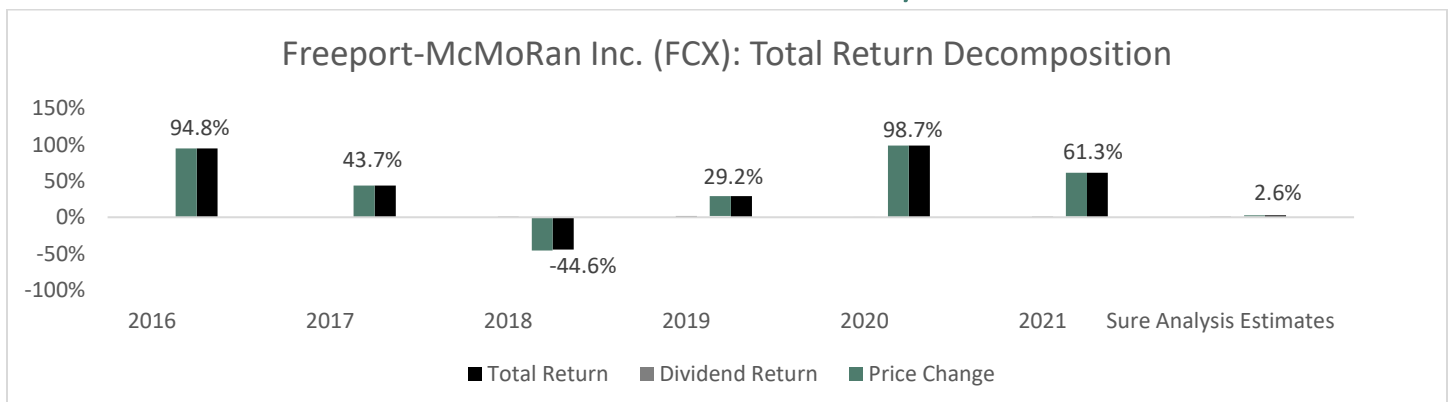
The new payout ratio is extremely low, so we believe it to be safe for the foreseeable future. We see growth in the payout from here as somewhat modest given the company very recently had to suspend its dividend altogether.

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 \$8 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 2.6% annual returns from here. This is down sharply from our last report given the move down in the earnings. Given this, we are moving the stock from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	18,010	20,921	20,001	14,607	14,830	16,403	18,628	14,402	14,198	22,845
Gross Profit	6,449	6,284	1,507	-12,808	-2,704	4,423	5,162	1,277	2,543	8,815
Gross Margin	35.8%	30.0%	7.5%	-87.7%	-18.2%	27.0%	27.7%	8.9%	17.9%	38.6%
SG&A Exp.	431	657	580	558	597	477	422	394	370	383
Operating Profit	5,755	5,351	702	-13,551	-3,378	3,609	4,546	674	1,964	8,286
Operating Margin	32.0%	25.6%	3.5%	-92.8%	-22.8%	22.0%	24.4%	4.7%	13.8%	36.3%
Net Profit	3,041	2,680	-1,268	-12,195	-4,315	1,817	2,602	(239)	599	4,306
Net Margin	16.9%	12.8%	-6.3%	-83.5%	-29.1%	11.1%	14.0%	-1.7%	4.2%	18.8%
Free Cash Flow	280	853	-1,584	-3,133	924	3,256	1,892	(1,170)	1,056	5,600
Income Tax	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
Total Assets	35,440	63,473	58,674	46,577	37,317	37,302	42,216	40,809	42,144	48,022
Cash & Equivalents	3,705	1,985	464	177	4,245	4,526	4,217	2,020	3,657	8,068
Accounts Receivable	927	1,728	953	645	1,126	1,322	829	741	892	1,168
Inventories	4,576	5,018	5,361	4,075	3,642	4,149	4,503	4,073	3,893	4,497
Goodwill & Int. Ass.	334	2,296	334	316	305	307	398	402	401	412
Total Liabilities	14,129	37,526	35,449	33,769	28,060	26,006	24,324	23,361	23,476	25,003
Accounts Payable	1,568	2,144	2,439	2,251	1,540	1,546	1,661	1,654	1,473	3,495
Long-Term Debt	3,527	20,706	18,849	20,324	16,027	13,229	11,141	9,826	9,711	9,450
Shareholder's Equity	17,543	20,934	18,287	7,828	6,051	7,977	9,798	9,298	10,174	13,980
LTD/E Ratio	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
Return on Assets	9.0%	5.4%	-2.1%	-23.2%	-10.3%	4.9%	6.5%	-0.6%	1.4%	9.6%
Return on Equity	18.3%	13.9%	-6.5%	-93.4%	-62.2%	25.9%	29.3%	-2.5%	6.2%	35.7%
ROIC	13.0%	7.5%	-2.9%	-32.4%	-14.8%	7.3%	9.7%	-0.8%	2.2%	14.2%
Shares Out.	949	1038	1039	1246	1445	1448	1449	1451	1469	1482
Revenue/Share	18.88	20.80	19.25	13.50	11.25	11.28	12.78	9.93	9.72	15.42
FCF/Share	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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