



Freeport-McMoRan Inc. (FCX)

Updated January 27th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	-5.4%	Market Cap:	\$65 B
Fair Value Price:	\$25	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/13/2023 ¹
% Fair Value:	178%	5 Year Valuation Multiple Estimate:	-10.8%	Dividend Payment Date:	05/01/2023
Dividend Yield:	0.7%	5 Year Price Target	\$32	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 \$23 billion in revenue this year and has a market capitalization of \$65 billion.

Freeport reported fourth quarter and full-year earnings on January 25th, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share were 52 cents, eight cents better than expected. Revenue was down 6.5% year-over-year to \$5.76 billion, but that was \$340 million better than expected.

The company noted lower copper prices year-over-year, as well as higher operating costs as weighing on both revenue and profits. GAAP net income was \$697 million, down from \$1.11 billion a year ago.

Average Q4 copper price was \$3.77 per pound, down from \$4.42 per pound a year ago. Copper prices have rebounded significantly from Q4 lows, however, so it is likely this headwind will be less pronounced in Q1 results.

Q4 sales of copper were 1.07 billion pounds and 458,000 ounces of gold, which were up 3.6% and 16% year-over-year, respectively.

The company guided for copper sales of 4.2 million pounds for this year, roughly equivalent to 2022. In addition, it expects 1.7 million ounces of gold sales, which would be down from 1.8 million in 2022. Copper unit costs are expected to rise from \$1.50 per pound in 2022 to \$1.60 per pound in 2023.

We start Freeport with an initial estimate of \$1.95 per share in earnings for this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.64	-\$1.26	-\$11.31	-\$3.16	\$1.25	\$1.78	-\$0.17	\$0.54	\$3.13	\$2.44	\$1.95	\$2.49
DPS	\$1.25	\$1.25	\$0.46	---	---	\$0.20	\$0.20	\$0.05	\$0.23	\$0.30	\$0.30	\$0.40
Shares²	1038	1039	1246	1445	1448	1449	1451	1469	1482	1430	1430	1430

Freeport endured a tough period given metals pricing was weak for some time. However, those days have passed and 2021 and 2022 proved to be much stronger. However, it has become clear the pricing of copper in particular wasn't sustainable. Given the decline in earnings estimates for this year, we're moving our growth estimate from 3% to 5%. With earnings expected to decline again in 2023, 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 and higher costs, as well as the possibility of at least a mild recession.

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

¹ Estimated date

² Share count in millions

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company saving money on every line item of cost, margins reflat extremely quickly with higher copper prices. Still, we 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.4	16.4	---	45.6	11.9	10.3	---	25.5	11.5	15.5	23.1	13.0
Avg. Yld.	3.8%	3.8%	3.0%	---	---	1.3%	1.8%	0.3%	0.8%	0.8%	0.7%	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 23.1 times our earnings estimate after we assigned lower 2023 earnings, and accounted for the rally in the stock. 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 10.8% 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. It has also been paying discretionary dividends of 7.5 cents per share, per quarter, and that may or may not continue.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	64%	---	---	---	10%	---	9%	7%	12%	15%	16%

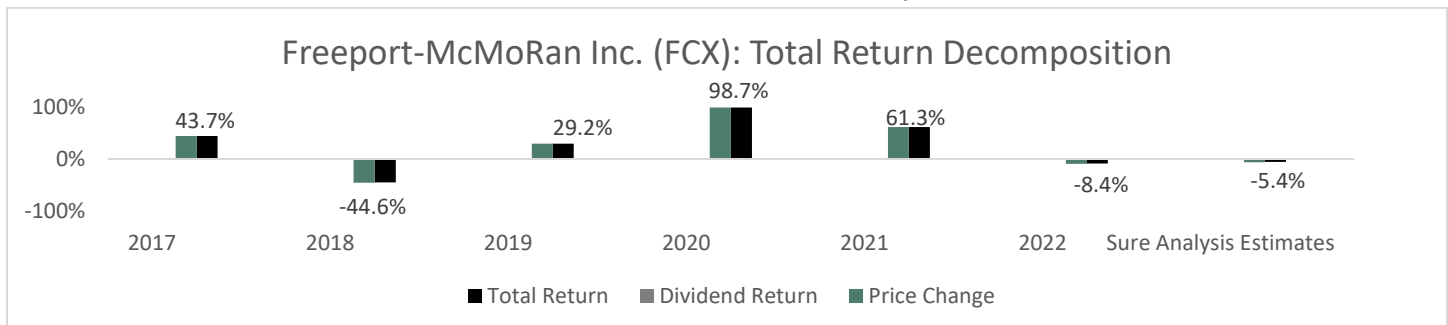
The new payout ratio is extremely low, so we believe it to be safe for the foreseeable future. We see growth in the payout from here as somewhat modest given the company very recently had to suspend its dividend altogether.

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 almost \$10 billion in long-term 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 -5.4% annual returns from here. This is down sharply from our last report given the move down in the earnings. Given this, we are reiterating the stock at a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	20,921	20,001	14,607	14,830	16,403	18,628	14,402	14,198	22,845	22,780
Gross Profit	6,284	1,507	-12,808	-2,704	4,423	5,162	1,277	2,543	8,815	7,691
Gross Margin	30.0%	7.5%	-87.7%	-18.2%	27.0%	27.7%	8.9%	17.9%	38.6%	33.8%
SG&A Exp.	657	580	558	597	477	422	394	370	383	420
Operating Profit	5,351	702	-13,551	-3,378	3,609	4,546	674	1,964	8,286	7,035
Operating Margin	25.6%	3.5%	-92.8%	-22.8%	22.0%	24.4%	4.7%	13.8%	36.3%	30.9%
Net Profit	2,680	-1,268	-12,195	-4,315	1,817	2,602	(239)	599	4,306	3,468
Net Margin	12.8%	-6.3%	-83.5%	-29.1%	11.1%	14.0%	-1.7%	4.2%	18.8%	15.2%
Free Cash Flow	853	-1,584	-3,133	924	3,256	1,892	(1,170)	1,056	5,600	1,670
Income Tax	1,475	225	-1,951	371	883	991	510	944	2,299	2,267

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	63,473	58,674	46,577	37,317	37,302	42,216	40,809	42,144	48,022	51,093
Cash & Equivalents	1,985	464	177	4,245	4,526	4,217	2,020	3,657	8,068	8,146
Accounts Receivable	1,728	953	645	1,126	1,322	829	741	892	1,168	1,336
Inventories	5,018	5,361	4,075	3,642	4,149	4,503	4,073	3,893	4,497	5,180
Goodwill & Int. Ass.	2,296	334	316	305	307	398	402	401	412	
Total Liabilities	37,526	35,449	33,769	28,060	26,006	24,324	23,361	23,476	25,003	26,222
Accounts Payable	2,144	2,439	2,251	1,540	1,546	1,661	1,654	1,473	3,495	4,027
Long-Term Debt	20,706	18,849	20,324	16,027	13,229	11,141	9,826	9,711	9,450	10,620
Shareholder's Equity	20,934	18,287	7,828	6,051	7,977	9,798	9,298	10,174	13,980	15,555
LTD/E Ratio	0.99	1.03	2.60	2.65	1.66	1.14	1.06	0.95	0.68	0.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.4%	-2.1%	-23.2%	-10.3%	4.9%	6.5%	-0.6%	1.4%	9.6%	7.0%
Return on Equity	13.9%	-6.5%	-93.4%	-62.2%	25.9%	29.3%	-2.5%	6.2%	35.7%	23.5%
ROIC	7.5%	-2.9%	-32.4%	-14.8%	7.3%	9.7%	-0.8%	2.2%	14.2%	10.2%
Shares Out.	1038	1039	1246	1445	1448	1449	1451	1469	1482	1451
Revenue/Share	20.80	19.25	13.50	11.25	11.28	12.78	9.93	9.72	15.42	15.70
FCF/Share	0.85	-1.52	-2.90	0.70	2.24	1.30	-0.81	0.72	3.78	1.15

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

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