



# Freeport-McMoRan Inc. (FCX)

Updated October 22<sup>nd</sup>, 2023, by Josh Arnold

## Key Metrics

|                             |      |  |       |                                  |                         |
|-----------------------------|------|--|-------|----------------------------------|-------------------------|
| <b>Current Price:</b>       | \$34 | <b>5 Year CAGR Estimate:</b>               | -1.9% | <b>Market Cap:</b>               | \$49 B                  |
| <b>Fair Value Price:</b>    | \$21 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date:</b>         | 01/13/2024 <sup>1</sup> |
| <b>% Fair Value:</b>        | 163% | <b>5 Year Valuation Multiple Estimate:</b> | -9.4% | <b>Dividend Payment Date:</b>    | 02/01/2024              |
| <b>Dividend Yield:</b>      | 0.9% | <b>5 Year Price Target</b>                 | \$29  | <b>Years Of Dividend Growth:</b> | 2                       |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | F     | <b>Rating:</b>                   | 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 at least \$22 billion in revenue this year and has a market capitalization of \$49 billion.

Freeport posted third quarter earnings on October 19<sup>th</sup>, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 39 cents, which was six cents better than expected. Revenue was up 16% year-over-year to \$5.8 billion, and \$320 million better than estimates.

Consolidated production totaled 1.1 billion pounds of copper, 532 thousand ounces of gold, and 20 million pounds of molybdenum in the quarter. Consolidated sales were 1.1 billion pounds of copper, 399 thousand ounces of gold, and 20 million pounds of molybdenum.

Average realized prices in the quarter were \$3.80 per pound for copper, \$1,898 per ounce for gold, and \$23.71 per pound for molybdenum. Average net cash costs were \$1.73 per pound of copper.

The company said weakness in copper prices, combined with higher capital costs to develop new mines are making it more difficult to justify new project development. As such, Freeport has reduced its capex forecast as it preserves cash on a lack of attractive development opportunities.

We now see \$1.60 in earnings-per-share for this year after Q3 results.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014    | 2015     | 2016    | 2017   | 2018   | 2019    | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|---------|----------|---------|--------|--------|---------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$2.64 | -\$1.26 | -\$11.31 | -\$3.16 | \$1.25 | \$1.78 | -\$0.17 | \$0.54 | \$3.13 | \$2.44 | <b>\$1.60</b> | <b>\$2.24</b> |
| <b>DPS</b>                | \$1.25 | \$1.25  | \$0.46   | ---     | ---    | \$0.20 | \$0.20  | \$0.05 | \$0.23 | \$0.30 | <b>\$0.30</b> | <b>\$0.40</b> |
| <b>Shares<sup>2</sup></b> | 1038   | 1039    | 1246     | 1445    | 1448   | 1449   | 1451    | 1469   | 1482   | 1430   | <b>1430</b>   | <b>1430</b>   |

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 reiterating our growth estimate at 7%. With earnings expected to decline again in 2023, we see growth that is likely above long-term trend, given the base of earnings is low once again. Earnings have now been reset lower to account for lower copper pricing and higher costs.

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 reflatd 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,

<sup>1</sup> Estimated date

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

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so this forecast has significant upside and downside risk due to factors outside of Freeport's control. We saw this in action again in the Q3 report where costs moved higher while pricing fell, squeezing profitability.

## 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 | <b>21.3</b> | <b>13.0</b> |
| Avg. Yld. | 3.8% | 3.8% | 3.0% | ---  | ---  | 1.3% | 1.8% | 0.3% | 0.8% | 0.8% | <b>0.9%</b> | <b>1.4%</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 21.3 times our earnings estimate after we assigned lower 2023 earnings. 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 9.4% 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%  | <b>19%</b> | <b>18%</b> |

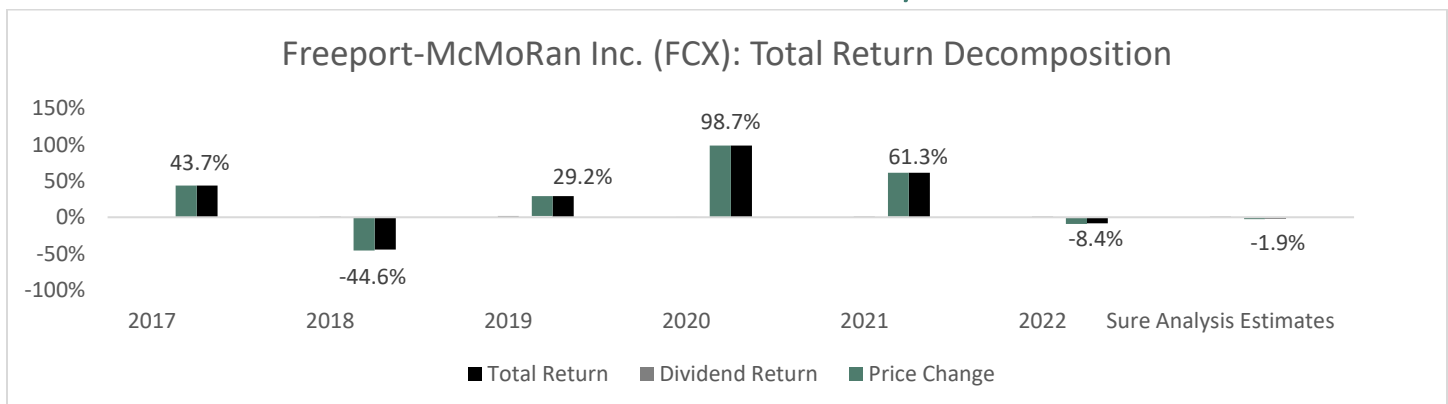
The new payout ratio is extremely low, so we believe it to be safe for the foreseeable future. We see growth in the payout from here as somewhat modest given the company very recently had to suspend its dividend altogether.

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 over \$9 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 -1.9% annual returns from here. This is better than our last report, but still firmly in 'sell' territory.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2013   | 2014   | 2015    | 2016   | 2017   | 2018   | 2019    | 2020   | 2021   | 2022   |
|-------------------------|--------|--------|---------|--------|--------|--------|---------|--------|--------|--------|
| <b>Revenue</b>          | 20,921 | 20,001 | 14,607  | 14,830 | 16,403 | 18,628 | 14,402  | 14,198 | 22,845 | 22,780 |
| <b>Gross Profit</b>     | 6,284  | 1,507  | -12,808 | -2,704 | 4,423  | 5,162  | 1,277   | 2,543  | 8,815  | 7,691  |
| <b>Gross Margin</b>     | 30.0%  | 7.5%   | -87.7%  | -18.2% | 27.0%  | 27.7%  | 8.9%    | 17.9%  | 38.6%  | 33.8%  |
| <b>SG&amp;A Exp.</b>    | 657    | 580    | 558     | 597    | 477    | 422    | 394     | 370    | 383    | 420    |
| <b>Operating Profit</b> | 5,351  | 702    | -13,551 | -3,378 | 3,609  | 4,546  | 674     | 1,964  | 8,286  | 7,035  |
| <b>Operating Margin</b> | 25.6%  | 3.5%   | -92.8%  | -22.8% | 22.0%  | 24.4%  | 4.7%    | 13.8%  | 36.3%  | 30.9%  |
| <b>Net Profit</b>       | 2,680  | -1,268 | -12,195 | -4,315 | 1,817  | 2,602  | (239)   | 599    | 4,306  | 3,468  |
| <b>Net Margin</b>       | 12.8%  | -6.3%  | -83.5%  | -29.1% | 11.1%  | 14.0%  | -1.7%   | 4.2%   | 18.8%  | 15.2%  |
| <b>Free Cash Flow</b>   | 853    | -1,584 | -3,133  | 924    | 3,256  | 1,892  | (1,170) | 1,056  | 5,600  | 1,670  |
| <b>Income Tax</b>       | 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   |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>             | 63,473 | 58,674 | 46,577 | 37,317 | 37,302 | 42,216 | 40,809 | 42,144 | 48,022 | 51,093 |
| <b>Cash &amp; Equivalents</b>   | 1,985  | 464    | 177    | 4,245  | 4,526  | 4,217  | 2,020  | 3,657  | 8,068  | 8,146  |
| <b>Accounts Receivable</b>      | 1,728  | 953    | 645    | 1,126  | 1,322  | 829    | 741    | 892    | 1,168  | 1,336  |
| <b>Inventories</b>              | 5,018  | 5,361  | 4,075  | 3,642  | 4,149  | 4,503  | 4,073  | 3,893  | 4,497  | 5,180  |
| <b>Goodwill &amp; Int. Ass.</b> | 2,296  | 334    | 316    | 305    | 307    | 398    | 402    | 401    | 412    | 416    |
| <b>Total Liabilities</b>        | 37,526 | 35,449 | 33,769 | 28,060 | 26,006 | 24,324 | 23,361 | 23,476 | 25,003 | 26,222 |
| <b>Accounts Payable</b>         | 2,144  | 2,439  | 2,251  | 1,540  | 1,546  | 1,661  | 1,654  | 1,473  | 3,495  | 4,027  |
| <b>Long-Term Debt</b>           | 20,706 | 18,849 | 20,324 | 16,027 | 13,229 | 11,141 | 9,826  | 9,711  | 9,450  | 10,620 |
| <b>Shareholder's Equity</b>     | 20,934 | 18,287 | 7,828  | 6,051  | 7,977  | 9,798  | 9,298  | 10,174 | 13,980 | 15,555 |
| <b>LTD/E Ratio</b>              | 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  |
|-------------------------|-------|-------|--------|--------|-------|-------|-------|------|-------|-------|
| <b>Return on Assets</b> | 5.4%  | -2.1% | -23.2% | -10.3% | 4.9%  | 6.5%  | -0.6% | 1.4% | 9.6%  | 7.0%  |
| <b>Return on Equity</b> | 13.9% | -6.5% | -93.4% | -62.2% | 25.9% | 29.3% | -2.5% | 6.2% | 35.7% | 23.5% |
| <b>ROIC</b>             | 7.5%  | -2.9% | -32.4% | -14.8% | 7.3%  | 9.7%  | -0.8% | 2.2% | 14.2% | 10.2% |
| <b>Shares Out.</b>      | 1038  | 1039  | 1246   | 1445   | 1448  | 1449  | 1451  | 1469 | 1482  | 1451  |
| <b>Revenue/Share</b>    | 20.80 | 19.25 | 13.50  | 11.25  | 11.28 | 12.78 | 9.93  | 9.72 | 15.42 | 15.70 |
| <b>FCF/Share</b>        | 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.

### Disclaimer

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