



Freeport-McMoRan Inc. (FCX)

Updated July 24th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	4.1%	Market Cap:	\$51 B
Fair Value Price:	\$38	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/14/2021
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	11/03/2021 ¹
Dividend Yield:	0.8%	5 Year Price Target	\$46	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

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 just over \$22 billion in revenue this year and has a market capitalization of \$51 billion.

Freeport-McMoRan reported second quarter earnings on July 22nd, 2021, and results were weaker than expected on both the top and bottom lines. Total revenue nearly doubled year-over-year to \$5.75 billion, but missed expectations slightly, nonetheless. Adjusted net income was \$1.14 billion, up from just \$44 million in the year-ago period as the company saw significant operating leverage from higher revenue.

Copper sales volumes were up 22% to 929 million pounds, and gold sales volumes soared 66% to 305 thousand ounces. However, both were lower than in Q1. Production of copper was 913 million in Q2, which was nearly 50 million pounds below estimates. The average realized price for copper skyrocketed 70% year-over-year to \$4.34 per pound, while costs were \$1.48 per pound on average. The company said it expects full-year costs to be \$1.35 per pound.

The company slightly cut its capex guidance for this year, and said it expects copper sales of 3.85 million pounds in the second half, while gold sales are expected to be 1.3 million ounces.

We've updated our estimate of earnings-per-share for this year to \$2.90 following mixed Q2 results.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.78	\$3.19	\$2.64	-\$1.26	-\$11.31	-\$3.16	\$1.25	\$1.78	-\$0.17	\$0.54	\$2.90	\$3.53
DPS	\$1.00	\$1.19	\$1.25	\$1.25	\$0.46	---	---	\$0.20	\$0.20	\$0.05	\$0.30	\$0.40
Shares²	948	949	1038	1039	1246	1445	1448	1449	1451	1469	1480	1500

Freeport endured a tough period given metals pricing was weak for some time. However, those days have passed and 2021 is proving to be much stronger. Given this, we've assumed a forward growth rate of 4% on what should be a much higher earnings base for 2021. With earnings expected to rise significantly this year, we see sustained growth from here as more challenging considering it would need another sustained rise in metals 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. 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 reflatd extremely quickly. 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.

¹ Estimated date

² Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.0	11.8	12.4	16.4	---	45.6	11.9	10.3	---	25.5	13.4	13.0
Avg. Yld.	2.1%	3.2%	3.8%	3.8%	3.0%	---	---	1.3%	1.8%	0.3%	0.8%	0.9%

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 13.4 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.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21%	37%	48%	64%	---	---	---	10%	---	9%	10%	11%

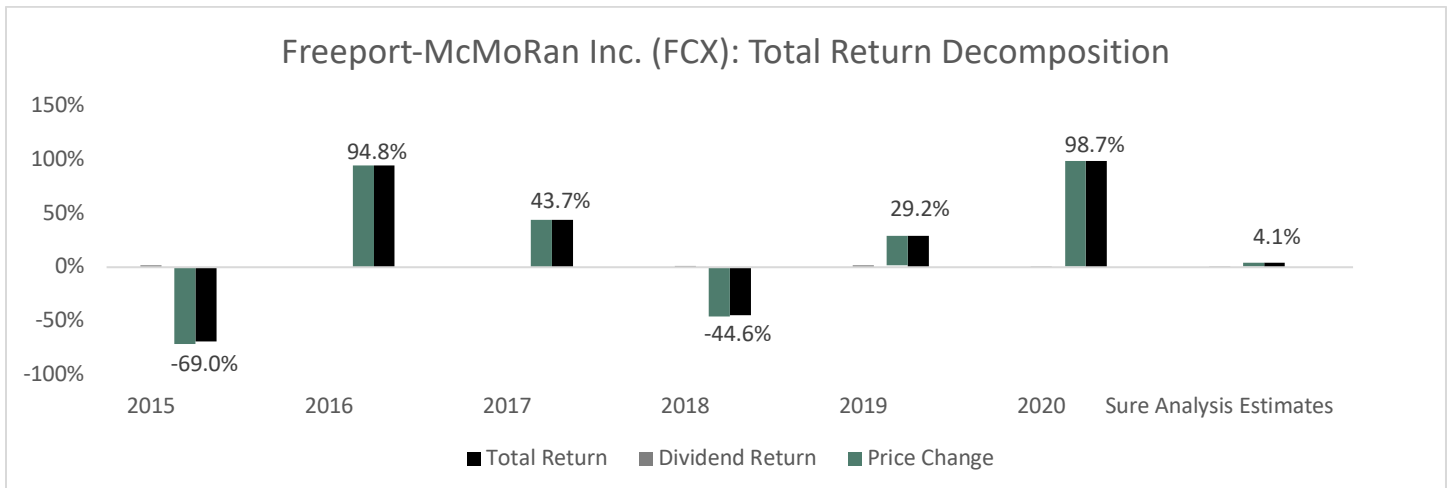
The new payout ratio is extremely low, so we believe it to be safe for the foreseeable future. We see growth in the payout from here as somewhat modest given the company very recently had to suspend its dividend altogether.

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 see Freeport producing 4.1% annual returns from here. This is up from last report, but 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	20880	18010	20921	20001	14607	14830	16403	18628	14402	14,198
Gross Profit	9960	6449	6284	1507	-12808	-2704	4423	5183	1297	2,543
Gross Margin	47.7%	35.8%	30.0%	7.5%	-87.7%	-18.2%	27.0%	27.8%	9.0%	17.9%
SG&A Exp.	415	431	657	580	558	597	477	443	414	370
Operating Profit	9140	5755	5351	702	-13551	-3378	3609	4546	674	1,964
Operating Margin	43.8%	32.0%	25.6%	3.5%	-92.8%	-22.8%	22.0%	24.4%	4.7%	13.8%
Net Profit	4560	3041	2680	-1268	-12195	-4315	1817	2602	-239	599
Net Margin	21.8%	16.9%	12.8%	-6.3%	-83.5%	-29.1%	11.1%	14.0%	-1.7%	4.2%
Free Cash Flow	4086	280	853	-1584	-3133	924	3256	1892	-1170	1,056
Income Tax	3087	1510	1475	225	-1951	371	883	991	510	944

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	32070	35440	63473	58674	46577	37317	37302	42216	40809	42,144
Cash & Equivalents	4822	3705	1985	464	177	4245	4526	4217	2020	3,657
Accounts Receivable	892	927	1728	953	645	1126	1322	829	741	892
Inventories	3869	4576	5018	5361	4075	3642	4149	4503	4073	3,893
Goodwill & Int. Ass.	325	334	2296	334	316	305	307	398	402	---
Total Liabilities	13517	14129	38242	36200	34533	28060	26006	24324	23361	23,476
Accounts Payable	1353	1568	2144	2439	2251	1540	1546	1661	1654	2,708
Long-Term Debt	3537	3527	20706	18849	20324	16027	13229	11141	9826	9,711
Shareholder's Equity	15642	17543	20934	18287	7828	6051	7977	9798	9298	10,174
D/E Ratio	0.23	0.20	0.99	1.03	2.60	2.65	1.66	1.14	1.06	0.95

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	14.8%	9.0%	5.4%	-2.1%	-23.2%	-10.3%	4.9%	6.5%	-0.6%	1.4%
Return on Equity	32.4%	18.3%	13.9%	-6.5%	-93.4%	-62.2%	25.9%	29.3%	-2.5%	6.2%
ROIC	22.0%	13.0%	7.6%	-2.9%	-33.1%	-15.0%	7.3%	9.7%	-0.8%	2.2%
Shares Out.	948	949	1038	1039	1246	1445	1448	1449	1451	1469
Revenue/Share	21.86	18.88	20.80	19.25	13.50	11.25	11.28	12.78	9.93	9.72
FCF/Share	4.28	0.29	0.85	(1.52)	(2.90)	0.70	2.24	1.30	(0.81)	0.72

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

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