



Freeport-McMoRan Inc. (FCX)

Updated January 26th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	2.0%	Market Cap:	\$57 B
Fair Value Price:	\$21	5 Year Growth Estimate:	14.0%	Ex-Dividend Date:	04/13/2024 ¹
% Fair Value:	182%	5 Year Valuation Multiple Estimate:	-11.3%	Dividend Payment Date:	05/01/2024
Dividend Yield:	0.8%	5 Year Price Target	\$41	Years Of Dividend Growth:	0
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 at least \$23 billion in revenue this year and has a market capitalization of \$57 billion.

Freeport posted fourth quarter and full-year earnings on January 24th, 2024, and results were better than expected on both revenue and profits. The company posted adjusted earnings-per-share of 27 cents, which was four cents ahead of expectations. Revenue was up 2.6% year-over-year to \$5.91 billion, which was \$30 million ahead of estimates. The company noted rising copper demand and higher gold prices as more than offsetting lower than expected precious metals sales volumes.

Net income fell to \$388 million, which was down sharply from \$697 million a year ago. Copper volume was up 7% during the quarter to 1.1 billion pounds, which beat the company's prior forecast. Average price was \$3.81 per pound during the quarter, and \$3.85 for the year.

Gold sales were up 20% to 549 thousand ounces at an average price of \$2,034 per ounce. That compared to \$1,972 per ounce for all of 2023, but gold volumes missed estimates by 5%. Freeport noted an export license issue at its Grasberg mine in Indonesia that has since resolved.

The company guided for 2024 copper sales of 4.1 billion pounds, 2 million ounces of gold, and 85 million pounds of molybdenum. We start 2024 with an estimate of \$1.65 in earnings-per-share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-\$1.26	-\$11.31	-\$3.16	\$1.25	\$1.78	-\$0.17	\$0.54	\$3.13	\$2.44	\$1.54	\$1.65	\$3.18
DPS	\$1.25	\$0.46	---	---	\$0.20	\$0.20	\$0.05	\$0.23	\$0.30	\$0.30	\$0.30	\$0.40
Shares²	1039	1246	1445	1448	1449	1451	1469	1482	1430	1444	1444	1444

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 relative weakness in earnings estimates for this year, we're boosting our growth estimate to 14%. With earnings expected to be roughly congruent with 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

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. We note Freeport has essentially no control over what it sells its product for, and not a great deal of control over costs.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	---	45.6	11.9	10.3	---	25.5	11.5	15.5	27.8	23.6	13.0
Avg. Yld.	3.8%	3.0%	---	---	1.3%	1.8%	0.3%	0.8%	0.8%	0.7%	0.8%	1.0%

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 23.6 times our earnings estimate after we assigned 2024 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 an 11.3% 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. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64%	---	---	---	10%	---	9%	7%	12%	19%	18%	13%

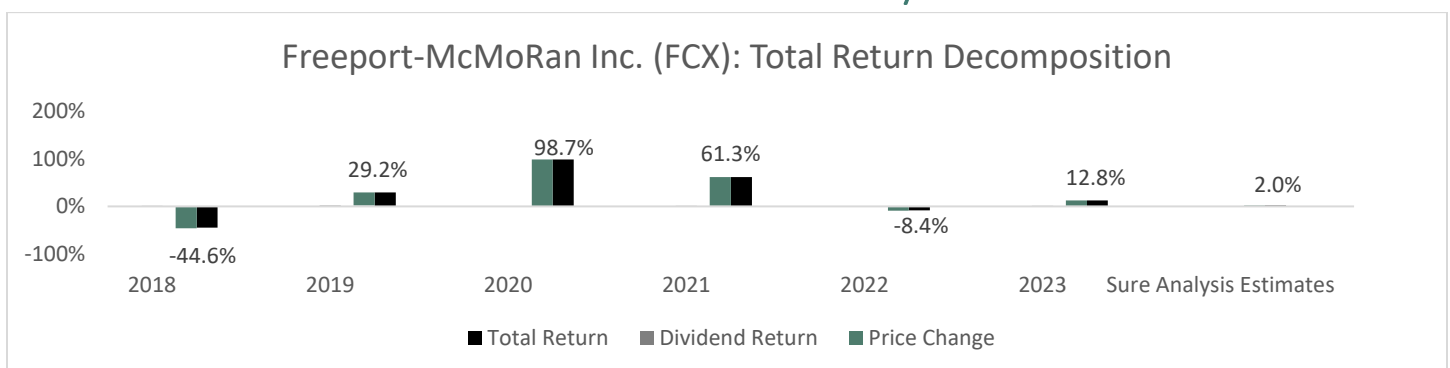
The new payout ratio is extremely low, so we believe it to be safe for the foreseeable future. We see growth in the payout from here as somewhat modest given the company very recently had to suspend its dividend altogether.

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 2.0% annual returns from here. This is better than our last report, but still in 'sell' territory.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	20,001	14,607	14,830	16,403	18,628	14,402	14,198	22,845	22,780	22,855
Gross Profit	1,507	-12,808	-2,704	4,423	5,162	1,277	2,543	8,815	7,691	7,160
Gross Margin	7.5%	-87.7%	-18.2%	27.0%	27.7%	8.9%	17.9%	38.6%	33.8%	31.3%
SG&A Exp.	580	558	597	477	422	394	370	383	420	479
Operating Profit	702	-13,551	-3,378	3,609	4,546	674	1,964	8,286	7,035	6,225
Operating Margin	3.5%	-92.8%	-22.8%	22.0%	24.4%	4.7%	13.8%	36.3%	30.9%	27.2%
Net Profit	-1,268	-12,195	-4,315	1,817	2,602	(239)	599	4,306	3,468	1,848
Net Margin	-6.3%	-83.5%	-29.1%	11.1%	14.0%	-1.7%	4.2%	18.8%	15.2%	8.1%
Free Cash Flow	-1,584	-3,133	924	3,256	1,892	(1,170)	1,056	5,600	1,670	455
Income Tax	225	-1,951	371	883	991	510	944	2,299	2,267	2,270

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	58,674	46,577	37,317	37,302	42,216	40,809	42,144	48,022	51,093	52,506
Cash & Equivalents	464	177	4,245	4,526	4,217	2,020	3,657	8,068	8,146	4,758
Accounts Receivable	953	645	1,126	1,322	829	741	892	1,168	1,336	1,209
Inventories	5,361	4,075	3,642	4,149	4,503	4,073	3,893	4,497	5,180	6,060
Goodwill & Int. Ass.	334	316	305	307	398	402	401	412	416	---
Total Liabilities	35,449	33,769	28,060	26,006	24,324	23,361	23,476	25,003	26,222	25,196
Accounts Payable	2,439	2,251	1,540	1,546	1,661	1,654	1,473	3,495	4,027	3,729
Long-Term Debt	18,849	20,324	16,027	13,229	11,141	9,826	9,711	9,450	10,620	9,422
Shareholder's Equity	18,287	7,828	6,051	7,977	9,798	9,298	10,174	13,980	15,555	16,693
LTD/E Ratio	1.03	2.60	2.65	1.66	1.14	1.06	0.95	0.68	0.68	0.56

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-2.1%	-23.2%	-10.3%	4.9%	6.5%	-0.6%	1.4%	9.6%	7.0%	3.6%
Return on Equity	-6.5%	-93.4%	-62.2%	25.9%	29.3%	-2.5%	6.2%	35.7%	23.5%	11.5%
ROIC	-2.9%	-32.4%	-14.8%	7.3%	9.7%	-0.8%	2.2%	14.2%	10.2%	5.1%
Shares Out.	1039	1246	1445	1448	1449	1451	1469	1482	1451	1443
Revenue/Share	19.25	13.50	11.25	11.28	12.78	9.93	9.72	15.42	15.70	15.84
FCF/Share	-1.52	-2.90	0.70	2.24	1.30	-0.81	0.72	3.78	1.15	0.32

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

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