

Freeport-McMoRan, Inc. (FCX)
Rating: 1/B
QUARTERLY EARNINGS

Metals & Mining

Analyst: Jackson Hockley

Current Rating	1/B
Previous Rating	2/C
Last Rating Change	9/23/2021

Previous Close	\$44.59	
Projected 12 Mo Trading Range		
Low	\$32.00	-28.24%
High	\$57.50	28.95%
52w Hi/Low	\$52.0 \$24.8	
YTD % Change	17.34%	

	2022a	2023e	2024e
EPS (\$)	2.44	2.00	2.50
% chg		-18.03%	25.00%
P/E	15.90	23.93	18.93
Consensus		1.95	2.46
Fiscal Year End	12/31/2023		

Market Cap (\$m)	63,733.7
Shares Out (m)	1,429.3

Annual Dividend	\$0.60
Dividend Yield	1.35%

Book Value/ Shares	#####
Price/Book Value	#####
Price/Sales	2.42
Debt/Total Cap (%)	36.61
LT Growth Rate (%)	-10.82

Source: FactSet Research Systems Inc.

Publishing Analyst Disclosure: The analyst does not have a position in the security

Freeport-McMoRan, Inc. engages in the mining of copper, gold, and molybdenum. It operates through the following segments: North America Copper Mines, South America Mining, Indonesia Mining, Molybdenum Mines, Rod and Refining, Atlantic Copper Smelting and Refining and Corporate, Other and Eliminations. The North America Copper Mines segment operates open-pit copper mines in Morenci, Bagdad, Safford, Sierrita, and Miami in Arizona and Chino and Tyrone in New Mexico. The South America Mining segment includes Cerro Verde in Peru and El Abra in Chile. The Indonesia Mining segment handles the operations of Grasberg minerals district that produce copper concentrate containing significant quantities of gold and silver. The Molybdenum Mines segment includes the Henderson underground mine and Climax open pit mine, both in Colorado. The Rod and Refining segment consists of copper conversion facilities located in North America and includes a refinery, rod mills, and a specialty copper products facility. The Atlantic Copper Smelting and Refining segment smelts and refines copper concentrate and markets refined copper and precious metals in slimes. The

Northern Trust Asset Management

FREEPORT-MCMORAN: FCX BEATS ON EARNINGS AS SALES SLIP BUT PRICES RISE!
Conclusion

Freeport-McMoRan reported headline fourth quarter earnings of \$697 million or \$0.48/share. However, the quarter included a number of relatively minor one-time charges totaling \$51 million or \$0.04/share. Excluding the one-time charges, **adjusted fourth quarter earnings were \$748 million or \$0.52/share** which beat the \$0.47/share consensus estimate and handily eclipsed third quarter earnings of \$375 million or \$0.26/share. While commodity sales volumes declined versus the third quarter for copper and gold, results came in ahead of guidance. However, the more important driver of the earnings beat was the improvement in copper prices (\$3.77/lb. versus \$3.50/lb. in the third quarter) and gold prices (\$1,789/oz. versus \$1,683/oz. in the third quarter). The intermediate production growth phase that came with the transition to underground operations at the Grasberg mine in Indonesia is complete and consequently guidance for the next couple of years is relatively flat for copper and gold. Going forward, commodity prices will have the dominant impact on quarterly and annual earnings. Operating cash flow in the fourth quarter was \$1.1 billion (net of \$500 million working capital contribution) and for the full year was \$5.1 billion (net of \$1.5 billion in working capital contributions). While the copper market is expected to remain volatile in the near term as the world faces possible recession and there is still some uncertainty around the pace of the reopening of China's economy (from Covid-19 lockdowns), we continue to like the fundamental outlook for the copper industry and FCX and would use any weakness in the stock price to incrementally add to or open positions. There is no change in the 1/B rating.

Reported EPS: \$ 0.52

Consensus: \$ 0.47

Thesis

We are 1/B rated on FCX due to a number of factors: (1) the smooth recovery in copper and gold production volumes at Grasberg, (2) the rally in copper prices and still relatively high gold prices (compared with last year's average price), (3) the low production costs which should hold or move lower as production climbs toward capacity in 2022 and 2023, (4) FCX's substantial leverage to high(er) copper and gold production and commodity prices, (5) the rapid improvement in the balance sheet, and (6) the decision by the Board of Directors to substantially increase the return of cash to shareholders now that the debt reduction target has been reached.

Details
Macro Positives:

- Management continued to highlight the positive fundamental secular story underlying the copper market by noting the S&P Global Copper Study (July 2022) forecast that copper demand could double to 50MMt by 2035 from 25 MMt currently, setting up a potential long-term supply-demand gap if an expected Energy Transition progresses. Management went on to point out the industry is currently supported by healthy physical copper demand, low global inventories, ongoing supply chain risks/disruptions, and a thin project pipeline (after almost a decade of underinvestment by the industry).

What's New:

- Inflation: Unit Net Cash Costs** (after by-products) for copper dipped to \$1.53/lb. in the fourth quarter which partially offset the large jump to \$1.75/lb. in the third quarter. Full-year 2022 unit net cash costs came in at \$1.50/lb. which fell below the third quarter guidance of \$1.55/lb. **Initial guidance of 2023 is unit net cash costs of \$1.53/lb.**
- Free Cash Flow:** Operating cash flow in the fourth quarter was \$1.1 billion (net of \$500 million working capital contribution) and for the full year was \$5.1 billion (net of \$1.5 billion in working capital contributions). After capital spending of \$1.05 billion, free cash flow in the fourth quarter was only \$50 million which did not cover the quarterly dividend payments of \$214 million – thus causing management to (1) draw down the cash account on the balance sheet and (2) suspend share purchases for the second consecutive quarter. For the full year, free cash flow after capital spending (\$5.1 billion - \$3.5 billion) was \$1.6 billion which only partially covered total dividends of \$866 million and first half 2022 share purchases of \$1.35 billion. Actually free cash flow excluding the Indonesia smelter projects (separate secured debt financing) was \$2.4 billion (\$5.1 billion - \$2.7 billion) which modestly covered total outflows.

- **Debt Maturities:** Over the next couple of years the company has a manageable debt maturity schedule with the current cash balance at \$8.2 billion and upcoming debt maturities of \$1.0 billion in 3.875% senior notes maturing in 2023 and \$700 million in 4.55% senior notes in 2024. The next debt maturity isn't until 2027 (\$1.4 billion).
- **Future Growth Potential:** Management continues to point to potential future organic growth projects which include the Bagdad expansion in Arizona, the Lone Star expansion in Arizona, the El Abra expansion (a large sulfide leaching operation) in Chile, the New Leach Technologies Americas project in the U.S (this project has the shortest lead time and management plans to hit a run rate output target of 200 million pounds/annum by the end of 2023), Atlantic Copper CirCular Project (recycling of electronic materials) in Spain, and initial planning for a possible new mine – Kucing Liar – near existing operations in Indonesia. The Kucing Liar development project will run over the next ten years at an average annual capital spend rate of roughly \$400 million (yes, \$4.0 billion total) and gross **peak** output is expected to be upwards of 600 million lbs. of copper and 500,000 oz. of gold per year. Over the 2028-2041 time-frame Kucing Liar is expected to produce 6 billion lbs. of copper and 5 million oz. of gold.

Notable items from the quarter included

- **Production & Sales:** FCX's consolidated fourth quarter **copper production** inched higher to 1,070 million lbs. from 1,057 million lbs. in the third quarter. As shown in the table below, output in the quarter (compared to 3Q and the year-ago quarter) was up in Latin America and Indonesia and down in North America. **Copper sales** dipped lower to 1,042 million lbs. from 1,060 million lbs. due mainly to a modest decline in North America resulting from lower mill ore grades and the timing of shipments. **Guidance:** First quarter sales guidance is set at 900 million lbs. with the decline versus 4Q 2022 due to the impact of a tolling arrangement in Indonesia. However sales volumes are expected to rise in the second quarter (1,100 million lbs. and stay relatively flat for the rest of 2023). For 2023, sales guidance has been initially set at 4,200 million lbs. **Gold production** bounced higher in the fourth quarter to 468,000 oz. from 448,000 oz. in the third quarter reflecting higher operating rates and recoveries at Grasberg. **Gold sales** declined to 458,000 oz. from 480,000 oz. **Guidance:** Gold sales guidance for the first quarter is 300,000 oz. with the drop due primarily to the same factor hindering copper output. However, sales are anticipated to recover in the second quarter (460,000 oz.) and stay high in the second half of the year. Full-year 2023 guidance is 1.7 million oz. **Molybdenum production** rose to 22 million lbs. from 19 million lbs. in the third quarter. **Molybdenum sales** also rose – to 19 million lbs. from 17 million lbs. **Guidance:** Sales expectations in the first quarter are 20 million lbs. For 2023, sales guidance is 80 million lbs.
- **Pricing: Copper** price realizations bounced up to **\$3.77/lb.** in the fourth quarter from \$3.50/lb. in the third quarter with the improvement coming primarily from news that the Chinese economy was coming out of the strict Covid-19 lockdowns - which is anticipated to spur copper demand. **Gold** prices rose to **\$1,789/oz.** from \$1,683/oz. in the prior quarter and **Molybdenum** prices rallied sequentially to **\$18.94/lb.** from \$17.05/lb.
- **Capital Spending** in the fourth quarter increased 35.8% YoY to \$1.05 billion. Full-year spending totaled \$3.47 billion with \$1.7 billion directed at major mining projects and \$800 million going toward the Indonesian smelter projects (\$2.7 billion excluding the smelter projects). Initial capital spending guidance for 2023 is \$5.2 billion (including \$2.3 billion for major mining projects and \$1.8 billion for the Indonesian smelter projects). Excluding the smelter projects (which are seeing a substantial jump in spending during 2023) actual **FCX spending is guided to \$3.4 billion.** Looking toward **2024, initial guidance is for spending to be \$3.0 billion** (excluding \$600 million in smelter projects).
- **Balance Sheet:** The balance sheet remains strong with only a slight deterioration in the fourth quarter. Debt inched lower to \$10.6 billion from \$10.7 billion in the third quarter. **Debt to total capital** slipped to 40.6% from 41.7%. However, due to the decrease in the *Cash* account (\$8.15 billion from \$8.58 billion) **net debt to total capital** rose to 13.7% from 12.4%.
- **Dividend:** The fourth quarter base dividend was held flat at \$0.075/share. Additionally the company paid a "variable" dividend, also at \$0.075/share. In total the fourth quarter dividend payments were \$0.15/share. The next dividend (\$0.15/share – base plus variable dividends) will be payable on February 1, 2023 to holders of record on January 13, 2023.
- **Share Purchase Program:** FCX did not buy any shares of common stock in the fourth quarter. For the full year, the company acquired approximately 35.1 million shares for \$1.35 billion. There is still \$3.2 billion in available room under the authorized \$5.0 billion share purchase program.

OPERATIONAL OVERVIEW:

SEGMENT RESULTS:

SALES (mil)

	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
N. America CU Mines	\$ 6,710	\$ 1,456	\$ 1,448	\$ 1,855	\$ 1,951	\$ 6,825	\$ 1,822	\$ 1,811	\$ 1,854	\$ 1,338
S. America Mining	4,718	1,364	964	1,016	1,374	4,916	1,423	1,223	1,133	1,137
Indonesia	8,426	2,246	1,798	1,978	2,404	7,523	2,237	2,042	1,809	1,435
Molybdenum Mines	565	166	127	144	128	444	134	151	89	70
Rod and Refining	6,312	1,356	1,443	1,761	1,752	6,385	1,670	1,704	1,695	1,316
Atlantic CU Smelt & Ref	2,443	683	609	433	718	2,961	697	783	794	687
Corp. and Elim.	(6,394)	(1,513)	(1,386)	(1,771)	(1,724)	(6,209)	(1,819)	(1,631)	(1,626)	(1,133)
Totals	\$22,780	\$ 5,758	\$ 5,003	\$ 5,416	\$ 6,603	\$22,845	\$ 6,164	\$ 6,083	\$ 5,748	\$ 4,850

Source: Freeport-McMoRan

EARNINGS

Operating Earnings (mil. \$)	Year End					Year End				
	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
N. America CU Mines	1,921	255	199	640	827	2,978	844	800	826	508
S. America Mining	1,228	422	42	159	605	2,066	654	480	437	495
Indonesia	4,600	1,131	844	1,122	1,503	3,938	1,011	1,165	1,007	755
Molybdenum Mines	132	34	15	46	37	123	48	62	16	(3)
Rod and Refining	(23)	(7)	(8)	(5)	(3)	(1)	(5)	2	3	(1)
Atlantic CU Smelt & Ref Corp. and Elim.	(61)	7	(9)	(41)	(18)	21	9	6	6	0
	(760)	(312)	(121)	(185)	(142)	(759)	(256)	(53)	(228)	(222)
Gross Profit/Op. Inc	7,037	1,530	962	1,736	2,809	8,366	2,305	2,462	2,067	1,532
Equity Income	31.0	(2.0)	8.0	10.0	15.0	5.0	10.0	(9.0)	6.0	(2.0)
Interest Expense	(560.0)	(137.0)	(140.0)	(156.0)	(127.0)	(602.0)	(171.0)	(138.0)	(148.0)	(145.0)
Other Income/Costs	238.0	143.0	45.0	19.0	31.0	(105.0)	(161.0)	36.0	9.0	11.0
Pretax Income	6,746.0	1,534.0	875.0	1,609.0	2,728.0	7,664.0	1,983.0	2,351.0	1,934.0	1,396.0
Income Taxes	2,267.0	557.0	315.0	571.0	824.0	2,299.0	625.0	628.0	603.0	443.0
Net Inc from Cont. Ops.	4,479.0	977.0	560.0	1,038.0	1,904.0	5,365.0	1,358.0	1,723.0	1,331.0	953.0
Tax Rate	33.6%	36.3%	36.0%	35.5%	30.2%	30.0%	31.5%	26.7%	31.2%	31.7%
Inc (loss) from Disc Ops	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Earnings	\$4,479.0	\$977.0	\$560.0	1,038.0	\$1,904.0	\$5,365.0	\$1,358.0	\$1,723.0	1,331.0	\$953.0
Non-Controlling Int.	(1,011.0)	(280.0)	(156.0)	(198.0)	(377.0)	(1,059.0)	(252.0)	(324.0)	(248.0)	(235.0)
Net Attributable to FCX	3,468.0	697.0	\$404.0	840.0	\$1,527.0	4,306.0	1,106.0	\$1,399.0	1,083.0	\$718.0
Adjustments to Net Inc.	\$74.0	\$51.0	(\$29.0)	\$14.0	\$38.0	\$331.0	\$315.0	(\$79.0)	\$56.0	\$38.0
Adjusted Net Income	\$3,542.0	\$748.0	\$375.0	854.0	\$1,565.0	\$4,637.0	\$1,421.0	\$1,320.0	1,139.0	\$756.0
Diluted Shares	1451.0	1440.0	1439.0	1457.0	1469.0	1461.0	1482.0	1484.0	1483.0	1477.0
Diluted EPS	\$2.44	\$0.52	\$0.26	\$0.58	\$1.07	\$3.13	\$0.96	\$0.89	\$0.77	\$0.51

Source: Freeport-McMoRan

BALANCE SHEET:
BALANCE SHEET (\$MM)

	Year End					Year End			
	2022	3Q22	2Q22	1Q22	2021	3Q21	2Q21	1Q21	
Long-Term Debt	9,583	9,658	10,054	8,256	9,078	8,768	8,638	9,153	
Current Portion of LTD	1,037	1,032	1,038	1,365	372	897	1,057	656	
Total Debt	10,620	10,690	11,092	9,621	9,450	9,665	9,695	9,809	
Equity	15,555	14,954	14,889	14,866	13,980	13,353	12,011	10,920	
Debt to Total Cap	40.6%	41.7%	42.7%	39.3%	40.3%	42.0%	44.7%	47.3%	
Total Cash & Equiv	8,146	8,578	9,492	8,338	8,068	7,672	6,313	4,580	
Net Debt	2,474	2,112	1,600	1,283	1,382	1,993	3,382	5,229	
Net Debt to Tot Cap	13.7%	12.4%	9.7%	7.9%	9.0%	13.0%	22.0%	32.4%	

Source: Freeport-McMoRan

CAPITAL SPENDING:
CAPITAL SPENDING (\$MM)

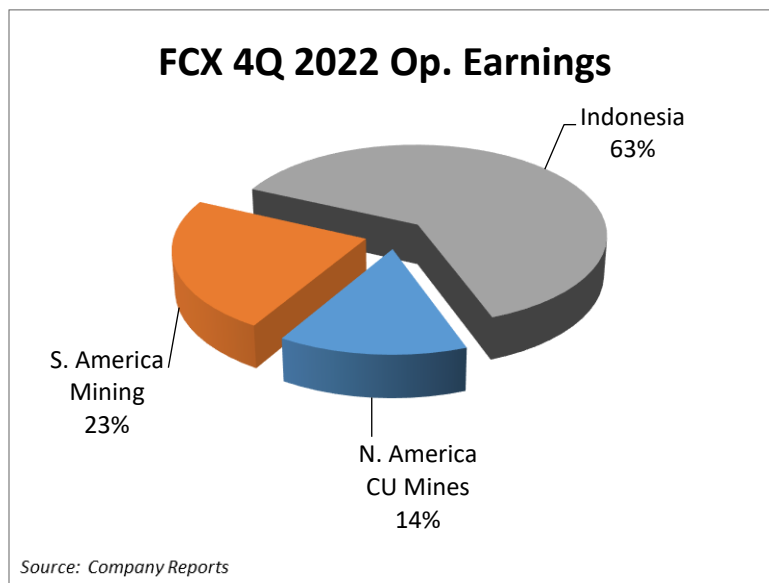
	Full Year					Full Year				
	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
N. America CU Mines	597	167	154	146	130	342	131	116	69	26
S. America Mining	304	101	79	68	56	162	68	47	26	21
Indonesia Mines	1,575	427	370	399	379	1,296	392	328	286	290
Indonesia Smelter Proj.	806	289	192	195	130	222	143	31	28	20
Molybdenum Mines	33	17	7	8	1	6	2	1	2	1
Other	154	46	34	47	27	87	35	18	22	12
Total Capital Spending	\$3,469.0	\$1,047.0	\$836.0	\$863.0	\$723.0	\$2,115.0	\$771.0	\$541.0	\$433.0	\$370.0
Y/Y Change	64.0%	35.8%	54.5%	99.3%	95.4%	7.9%	98.7%	24.1%	-17.8%	-39.3%

Source: Freeport-McMoRan

DIVIDENDS:
DIVIDENDS

	Full Year					Full Year				
	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
BASE Dividend/Sh (\$)	\$0.30	\$0.075	\$0.075	\$0.075	\$0.075	\$0.23	\$0.075	\$0.075	\$0.075	\$0.000
VARIABLE Dividend/Sh (\$)	\$0.30	\$0.075	\$0.075	\$0.075	\$0.075	\$0.00	\$0.000	\$0.000	\$0.000	\$0.000
TOTAL Dividend/Sh (\$)	\$0.60	\$0.150	\$0.150	\$0.150	\$0.150	\$0.225	\$0.075	\$0.075	\$0.075	\$0.000
Total Div (\$ mil)	\$866.0	\$214.0	\$214.0	\$218.0	\$220.0	\$331.0	\$111.0	\$109.0	\$111.0	\$0.0
Avg. Shares - Dil. (MM)	1,451	1,440	1,439	1,457	1,469	1,482	1,482	1,484	1,483	1,477

Source: Freeport-McMoRan

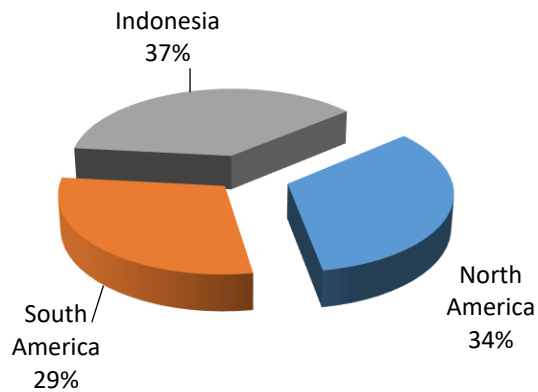
Geographic Production Exposure:

COPPER PRODUCTION

Copper Prod. (mm lbs)	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
North America	1,467	358	373	382	354	1,460	370	377	360	353
South America	1,176	314	302	286	274	1,047	283	260	245	259
Indonesia	1,567	398	381	407	381	1,336	380	350	308	298
Totals	4,210	1,070	1,056	1,075	1,009	3,843	1,033	987	913	910
Sales (excl purchases)	4,213	1,042	1,060	1,087	1,024	3,807	1,020	1,033	929	825
Ave. Real. Price (\$/lb)	\$3.90	\$3.77	\$3.50	\$4.03	\$4.66	\$4.33	\$4.42	\$4.20	\$4.34	\$3.94
Site Prod/Deliv Cost (\$/lb)	\$2.19	\$2.28	\$2.35	\$2.09	\$2.03	\$1.93	\$1.96	\$1.88	\$2.02	\$1.86
Unit Net Cash Cost (\$/lb)*	\$1.50	\$1.53	\$1.75	\$1.41	\$1.33	\$1.34	\$1.29	\$1.24	\$1.48	\$1.39

Source: Freeport-McMoRan

* net of by-product credits

FCX 4Q 2022 Copper Prod.



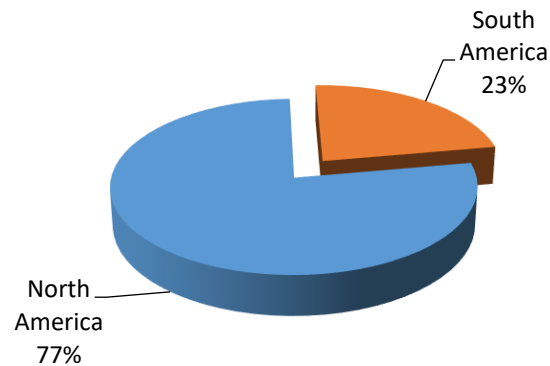
Source: Company Reports

MOLYBDENUM PRODUCTION

Moly Prod. (mm lbs)	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
North America	62	17	15	16	14	64	15	18	16	15
South America	23	5	4	7	7	21	7	5	4	5
Totals	85	22	19	23	21	85	22	23	20	20
Sales (excl purchases)	75	19	17	20	19	82	19	20	22	21
Ave. Real. Price (\$/lb)	\$18.71	\$18.94	\$17.05	\$19.44	\$19.30	\$15.56	\$19.42	\$18.61	\$13.11	\$11.62

Source: Freeport-McMoRan

FCX 4Q 2022 Molybdenum Prod.



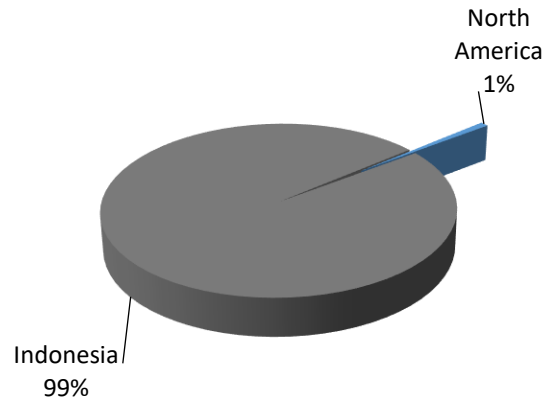
Source: Company Reports

GOLD PRODUCTION

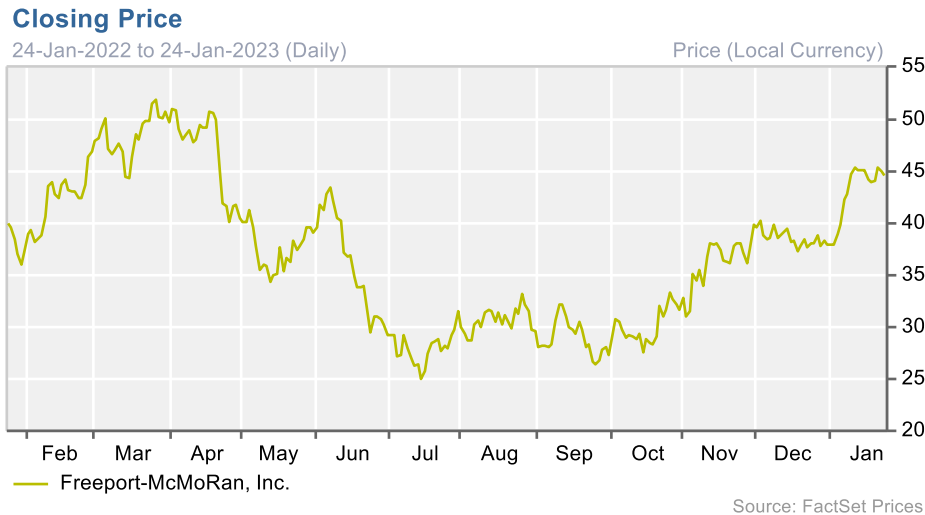
Gold Prod. (000 ozs)	2022	4Q22	3Q22	2Q22	1Q22	2021	4Q21	3Q21	2Q21	1Q21
North America	13	4	3	3	3	11	3	3	2	3
Indonesia	1,798	468	445	473	412	1,370	402	371	303	294
Totals	1,811	472	448	476	415	1,381	405	374	305	297
Sales (excl purchases)	1,823	458	480	476	409	1,360	395	402	305	258
Ave. Real. Price (\$/oz)	\$1,787	\$1,789	\$1,683	\$1,827	\$1,920	\$1,796	\$1,808	\$1,757	\$1,794	\$1,713

Source: Freeport-McMoRan

FCX 4Q 2022 Gold Prod.



Source: Company Reports



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