

Freeport-McMoRan

Q4'23 results beat on higher copper sales; 2024 guide buoyed by Grasberg

Maintain Rating: NEUTRAL | PO: 44.00 USD | Price: 40.20 USD

Maintain Neutral given premium valuation, copper view

Freeport-McMoRan (FCX) Q4'23 EBITDA beat BofAe mainly on higher copper sales volume. Leaching added 47 million pounds (Mlbs) in Q4 (+9% vs. Q3'23) and totaled 144Mlbs in 2023, with 2024E to be 200Mlbs. The 2024 copper sales guide was cut modestly (on lower volumes in the Americas), but gold sales raised (on higher volumes from Grasberg). 2024 net cash cost guidance was higher than expected, with inflationary pressures in North America partly offset by higher gold from Grasberg. In December, Grasberg resumed anode slime exports with a license granted through May 2024, in-line with the concentrate export license (no update on extension beyond May). The Grasberg (Manyar) smelter is 90% complete (vs. 84% in Q3) and is on track for 100% completion in 2024. We see FCX as blue-chip copper exposure but given its substantial valuation premium and our near-term somewhat cautious copper price view, we maintain our Neutral rating.

2024: higher cash costs helped by strong gold production

FCX modestly reduced 2024 copper sales guidance to 4.1 billion pounds (Blbs) from 4.2Blbs prior, while 2024 gold sales guidance was increased to 2 million ounces (Moz) from 1.8Moz. The boost to the gold sales guide helps to offset 2024 site production and delivery cost guidance of \$2.37 per pound (/lb) that was higher than expected (vs. BofAe at \$2.31/lb), resulting in net cash cost guidance of \$1.60/lb, vs. BofAe at \$1.55/lb, and Visible Alpha (VA) at \$1.54/lb. Capex guidance (excluding smelter projects) for 2024 is \$3.6 billion (bn) (down 8% vs. prior guide), with total 2024 construction spending for the Manyar smelter and the precious metals refinery (PMR) is expected to add \$1bn on a consolidated basis (FCX share is 49%). This is slightly higher than VA/Bloomberg consensus at \$4.4bn. For Q1'24, FCX is guiding to 1.0Blbs of copper (below 1.080Blbs BofAe), 575 thousand (k) oz gold (above our 455koz) and 20Mlbs molybdenum (in-line).

Q4'23 EPS beat mainly on higher copper volumes

FCX reported Q4'23 adjusted EPS of \$0.27, a beat versus BofAe at \$0.20, and Bloomberg / VA consensus at \$0.24/ \$0.25. Adjusted EBITDA of \$2,292 million (mn) beat BofAe at \$2,160mn and Bloomberg / VA consensus at \$2,210mn / \$2,195mn. The beat vs. BofAe was mainly driven by higher copper sales of 1,116Mlbs (+3% vs BofAe). Production was 1,095Mlbs (+1% BofAe). The realized copper price (\$3.81/lb vs. BofAe \$3.78/lb) was slightly better, partly offsetting higher than expected unit net cash costs of \$1.52/lb vs. BofAe at \$1.45/lb. Gold sales of 549koz (-4% BofAe) was below production of 573koz, with 100koz in inventory that should benefit Q1'24E.

Net debt up quarter-over-quarter (QoQ); no buybacks

As at 31-Dec-23, FCX held net debt of \$3.6bn (total debt of \$9.4bn, cash and equivalents of \$5.8bn), up QoQ from net debt of \$3.2bn at 30-Sep-23. Free cash flow was negative \$42mn, better than BofAe of -\$68mn. There were no buybacks in Q4'23.

24 January 2024

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Stock Data

Price	40.20 USD
Price Objective	44.00 USD
Date Established	8-Jan-2024
Investment Opinion	C-2-7
52-Week Range	32.83 USD - 46.73 USD
Mkt Val (mn) / Shares Out (mn)	57,639 USD / 1,434.0
Free Float	99.4%
Average Daily Value (mn)	488.57 USD
BofA Ticker / Exchange	FCX / NYS
Bloomberg / Reuters	FCX US / FCX.N
ROE (2023E)	13.2%
Net Dbt to Eqty (Dec-2022A)	9.9%
ESGMeter™	High

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Timestamp: 24 January 2024 12:28PM EST

Q4'23 Results and 2024-2026 guidance

Exhibit 1: FCX Q4'23 results vs consensus and recent quarters

Q4'23 adjusted EBITDA of \$2,292mn beat mainly on 3% higher copper sales volume.

Q3 2023 Results (US\$mn, US\$/sh)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4'23E	Var.	Bloomberg cons.	Var.	VA cons.	Var.
Sales	5,905	5,758	3%	5,824	1%	5,533	7%	5,901	0%	5,911	0%
Adjusted EBITDA	2,292	2,251	2%	2,197	4%	2,160	6%	2,210	4%	2,195	4%
Depreciation	589	515	14%	533	11%	539	9%	573	3%	558	6%
Adjusted Earnings	393	748	-48%	571	-31%	286	37%			355	11%
Adjusted EPS	0.27	0.52	-47%	0.39	-30%	0.20	36%	0.24	14%	0.25	9%
Cash flow from ops (before w/c changes)	1,531	1,617	-5%	1,719	-11%	1,301	18%	1,894	-19%	NA	
Free cash flow	(42)	22	nm	58	nm	(68)	nm	848	nm	280	nm
Net (cash) / debt	3,600	2,474	46%	3,200	13%	4,303	-16%	3,852	-7%	3,776	-5%
Copper Production (Mlbs)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023A	Var.	Bloomberg cons.	Var.	VA cons.	Var.
Morenci	140	151	-7%	146	-4%	140	0%	144	-3%	145	-4%
Safford	56	70	-20%	66	-15%	60	-7%	65	-14%	71	-21%
Other NA	124	137	-9%	132	-6%	130	-5%	143	-13%	137	-9%
Cerro Verde	229	254	-10%	255	-10%	231	-1%	247	-7%	241	-5%
El Abra	57	60	-5%	50	14%	50	14%	50	13%	48	18%
Grasberg	489	398	23%	436	12%	475	3%	394	24%	433	13%
Total	1095	1070	2%	1,085	1%	1,086	1%	1,045	5%	1,076	2%
Copper sales (Mlbs)	1116	1042	7%	1,109	1%	1,086	3%	1,073	4%	1,090	2%
Consolidated gold production (koz)	573	475	21%	536	7%	541	6%	429	33%	574	0%
Consolidated gold sales (koz)	549	458	20%	399	38%	570	-4%	429	28%	574	-4%
Consolidated molybdenum production (Mlbs)	20	22	-9%	20	0%	18	12%			20	0%
Consolidated molybdenum sales (Mlbs)	22	22	0%	20	10%	18	23%	N/A		20	12%
Consolidated unit net cash costs (\$/lb)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023A	Var.	Bloomberg cons.	Var.	VA cons.	Var.
North America	2.86	2.49	15%	2.70	6%	2.64	8%			2.79	2%
South America	2.72	2.30	18%	2.35	16%	2.37	15%			2.48	10%
Grasberg	0.00	0.06	nm	0.44	nm	0.07	nm			0.06	nm
Total	1.52	1.53	-1%	1.73	-12%	1.45	5%	1.58	-4%	1.55	-2%

Source: BofA Global Research, Company Reports, Bloomberg, Visible Alpha

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Exhibit 2: FCX 2023 results and 2024-2026 guidance (new vs. prior)

2024 copper sales guidance was slightly lowered, but gold sales raised 11%. Capex (ex-smelter) guided to be 8% lower. Unit costs to be 2% lower vs 2023.

	2023A			2024E			2025E			2026E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Consolidated												
Copper sales (bn lbs)	4.06	4.09	1%	4.20	4.10	-2%	4.20	4.20	0%	n/a	4.30	nm
Gold sales (m oz)	1.74	1.71	-2%	1.80	2.00	11%	1.60	1.50	-6%	n/a	1.50	nm
Molybdenum sales (m lbs)	80	81	1%	85	85	0%	90	90	0%	n/a	90	nm
Capex (ex-smelter) (\$ bn)	3.20	3.11	-3%	3.90	3.60	-8%	n/a	3.80	nm	n/a		nm
PT-FI (Grasberg)												
Copper production (bn lbs)	1.60	1.66	4%	1.70	1.80	6%	1.60	1.60	0%	1.60	1.70	6%
Gold production (m oz)	1.90	1.98	4%	1.90	2.00	5%	1.60	1.60	0%	1.30	1.50	15%
	North America			South America			Indonesia			Consolidated		
	2023A	2024G	% YoY	2023A	2024G	% YoY	2023A	2024G	% YoY	2023A	2024G	% YoY
Copper sales (m lbs)	1,373	1,280	-7%	1,194	1,130	-5%	1,489	1,680	13%	4,056	4,090	1%
Gold sales (m oz)							1.74	2.00	15%	1.74	2.00	15%
Molybdenum sales (m lbs)	80	85	6%							80	85	6%
Cash costs (\$/lb)												
Site Production & Delivery	2.98	3.19	7%	2.56	2.56	0%	1.68	1.61	-4%	2.38	2.37	0%
By-product Credits	-0.48	-0.42	-13%	-0.42	-0.37	-12%	-2.31	-2.41	4%	-1.14	-1.22	7%
Treatment Charges	0.12	0.12	0%	0.19	0.17	-11%	0.36	0.39	8%	0.23	0.25	9%
Royalties & Export Duties				0.01	0.01	0%	0.42	0.50	19%	0.16	0.20	25%
Unit Net Cash Costs	2.62	2.89	10%	2.34	2.37	1%	0.15	0.09	-40%	1.63	1.60	-2%

Source: BofA Global Research, Company Reports

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Price objective basis & risk

Freeport-McMoRan (FCX)

Our \$44.00-per-share price objective blends 9.5x 2023E, 9.0x 2024E EV/EBITDA and 1.0x our net asset value (NAV). The 9.5x EV/EBITDA target multiple is at the higher end of the range for copper producers covered by BofA. We think this is appropriate given stable production profile, low unit costs and a improving balance sheet. At 9.0x, 2024 is still elevated despite time-related uncertainty. Our P/NAV multiple of 1.0x is in line with most of the copper producers covered by BofA but is arguably conservative given several potentially value enhancing growth options that we do not currently model. These include a new mill at El Abra, a mill expansion at Bagdad, and low-grade leaching.

Downside risks to our price objective are 1) global economic weakness, 2) Operating disruptions, 3) execution risk at its cost-cutting or expansion programs, 4) stricter or unfavorable regulatory or environmental regulations, particularly at its Indonesian operations, 5) other factors pressuring prices of the commodities it produces, and 6) unfavorable currency moves.

Upside risks are 1) better-than-expected copper and gold prices, 2) a more accommodating operating environment in Indonesia, and 3) further cost-cutting progress.

Analyst Certification

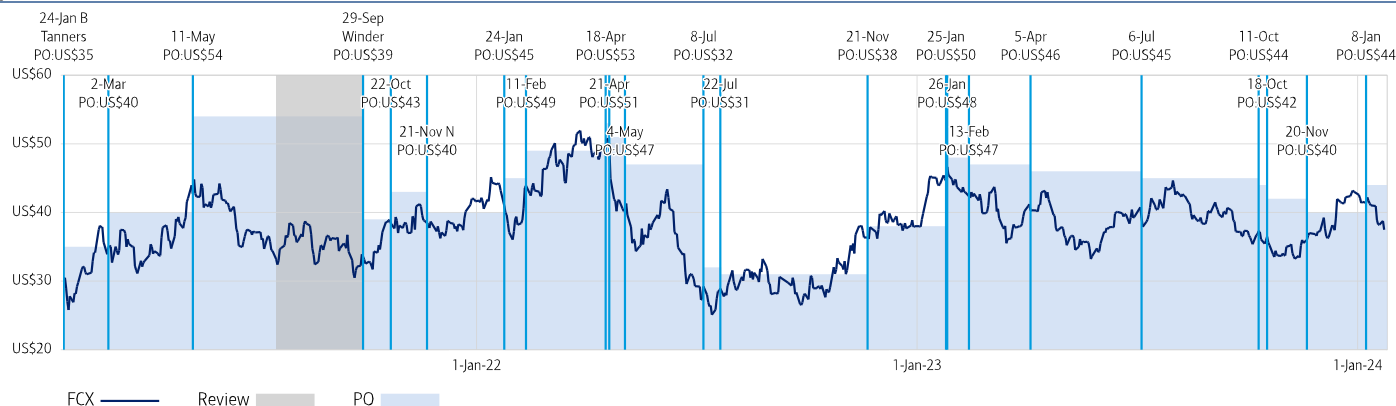
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Freeport-McMoRan (FCX) Price Chart



FCX — Review PO

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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