

Freeport-McMoRan, Inc.

US Satellite*

Recommended since 18.01.2022

10.06.2022



Country	US	Market capitalization (bn)	USD	59.3	Perf. since reco. (%)	
Sector	Materials	Free float		99.5%	Freeport-McMoRan, Inc.	-8.5
Factset	FCX-US	Closing price	USD	40.52	Sector	1.3
ISIN	US35671D8570	ESG Risk score*	32.2	High risk		

Profile

Founded in 1988, Freeport-McMoRan is a US mining company based in Phoenix, Arizona, specialising in the production of copper (among the top five – 70% of sales), gold (12%) and molybdenum (6%). The business is geographically diversified, with production split between North America (Arizona, Colorado and New Mexico), South America (Peru and Chile) and Indonesia.

Strengths/opportunities

- Among the leading producers of copper, the group is almost a pure player (70% of sales), with average reserve life of c. 30 years and potential for additional resources.
- After significant deleveraging over the past four years, the balance sheet is now particularly strong (with gearing of 6%).

Weaknesses/threats

- Highly sensitive to fluctuations in the price of copper and, to a lesser extent, gold.
- Presence in Indonesia. But also Chile and Peru (c. 20% of sales), facing growing geopolitical risk: regulation and reform of taxes/royalties are to be monitored.

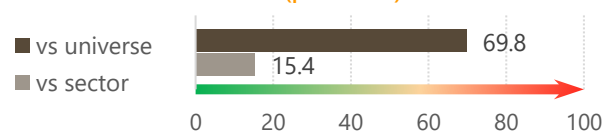
Investment case

- Freeport is one of the few major mining companies to be a pure player in copper. Widely used in low-carbon solutions, copper is an essential commodity that will benefit fully from the energy transition. In light of this new source of demand, production will need to increase in the medium term to meet future requirements. Supply is expected to more or less meet demand in 2022-2023, with demand set to outstrip supply from 2024/2025. This situation should support copper prices over this time frame.
- The company is currently in a phase of rapid growth in production. Copper and gold volumes are set to increase 16% and 23% respectively in 2022, following a growth rates of 19% and 44% respectively in 2021. This growth is coupled with a reduction in the unit cost of production (down 15% in 2020 and 10% in 2021).
- With deleveraging complete, the focus of capital reallocation is now on shareholder cash returns in the form of dividends and share buybacks. A \$3bn programme was announced in early November, with further announcements set to follow in 2022.

Valuation

The valuation is reasonable, with an EV/EBITDA in line with peers. The FCF yield is 6.5%. With deleveraging now complete, the dividend yield (currently low at 1.4%) should increase over the medium term.

ESG risk vs. universe & sector (percentile)*



USD	12/2021	2022e	2023e
Sales revenue (mio)	22'357	26'837	26'302
Sales growth	61.2%	20.0%	-2.0%
EBIT adjusted (mio)	8'580	10'713	10'569
% of sales	38.4%	39.9%	40.2%
Net income (mio)	4'637	5'739	4'390
Net income growth	487.0%	23.8%	-23.5%
FCF/Sales	25.0%	16.7%	20.3%
Net debt/Ebitda	0.2x	0.0x	-0.1x
Dividend yield	1.5%	1.4%	1.7%
EV/EBITDA	5.6x	4.5x	4.3x
P/BV	4.3x	3.1x	2.7x

Factset estimates

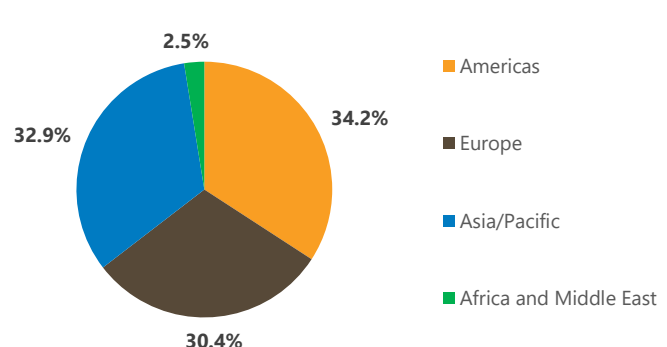
ESG - risks and key points

- Freeport's ESG risk is high despite the company's sound governance. The company has in the past been involved in high levels of controversy.
- Freeport is exposed to risks relating to employee safety, environmental damage and regulatory requirements (water consumption, controlling pollution, processing of tailings, etc.). The use of riverine tailings at the Grasberg mine increases its risk profile.

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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