

Trade Idea - Freeport-McMoRan, Inc. - FCX

Quantitative Analysis (Annual) - **SHORT**

Shares Outstanding = 1.452B

FCX US	2017	2018	2019	2020(Q1)	2021
Stock Price \$	11.3	16.41	11.36	11.08	~9 (end '20)
Market Cap \$M	16,408	20,923	16,494	16,088	
EPS	1.25	1.78	-0.17	-0.34 (Q1)	
Earnings Growth %	100	100	-60	-100 (Q1)	
Price/Earnings	9.04	9.22	-66.82	-32.59	-184.67
PEG	N/A	N/A	0.54	0.33	0
Sales \$M	16,403	18,628	14,402	2,798	
Sales Growth %	10.6	13.6	-11.5	-26.2	
Sales Multiple	N/A	N/A	N/A	N/A	
Net Income (GAAP) \$	2,095	2,894	-189	-491	

Comments on Annual Quantitative Analysis

Price target for end 3rd Quarter is about 20% lower due to continuing disruptions and mines closures – due to affected Earnings that may last longer than Q3 of 2020. Company projects at least 12% more in sales declines throughout 2020 and possibly into 2021.

2019 FCX was affected by fluctuations of market prices of main products: molybdenum, copper and gold. FCX in 2019 10K stated it affected also its ability to repay debts and affected continuing operations. Added uncertainty and trade wars with China, company sustained very big declines in sales (-11.5%) that was inflated by covid-19 mines closures and freeze of many operations.

Moody's assigned BA1 rating to FCX's new notes in Feb 19, 2020 due to increased risk and leverage to ~5.5x on adjusted basis, also reduced gold and copper production, increased costs. Stock dropped over 22% following the assignment. About a week later COVID-19 influence started over all of FCX operations.

Company states possibility of assuming more debt (Currently \$9.8B Consolidated at start of 2020) and possibly selling assets to fund existing operations as needed.

Quantitative Analysis (Sector Comps)

FCX US	PE1	EG1(2019)	EG2(2020)	PEG1	Market Cap'
Newmont Corp	13.49	N/a	80.3	0	46,879
Southern Copper	22.05	N/a	-43.4	2.67	28,974
FMC Corp	27.07	N/a	3.09	1.44	12,508
Mosaic Corp	646.00	N/a	-87.37	85.0	4,536
Albemarle Corp	12.14	N/a	-44.17	2.55	7,795
Royal Gold	44	N/a	66.21	4.91	7,763
Alcoa	-9.84	N/a	-24.85	0	2,071
Cleveland-Cliffs	5.69	N/a	-121.43	0	2,156
Averages	95.07	N/a	-21.45	12.07	14,085
FCX	-32.59	-60	-100	0	16,088

Comments on Quantitative Analysis Sector Comparison

The stock is a quantitative outlier among bigger companies in the sector due to negative outlook and ratios. Negative outlook for 2020 by both analysts and company's press release statements supports it.

The main hindrance is closure of multiple mines both in USA (Chino, NM) and Peru (Cerro Verde) and projected over 400 Million lbs reduction in the Americas sales.

Short Interest currently at 46.34M shares. I'd expect the stock price to move over 20% lower, to at or below \$9/share due to headwinds of continuing operations both domestically and abroad.

Comments on Business

Main businesses mining in USA, South America (Chile & Peru), Indonesia – all segments currently affected by disruptions in operations mainly due to mitigation of workers' exposure to COVID-19 spread. Heavily unionized and uncontrollable outcome, especially in Peru mine.

FCX is currently doing all possible to reduce expenses, R&D, exploration, CAP Ex – contraction phase.

KPI's driving Revenue and Earnings

Earnings driven – shrunk 11% in 2019 pre-COVID and estimated to shrink to over 20% in 2020

\$9.8B in debt requires servicing, ongoing operations (~\$2B in cash reserves)

Reduction in Sales in 2019 largely due to market prices fluctuation of copper, molybdenum.

Reductions in Salaries (expenses mitigation) of key executives (-10%) and CEO/CFO (-25%) are insignificant to stop bleeding.

Company continues to service the debt, reduce expenditures, mitigating losses of operation. The key revenue drivers may resume soon as the main COVID-19 threat passes or is manageable in order to resume operations, however for the remaining Q2 and very likely Q3 will be a drastic disrupt enabling us to benefit from stock drop.

Earnings Announcements

Q1 2020 Earnings: estimating \$0.23 EPS – actual \$0 – even with couple months of no apparent COVID-19 threat Company was struggling with Sales.

Key Earnings Q2 report upcoming – consensus EPS forecast is -\$0.1 with 3 revisions up in the last 4 weeks. If it beats estimates due to good expenses mitigation and maintains ongoing operations and sales without shutting down additional mines – stock could actually go sideways or even up for few weeks.

Catalysts excluding Earnings

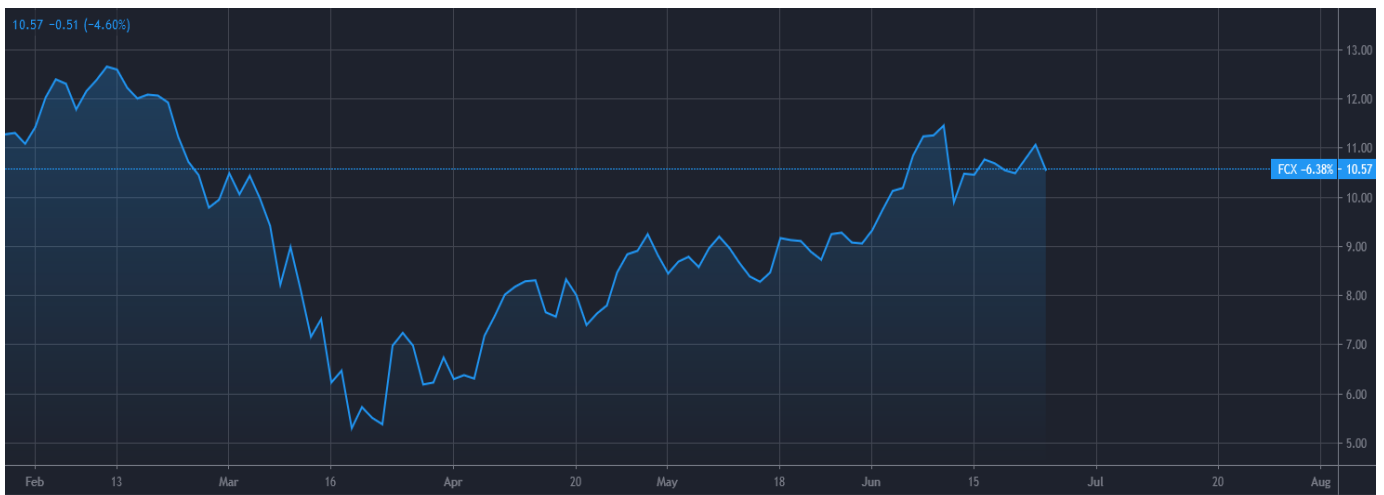
The company typically releases regular statements in regards to its events. Last year, in 2019 significant drop in stock price (~9%) happened when it announced \$1.2B issuance of senior notes.

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February 2020 Moody's rating of AB1 signaled large drop in stock price. If operations do not continue to resume as expected, company has notes due coming 2021 that adds pressure and they announced possibility of issuing additional notes.

Following events and potential 2nd COVID-19 wave could result in closure of additional mines. Uncertainty, operations disruption, sales reduction and company's own bleak outlook for 2020 .

I do not expect the company to fully resume operations until possibly end of year. Specifically Peru mine being closed, New Mexico in USA, and potential closure of Chilean mine.



The company is managing expenses well, keeping investors informed, actively mitigating all possible downfalls to the extent, could bounce up at favorable vaccine and economy uptick with commodities prices possibly rising – I'd use option play with \$11 puts and \$12 calls in 3-month time, spread, in case of an uptick. (not sure exactly how yet, just reading up on spreads 😊)