

Freeport-McMoRan

2Q2016: neutral for the stock, hope for better 2H16

- Freeport-McMoRan (NYSE: FCX) reported 2Q16 results.** The company's revenues amounted \$3334m in 2Q16, down 5% QoQ and down 15% YoY affected by weaker gold volumes (down 22% QoQ). Net loss totaled \$479mn for 2Q16. Impairment of properties reported at \$291m comparing to \$3787m in 1Q16 and \$2686m a year ago. Production and delivery costs were 8% up QoQ and 12% up YoY in 2Q16. The company reported completion of asset sales, including 13% interest in Morenci for \$1bn, Timok Exploration project for \$0.13bn, O&G royalty interest for \$0.1bn and other land sales for \$0.06bn. The total 'asset sale and other' brought \$749mn in cash. On the positive side Cerro Verde increased copper sales to 270m lbs in 2Q16 vs 97m lbs a year ago, contributing into unit cash cost reduction to \$1.22/lb in 2Q16 vs \$1.87/lb a year ago. Copper sales were down just 1% QoQ to 410k lbs. FCX adjusted EBITDA was \$966mn in 2Q16 including \$73mn on discontinued operations of African subsidiary Tenke Fungurume (agreed to be finally sold in 4Q2016 for \$2.65bn). Average realized copper price was slightly above our expectations at \$2.18/lb (\$2.10/lb expected). Realized gold price reported at \$1292/oz (\$1230/oz). The results are neutral for the stock, in our view, as the annual projections are driven by 2H16 plans.
- The company still has to deliver projected FY2016 figures.** The company plans to achieve copper production of 5mn lbs (up 22% YoY) and gold production of 1.7m ozs (up 36% YoY) in FY2016. FCX targets copper sales at 1.3bn lbs in 3Q16 (up 17% QoQ), and 1.4bn lbs in 4Q16 (up 27% vs 2Q16). Gold sales should be up 163% QoQ to 410k ozs in 3Q16 and to 955k ozs in 4Q16 to reach the targeted sales figure. The company plans to keep flat molybdenum sales QoQ and slightly decrease oil and gas sales in 3Q and 4Q 2016. The unit cost projections by the company are \$1.06/lb of copper and \$15.5/BOE of oil for FY2016. FCX also expects higher oil price at \$48/bbl, copper price at \$2.25/lb and gold price at \$1300/oz in 2H16 that will drive the operating cash flow to \$4.5bn for FY2016. We expect slightly lower product prices and keep our forecasts unchanged as well as indicative 12M price range \$10.2-16.8.
- High debt level remains the main challenge for FCX.** The total FCX debt stays at \$19.3bn at the end 2Q16. In 2016 FCX negotiated a number of private debt-for-equity transactions for the total face amount of \$369m of bonds exchanged for 28m shares of FCS stock. The annual interest savings amounts \$17mn. O&G business restructuring and higher copper and gold production volumes in Indonesia in 2H16 should improve the situation. The recently announced stock issue plan for \$1.5bn might be more efficient for FCX deleverage. Gold and copper volume growth and unit cost decrease are two major drivers for FCX stock performance in 2H16, in our view.

Report date:	01 August 2016
Main exchange	NYSE
Price, \$	12.96
Current MCap, \$ mn	16,486
EV, \$mn	35,453
Free float, %	90.2%

Description:
Freeport-McMoRan is the world's largest publicly traded copper producer, with an asset base diversified in gold, silver, cobalt, molybdenum. The company has assets located in North and South America, Africa and Indonesia. The company holds a portfolio of oil and gas assets in the US.

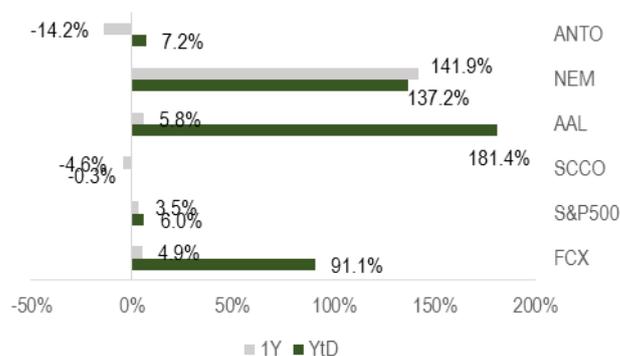
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Figure 1: Price performance – 5 years



Source: Capital IQ

Figure 2: Sector stock performance – 1 year and YTD



Source: Capital IQ, as of 29-July-2016

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Figure 3: FCX quarterly results - comparisons

	2Q16	1Q16	QoQ	2Q15	YoY	FY2015	FY2016 – FCX est
Sales							
Copper, mn lbs	1111	1123	-1%	964	15%	4070	5000
Gold, 000' ozs	156	201	-22%	352	-56%	1250	1700
Molybdenum, mn lbs	19	17	12%	23	-17%	89	76
Oil and gas, MMBOE	12.4	12.524	-1%	13.1	-5%	52.6	47.4
Price							
Copper, \$/lb	2.18	2.17	0%	2.71	-20%	2.42	2.25
Gold, \$/oz	1292	1227	5%	1174	10%	1129	1300
Molybdenum, \$/lb	8.34	7.61	10%	9.51	-12%	8.70	6
Oil, \$/bbl	32.7	23.79	37%	50.04	-35%	57.11	48
Net unit cost							
Copper, \$/lb	1.33	1.38	-4%	1.5	-11%	1.53	1.06
Oil and gas, \$/BOE	15	15.85	-5%	19.04	-21%	18.59	15
Revenues, \$mn	3334	3527	-5%	3938	-15%	15877	
Operating income, \$mn	18	-3876		-2421		-13382	
Impairments, \$mn	291	3787		2686		13144	
Operating cash flow, \$mn	874	740	18%	1069	-18%	3220	4500
Total debt, \$mn	19319	20777	-7%			20428	
Capex, \$bn	0.833	0.982	-15%	1.661	-50%	6.35	3.1
Mining	0.441	0.459	-4%	0.855	-48%	2.4	1.7
Oil&Gas	0.392	0.523	-25%	0.806	-51%	3	1.4

Source: Company data, Hypothesis Research estimates

Important disclosures

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