

Freeport-McMoRan

1Q17 results

- **Freeport-McMoRun released 1Q17 (NYSE: FCX).** FCX's total copper sales reached 809mn lbs (some 19% below expectations) due to regulatory restrictions on PT Freeport Indonesia's concentrate exports since 12 January 2017. The exports from Indonesia resumed in April 2017. Gold sales reached 182k ozs (460k oz expected), also affected Indonesian operations. The Indonesian subsidiary PT-FI reduced workforce and slow investment in its underground development. The company may reach 1.1bn lbs of copper and 1.9mn ozs of gold for FY17 if the operating rate remains normal for the rest of the year. However, there is a risk of a strike in May at PT-FI, which the company is trying to prevent negotiating with the unions' leaders and the government. Direct costs related to regulatory restrictions were \$21mn in 1Q17 (\$0.17/lb). Molybdenum sales reached 24mn lbs. Average realized prices were \$2.67/lb for copper (above our 2017 average of \$2.42/lb), \$1229/oz for gold (\$1200/oz), and \$8.71/lb (\$6.8/lb) of molybdenum for 1Q17. Average unit cash cost was \$1.39/lb copper in 1Q17 that is higher than expected, but the company's guidance is \$1.08/lb for the year.
- **Freeport-McMoRun had no borrowings in 1Q17.** The company's debt reduced to \$15,363mn as of 31 March 2017 from \$18,404 as of 31 December 2016, and cash reached \$4,001mn. In 1Q17 the company paid \$500mn of 2.15% Senior Notes due 2017. Net debt was \$11,362mn. The share \$13.9bn out of \$15.4bn debt is senior notes issued at the rate of 4.4%. The weighted average interest rate is 4.3% that translates to c\$0.66bn interest payments per year. Interest expense for 1Q17 was \$167mn. The company has \$3.5bn revolving credit facility at 31 March 2017. Operating cash flow was \$792mn in 1Q17. The forecast the company gave for FY17 is based on \$2.5/lb of copper and \$1250/oz of gold and \$9.0/lb of molybdenum for the rest of the year. The operating cash flow may reach \$4bn for FY17. The capex amounted \$344mn for 1Q17 and estimated at \$1.6bn for FY17, including \$0.9bn for mining project development in Grasberg.
- **PT-FI subsidiary performance remains the key factor of uncertainty for FCX.** The largest portion of capex (56% of FY17 capex) and 26% of copper production and 99% of gold production related to Indonesian operations performance. The imports right granted by the government to the company for the 6-month period during which the company should negotiate new conditions with the government provide at least normalized volumes for this period if no strikes or other disruptions. However, the risk of potential disruptions in the production if negotiations are not successful still exists for 4Q17. We put our target price under review to adjust for the changes in the production plan of the company.

Report date:	28 April 2017
Main exchange	NYSE
Rating	UR
Price, \$	12.8
Target price, \$	UR
MCap, \$ mn	21,515
EV, \$mn	28,819
Free float, %	98.3%

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 and Indonesia.

*as of 28/04/2017

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Important disclosures

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