Freeport McMoran Analysis

EQUITY RESEARCH 2025 – RIDDLE CAPITAL RESEARCH

Foreword

Extraordinary

At Riddle Capital Research, we are pleased to present our third equity research publication, this time with a comprehensive analysis of Freeport McMoran. Building on our previous reports, this edition reflects our continued commitment to producing data-driven, bias-free, and independent research on financial markets and high-impact investment opportunities.

As a team of student analysts, we view research not just as an academic exercise but as a practical foundation for developing real-world financial acumen. Each report serves both as a learning tool and a platform for challenging conventional thinking. We strive to combine professional rigor with a fresh perspective by refining our analytical methods, deepening our industry insights, and embracing objectivity in every valuation.

We believe that true insight arises from curiosity, intellectual honesty, and a willingness to question market consensus. In this report, we apply that approach to Freeport, evaluating its strategic position in the global mining landscape, financial fundamentals, capital allocation strategy, and associated risks. Our goal is to determine whether FCX presents a compelling case for long-term investors grounded in fundamentals rather than sentiment.

If you have any questions or feedback, please feel free to reach out to us.

Disclaimer

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Company Overview

Freeport-McMoRan Inc. is one of the world's largest publicly traded copper producers, with significant reserves of gold and molybdenum as by-products. The company operates a geographically diversified portfolio across Indonesia, North America, and South America. Its most profitable asset is the Grasberg mine in Indonesia, one of the largest copper and gold deposits globally which provides the company with a low-cost production base. This results in some of the lowest net copper cash costs in the industry, especially when considering the substantial gold by-product credits, which led to negative cash costs at Grasberg in 2024. In North America, the company operates large open-pit copper mines in Arizona and New Mexico, as well as molybdenum operations in Colorado. In South America, its operations are centered in Peru and Chile. The company's reserve base is geographically distributed as follows:

Region	Copper (Blbs)	Gold (Moz)	Molybdenum (Blbs)	Silver (Moz)
North America	41.6	0.6	2.51	0
Indonesia	27.0	22.4	0	318.0
South America	28.4	0.0	0.66	0
Total	**97.0**	**23.0**	**3.17**	**318.0**

Source: Company 10k

The case for copper

Copper is central to the global transition toward electrification and decarbonization. As the most efficient conductor of electricity, it is essential to a wide range of high-growth sectors including electric vehicles, power grids, solar and wind infrastructure, and battery storage systems. Urbanization and rising construction activity across emerging markets further amplify demand, as copper is used extensively in HVAC systems, water piping, building wiring, and industrial applications.

Additionally, the explosive growth in AI, data centers, and high-performance computing is driving energy demand even higher, further strengthening the case for copper. However, while demand continues to surge, supply growth remains constrained due to lengthy permitting timelines, declining ore grades, and environmental and geopolitical challenges. This tightening supply dynamic supports the long-term pricing power of the metal. The International Energy Agency forecasts that copper demand will rise steadily through 2040 and beyond, with no scalable substitutes in sight.

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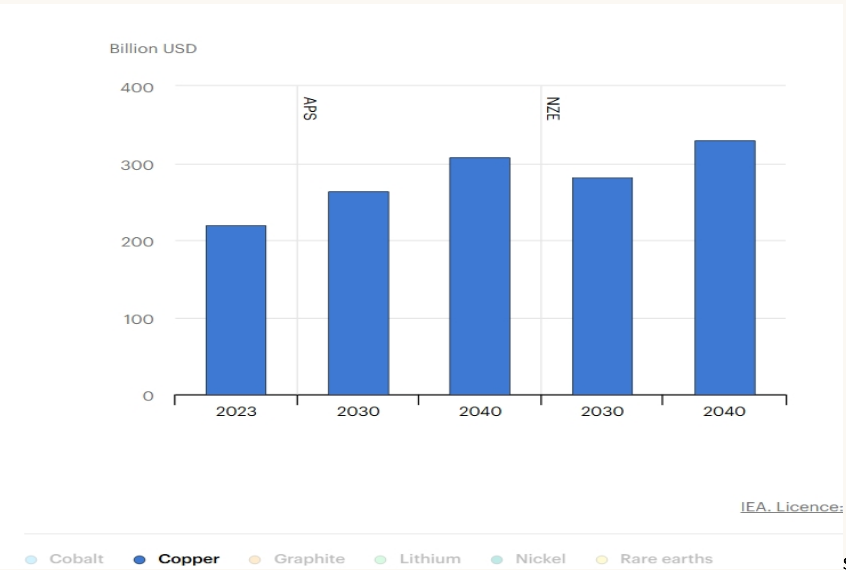

source: IEA data 2025.

Investment Thesis

Global copper inventories are low, and substantial new supply is needed to meet the forecast increase in demand from EVs, renewable energy, and infrastructure projects. Any stronger-than-expected demand or undersupply due to project delays industry-wide could lift copper prices above current levels. with the company estimating that for every $0.10/lb increase in Cu, EBITDA increases by $425M and cash flow by $330M. That works out to 80% EBITDA conversion ratio, confirming copper is the primary value driver. This operating leverage, coupled with disciplined capital allocation (CapEx of $4.4B in 2025 directed toward sustaining and growth projects), and the increase in the demand for gold strengthens the investment case.

FCX is pursuing cost efficiencies across its portfolio, by integrating automation, data analytics, and solar power at mine sites. There is room to reduce unit costs, particularly in North America, which had highest mining costs in 2024. A normalization of those costs from $3.04/lb in 2024 back toward $2.00-2.50 average range would potentially increase margins. Also, FCX could benefit from government incentives like the proposed U.S. federal clean energy tax credit for critical minerals. If copper production qualifies, FCX estimates it could generate up to $500M per year in tax credits further reducing cost for its U.S. operations.

The new leaching technology being tested in Arizona has shown a 50% increase in copper recovery in pilot projects. The company estimates it could recover 800M lbs from leaching by 2030, if this is achieved, it could unlock approximately 9 yrs worth of copper from low-grade stockpiles at minimal cost.

Key Risk

FCX’s earnings and cash flow are highly sensitive to copper and gold prices. Copper is a cyclical commodity whose performance is closely tied to economic growth. In the past 12months alone, Comex copper prices have fluctuated between $3.67 to $5.2/lb. A downturn in global economic conditions could weaken copper demand and send the stock price lower. Each $0.10/lb change in copper price impacts FCX’s annual EBITDA by roughly $400M-$450M. Therefore, low commodity prices could put pressure on Freeport’s financial performance.

Freeport’s largest asset is Grasberg (PT-FI) in Indonesia, The Indonesian government is both a partner and regulator controlling 51%. Changes in mining laws, export regulations, taxes/royalties, or even resource nationalism could negatively affect the company. Recently, Indonesia imposed a ban on unrefined mineral exports, FCX secured export license extensions but faced delays in late 2024 that halted copper concentrate shipments. This caused temporary volume loss and underscores the risk of political intervention. And now with the current tariff policy, it is unclear how the Indonesian government would react.

Regulations requiring 30% of the company’s gross export proceeds to be deposited in Indonesian banks (subject to possible extension) may create liquidity issues, impacting the firm’s ability to fund operations and growth.

Input costs particularly fuel, sulfuric acid, and processing reagents have remained elevated, especially in North America. If inflation continues to outpace FCX’s internal cost control initiatives, gross margins may be affected further. Moreover, the ongoing global trade tensions could disrupt supply chains, further compounding inflationary pressures. On the demand side, elevated interest rates present downside risk to industrial copper demand if firms cannot access cheap loans.

Analysis of Financial Condition

Revenues have increased substantially from just $14.2 billion in 2020 to $25.5 billion in 2024, reflecting higher copper prices and volume growth especially at the Grasberg mine. 2024 revenue grew 11% year-on-year due to higher realized prices ($4.21/lb copper in 2024 vs $3.85 in 2023, and $2,418/oz gold vs $1,972 in 2023) which are both significantly higher now. Adjusted EBITDA reached $10 billion in 2024 up from $8.8B in 2023. This was driven by strong price realizations and record gold volumes, which helped to offset the lower copper sales and higher costs.

Profit margins have been stable, though impacted slightly by cost inflation and profit-sharing with minority partners. In 2024, the operating margin was 27% and net margin 7.4%. Net income attributable to common stockholders was $1.89 billion in 2024, up only 2.2% from 2023 despite much higher EBITDA. This gap is likely explained by higher depreciation, inflation costs, and increase in minority holder's share of profit.

Capital expenditure totaled $3.6 billion in 2024, slightly higher than the previous year, as Freeport continued investing in the Grasberg underground development and the construction of the new Indonesian smelter. The majority of 2024 capex was growth-oriented, with approximately $2.1 billion allocated to mining projects, primarily at Grasberg and an additional $1.17 billion directed toward the smelter and refinery in Indonesia. The remainder was spent on sustaining capital. Looking ahead, management has guided for $4.4 billion in capital expenditures for 2025 as these major initiatives advance. Freeport generated approximately $2.4 billion in free cash flow in 2024, which was deployed toward debt reduction, shareholder dividends, and share repurchases.

Their balance sheet is solid. Year-end 2024 total debt was $8.95 billion and cash & equivalents $3.92 billion. This puts net debt at about $5.0B, equivalent to 0.5× 2024 EBITDA. Moreover, excluding $3.2B of project financing for the Indonesian smelter, their net debt is just $1.06 billion. The leverage ratio is very favourable, giving FCX flexibility to fund projects and shareholder returns. FCX's credit rating is investment grade (BBB) with a stable outlook. Since the Indonesian smelter debt is being serviced at the PT-FI level and their capex seems to be funded from internal cash flow, we do not expect their leverage ratio to increase anytime soon.

Outlook for 2025

Entering 2025, management guided slightly lower volumes at 4.0 billion lbs copper, 1.6 M oz gold, 88 M lbs molybdenum. The 3% YoY reduction in forecasted sales stems from a delayed export license in Indonesia and major smelter maintenance projects, which have deferred some sales from first half of 2025. Therefore Q1 2025 copper sales are estimated at just 0.85B lbs down 14% QoQ and gold 225k oz down 36% QoQ. Management expects a catch-up in the second half once permits are available, they emphasized that these sales are deferred, not lost. For 2025, FCX also forecasts slightly higher unit net cash costs ($1.60/lb vs $1.56 in 2024) due to lower gold by-product credits and inflation. Despite these headwinds, Operating cash flow is still expected to come in strong, sufficient to cover capex and dividends. Strong growth is expected in 2026 and beyond as new projects drive volumes up and costs down. FCX's North American operations have faced cost challenges, their 2024 units cost were $3.04/lb vs $1.66 in Indonesia due to lower grades and inflation in wages, energy and materials. The company is implementing productivity measures and a technology-driven leaching initiative to improve North America output and unit costs. Its new leach programs added 214 million lbs of copper in 2024 and is expected to increase to 300-400M lbs by 2026 at very low cost. This could significantly enhance margins in America. Meanwhile, the completion of the Indonesia smelter by second half of this year will end the need for costly interim export arrangements and should eventually reduce their export taxes and fees thereby supporting margin growth.

Overall, we observe that FCX's historical performance appears to track copper prices closely while also showing a clear improvement in cost structure and capital allocation over the years. We expect further margin expansion beyond 2025 as high-cost ounces are optimized and growth projects achieve economies of scale.

Valuation

We value Freeport-McMoRan using a discounted cash flow method and EV/EBITDA multiple method. We project cash flows over 2025-2029, incorporating company guidance and our assumptions.

DCF Interpretation

The goal of our DCF is to determine what the company is worth under a disciplined capital allocation framework; therefore, we prioritize predictability over speculative upside. Given the cyclicality of commodity markets, we adopt a conservative approach that isolates the company's core fundamentals.

Despite strong long-term demand trends, we hold copper prices flat at $4.00/lb, gold at $2,700/oz, and molybdenum at $20.00/lb throughout the forecast period. Net unit cash costs are held at $1.60/lb, aligned with current company guidance but excluding any future operational efficiencies.

We assume capital expenditures remain elevated at $4.4B annually through 2026 before tapering, consistent with the company's current investment cycle. Working capital is modelled as a 2% of revenue, and depreciation is fixed at $2.5B/year.

Despite a good capital structure and good credit rating, we use a WACC of 8.5%. The terminal value is based on a 2.25% growth rate, aligned with long-run inflation and global GDP growth assumptions.

Under these assumptions, our DCF model yields an enterprise value of $61B. Adjusting for net debt and dividing by approximately 1.44 billion shares, we arrive at a share price of $40/share. Given the conservative nature of these inputs, we believe this price provides a margin of safety. Purchases below this level offer upside potential over the next 12-18 months provided that Freeport executes as promised and macro conditions begin to stabilize.

EV/EBITDA Method

FCX is currently trading at approximately 5.5x trailing EV/EBITDA and around 6.5x forward 2025 EV/EBITDA. This valuation reflects a big discount relative to copper producing peers like Southern Copper which trades at 12-13x TTM EBITDA. We believe this discount is unjustified, considering the following catalysts:

- FCX is currently rolling out the most scalable, low-cost production expansions in the industry, leaching technologies capable of delivering 300-400 million lbs of copper by 2026 and up to 800 million lbs annually by 2030. This initiative capitalizes on already-mined material, substantially reducing production costs. Given that every $0.10/lb change in copper prices translates to approximately $375 million in EBITDA upside, FCX stands to benefit massively from these cost reduction initiatives.
- Grasberg mine in Indonesia remains one of the most profitable copper operations globally, with negative net unit cash costs driven by substantial gold by-product credits.
- Mining rights in Indonesia have been extended through 2041, reducing long-term sovereign risk and giving the company multi-decade planning certainty for its flagship asset.
- Should the U.S. declare copper a strategic mineral (as suggested by recent political discourse), potential tariffs on copper imports and tax credits for domestic production could materially boost EBITDA.

The average EV/EBITDA multiple for the global metals and mining sector, based on 64 profitable companies according to latest Damodaran data, stands at 8.68×. Applying this industry average to our 2024 adjusted EBITDA estimate of $10B yields the following:

Enterprise Value (EV) = 8.68 x $10B = $86.8B

Considering a net debt of $5B and 1.44 billion shares outstanding, we derive:

Equity Value = $86.8B - $5B = $81.8B
Implied Share Price = $81.8B / 1.44B = $56/share

Taken together, both our DCF and EV/EBITDA multiple analyses suggest that Freeport is currently undervalued, trading at approximately $32/share. With a solid balance sheet, an expanding low-cost production base, a world-class cost structure supported by the Grasberg mine and exposure to long-term electrification and infrastructure trends, the company offers a great opportunity at a discount to intrinsic value. If recession fears recede and global economic activity begins to reaccelerate over the next 12-18 months, we expect copper prices and FCX's fundamentals to align, which could imply a potential 40% upside from current levels. In our view, FCX coupled with its gold production is well-positioned to benefit from the secular demand growth, making it a high-conviction investment in the copper space.

Conclusion

On balance, we view the opportunities outweighing the risks for Freeport McMoran, especially given its prudent management of controllable factors. The main swing factors will be copper price and US trade policy. Investors in FCX should have some tolerance for volatility as earnings could be weak during the first half of 2025, to be confirmed by April 24th 2025 as they report earnings. But at current levels the stock provides an attractive entry point into the copper theme if we believe in the global electrification trends.