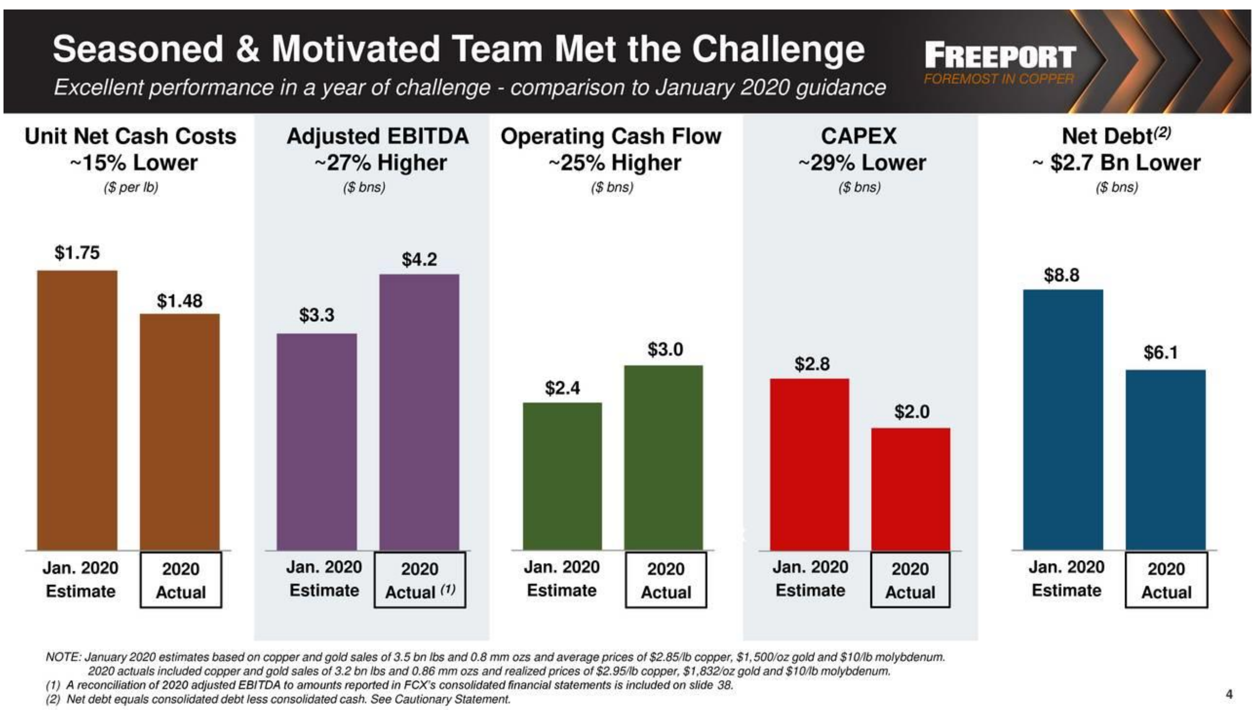
Inside Freeport McMoRan: Last Quarter's Progress

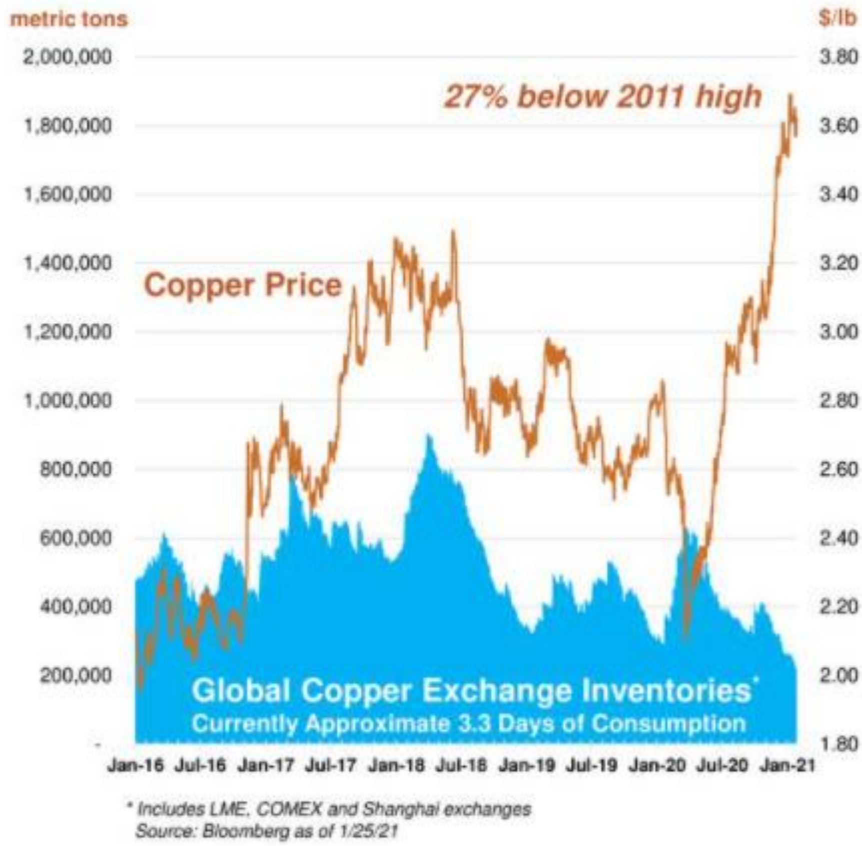
Jan. 29, 2020

Over the course of 2020, Freeport's stock went from below $5 a share to up 99% for the year: the 8th best performing stock in the S&P 500. It was a "head spinning" year, as CEO Adkerson describes it. The low extreme is due to the COVID crash and economic shutdown, prompting people to believe that copper demand would decrease. In reality, demand did not slow down for any substantial length of time, and especially ramped up in China throughout the year. Supply remains tight and the price of copper rose to almost $3.50/pound by the end of the year, the highest it's been in almost a decade.

This dramatic rise in the price of copper explains most of the rise in Freeport's stock. The other boost comes from Freeport's improved operations during 2020. It ended the year at 70% of expected sales volume of copper and gold from its main mine in Indonesia. It will continue to ramp up in 2021, expecting an additional 20% higher volume of copper sales and 50% higher volume of gold sales than 2020. It cut costs, spending, and made operations more efficient to produce even more cash flow than originally expected at the beginning of 2020 (see graphs below), before the company knew what was to come with COVID.



A sensible next question is: "how much more can a stock rise, when it's gone up over 200% in less than a year?" The answer again depends on the price of copper and on Freeport's production. Here are copper's price swings the last 5 years:



At $3.60 copper is still 27% lower than its 2011 high, and market conditions appear to be even stronger. Demand is expected to rise not only in the traditionally strong markets of China and India, but in developed countries as well. Electric vehicles and renewable energy generation use 4-5 times more copper than traditional cars and energy generation. Even if prices stayed at today's $3.50/pound though, Freeport is set to almost double earnings this year. This company has earned its payoff with exceptional management through a whole series of crises. At Outlook we think we've only seen the beginning of that payoff.