

Friday Favorites- FCX

Freeport McMoran (FCX)

The coming expansion and modernization of the power grid to accommodate increased electricity needs from AI data centers, EVs, and the push toward clean energies, as we discussed in a three-part series (Parts [ONE](#), [TWO](#), and [THREE](#)), will result in increased demand for copper.

Russian mining company, Nor Nickel, expects cumulative demand growth of 20% over the next ten years. As we will discuss, this potentially bodes well for copper producers, particularly Freeport McMoran (FCX).

FCX is the world's largest copper producer, producing 2.05 metric tons in 2023. For context, BHP, the second biggest producer, produced 1.39 metric tons.

Not only is FCX well positioned to meet copper demands with a large number of mines across the globe, but they have a new technology that may allow them to "mine" for copper from copper that has already been mined. Per a snippet from our recent [Commentary](#):

The Copper mining industry has faced a troubling problem for years. It faces a looming Copper shortage related to the electrification demands from the energy transition. Supply is tight, and new mines are hard to find and getting more expensive to build. Luckily, there's a potential [solution](#) to the conundrum. A type of copper ore that's in large supply but has been too difficult and costly to extract copper from in the past. Instead, it ended up either not being extracted from mines or sitting in waste piles. However, Freeport McMoran may be able to circumvent these challenges with complex new mining technology. The technology will allow the company to further exploit its existing mines in addition to waste piles that have built up over the years, which still hold viable copper. It could allow the company to grow its copper production by the equivalent of a large new mine.

During the next three to five years, Quirk said the company hopes to generate annual production of as much as 800 million pounds of copper through that kind of processing technology ? equal to one-fifth of its current total production.

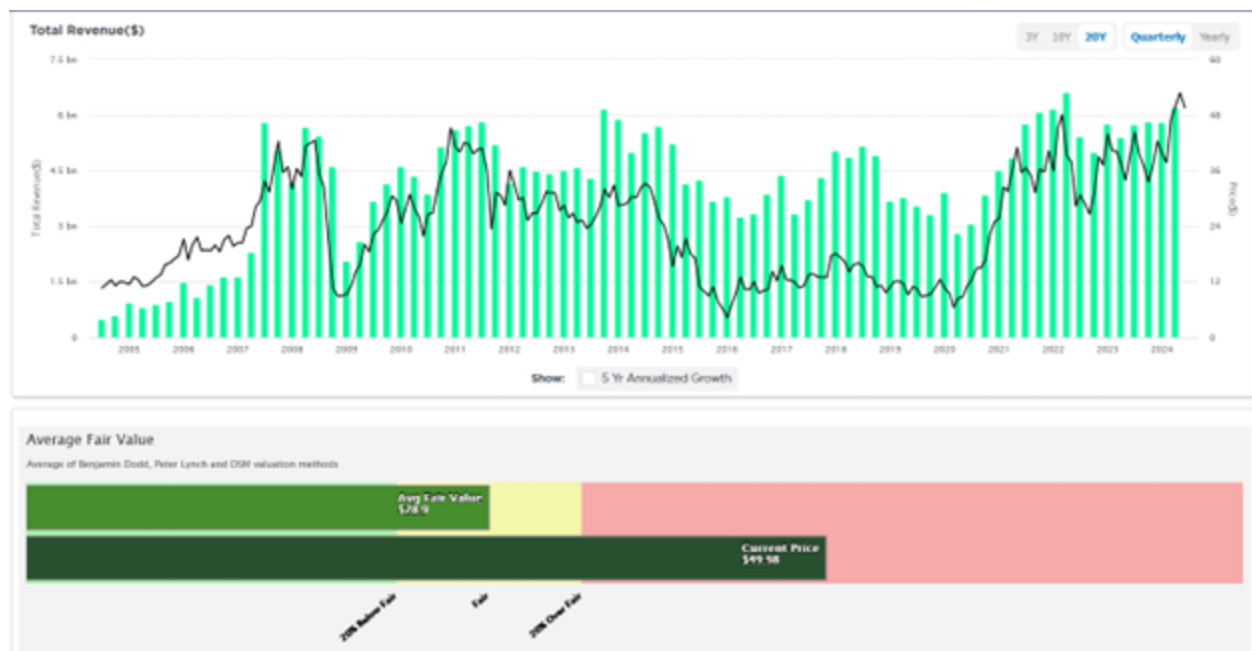
Freeport has already extracted an additional 200 million pounds of copper through the recovery process, and is targeting another 200 million pounds in the next two years. Developing the complex technology has stalled the firm's push to hit 800 million pounds, but Quirk said the company is making progress.

"We think we're going to get there ? it's just a matter of time," said Quirk, who stepped into the top job Tuesday to become the only female CEO of a major mining company.

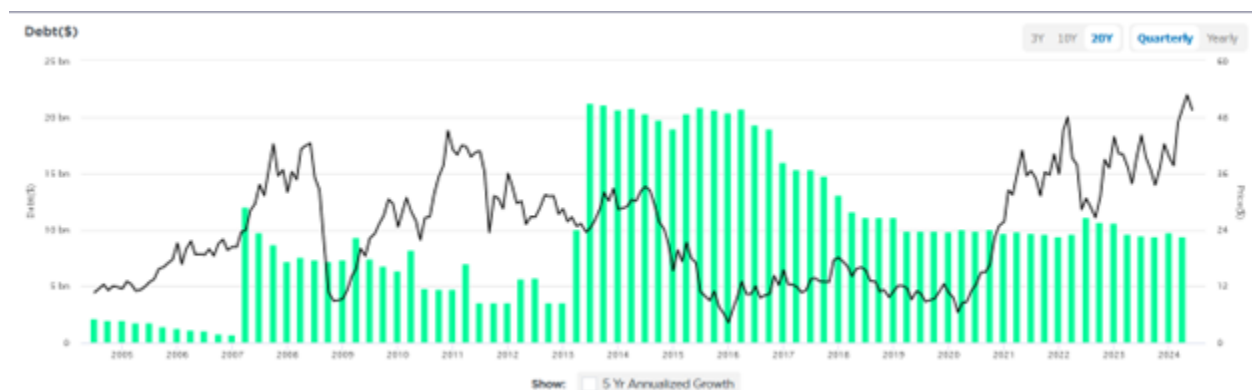
Fundamental

Fundamental data for FCX shows little growth. However, the bet on FCX is not its past but its ability to profit from a significant boost to copper demand. The SimpleVisor graph below shows that FCX's

revenue has been relatively flat for the last few years and hasn't grown much over the last 20 years. Furthermore, its current price is almost double its fair value. Remember that fair value valuations do not incorporate the potential surge in copper demand.



FCX has been able to reduce its debt load despite expanding its operations. Assuming the new technology noted at the opening is effective, less debt will be required to meet future copper demand. As has been the case in seven of the last eight years, positive free cash flow may also be used to fund new mines or acquisitions.



FCX has a very high P/E for a mining company (43.94), but its forward P/E is more reasonable at 21.59. Furthermore, its PEG ratio (P/E / Growth) incorporating future growth is somewhat reasonable at 2.86. Such assumes a forward growth rate of 7.50%. If Nornickel's 20% cumulative growth estimate for copper demand is correct, and FCX can maintain or grow its market share, its PEG ratio may be close to 1.0, which many investors consider cheap.

Business Health	Stock Transaction Stats	Returns	Dividend & Splits
Earnings - Actual	Earnings - Estimates	Valuation	
Forward P/E		21.59	
Trailing P/E		43.94	
PEG Ratio		2.86	
Price/Book		4.24	

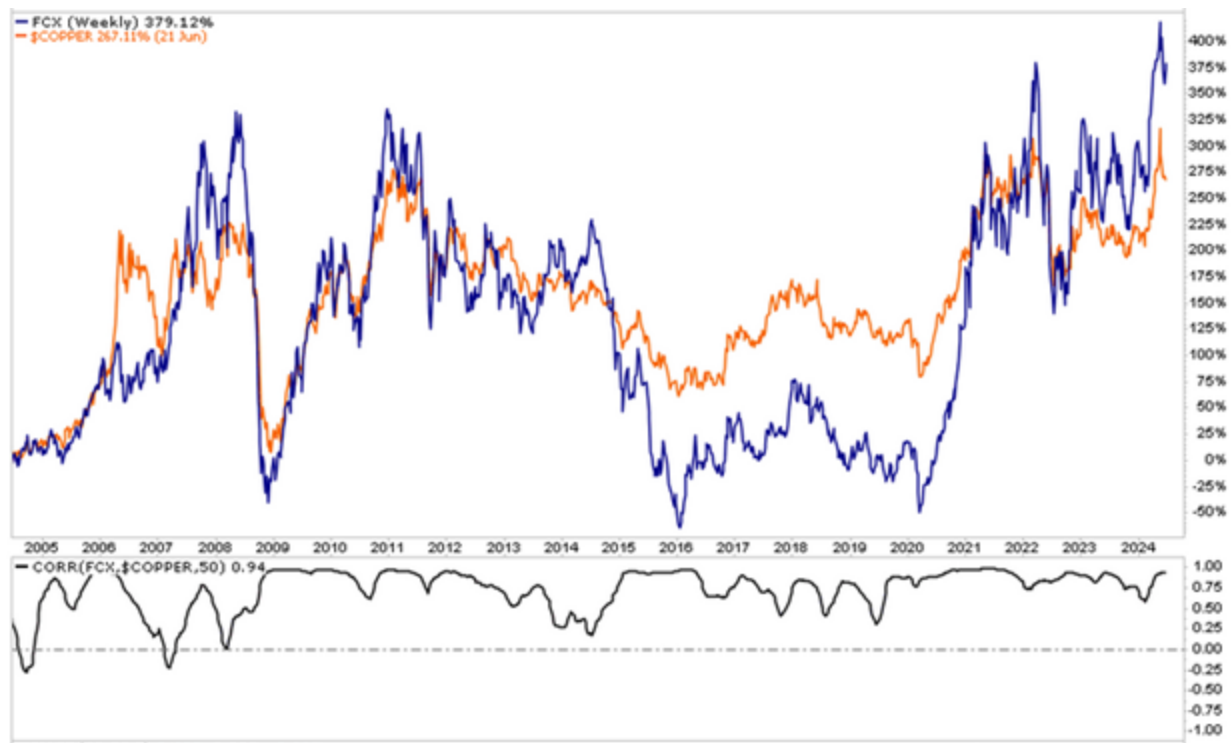
Technical

The graph below showing the last year is interesting. Its MACD at the top is turning onto a nice buy signal. However, Williams (%R) and stochastics warn of a downward trend. It had a solid price surge in March commensurate with higher copper prices. Since then, it has remained stable as it works off overbought indicators.



The longer-term graph below shows that copper prices and FCX track each other well. The lower graph within the chart shows the 50-week correlation between the two. The running correlation is often very robust at .75 or higher.

We suspect the demand narrative will drive FCX higher over the long run. However, a slowdown of economic activity and or a global recession could take a significant bite out of copper prices and FCX stock. If you think we are indeed headed for a downturn later this year or early next, it may pay to wait and buy FCX at a lower price.



Disclosure

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