

## Freeport-McMoRan Is Added to CUSP Based on Its Prospects for Mining Copper

By Annie Trettel and Gabi Keaton

Freeport-McMoRan (FCX) is an international mining company that specializes in the mining of copper concentrate as well as the production of continuous cast copper rods and copper cathode. In addition to the company's core copper business, Freeport also mines gold, silver and molybdenum. The company, which holds ownership interests in 12 mining sites around the world, is uniquely positioned to meet the increasing demand for its copper products. The CUSP managers have confidence in Freeport-McMoRan for three reasons: increasing demand for copper, the firm's financial stability and the company's effective use of cash flows. FCX also provides the managers with an avenue for diversifying exposure within the CUSP materials sector.

First, the demand for copper is projected to increase given fundamental shifts in key end-user markets. The most impactful growth is expected to come from the emerging electric vehicle market. The demand for electric vehicles is forecasted to be strong given that all major car manufacturers are actively joining the market and consumer preference for the product is increasing. Electric vehicles require 20% more copper than a gas engine car. The expected push into electric vehicle manufacturing over the coming years should result in high demand for FCX output. Copper also plays a strong role in the residential and commercial construction industry, with almost 50% of the world's copper supply currently used in construction. The ongoing housing shortage coupled with a push for creating more affordable housing likely means an increase in construction activity. With around 20% of Freeport's revenues coming from rods and refining, we believe that FCX will be able to capitalize on the increase in construction. FCX owns and operates a rod and refining plant in El Paso, Texas, and is one of the world's largest manufacturers of cast copper rods used in wire and cable products.

Second, the strength of Freeport's management team and strategic goals impressed the CUSP portfolio managers. In 2016, the company had \$20 billion in debt on their balance sheet. To manage this threat, management placed an increased emphasis on the company's core strengths, resulting in a full divestiture of the underperforming Oil and Gas segment and an increased focus on copper mining. This focus, coupled with the initiative to manage its debt, has brought the company's current debt level down to \$1.6 billion, leaving it with healthy balance sheet leverage ratios.

Third, during this past year the price of copper has been at record levels, increasing Freeport's operating margin and cash flow. Management has capitalized on this unique situation by using the increased cash to pay off debt and invest in future growth opportunities. In addition to effectively running its active mining sites, Freeport is focused on steadily expanding production. One example of a current expansion project is the existing Grasberg mine in Indonesia, with production expected to increase copper output by 200,000-250,000 tons daily.

According to our analysis and valuation, the CUSP managers believe Freeport-McMoRan is attractively priced. This view is in agreement with published analyst reports. The CUSP portfolio managers believe that growth prospects for FCX are promising, especially given the rising trends in demand for copper. The firm's balance sheet is solid, leaving it room to grow as market demand evolves. Because of this, the managers voted to add FCX to the CUSP portfolio in April of 2022.

Prior to the start of the 2021-2022 school year, the Materials sector for the CUSP was concentrated in two chemical manufacturing companies: Lyondellbasell (LYB) and Albemarle (ALB). The CUSP portfolio managers made the decision to restructure and diversify the Materials sector of the portfolio by adding Berry Global (BERY), a global manufacturer of plastic containers and packaging, and Freeport-McMoRan. Furthermore, the managers voted to reallocate investment within the Materials sector so that the portfolio held 1% positions in each of the four companies. As a result, the Materials sector holds high growth opportunity investments in Albemarle and Freeport-McMoRan as well as investments in the more stable Lyondellbasell and Berry Global. The CUSP managers believe the Materials sector is now better diversified and not as susceptible to market movements.