# FCX 2009 Q1 Quarterly Update

5/15/2009

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| Sell | Hold | Buy |
|---|---|---|

| | |
|---|---|
| **Default Value Score** | **57** |
| **Target Price** | **$58.80** |
| Price (as of report) | $46.11 |
| Percent to Target | 27.5% |
| Management Quality | Neutral |
| Market Cap (m) | $18,982.1 |
| Shares Out. (m) | 411.7 |
| Dividend Yield | 0.0% |

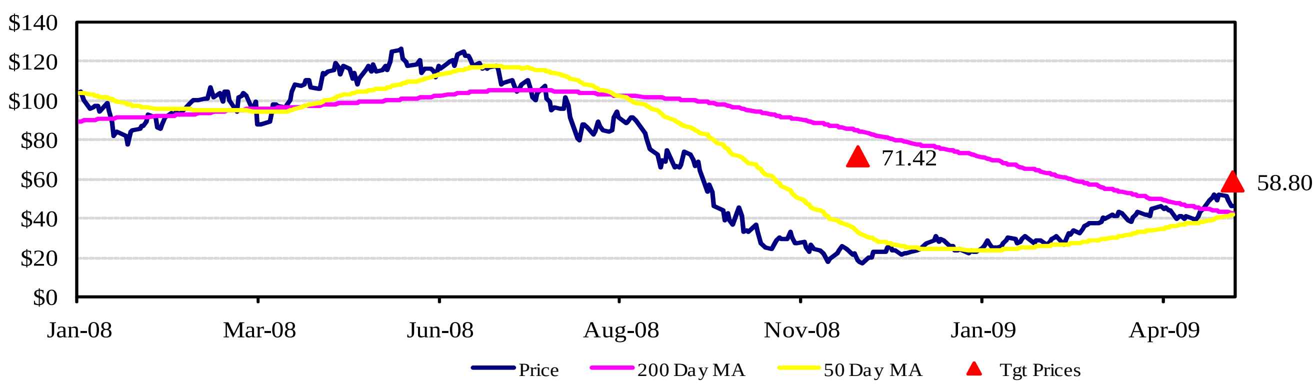
| **Earnings History** | | **Surprises** |
|---|---|---|
| EPS Q3 | -$37.06 | $0.26 |
| EPS Q2 | $1.38 | -$0.35 |
| EPS Q1 | $2.47 | -$0.25 |
| EPS LFY | $7.14 | |
| EPS LFY-1 | $7.09 | |

**Investment Summary:** Freeport McMoRan (FCX) reported a 94% drop in Q1 09 adjusted earnings of $67 million, or $0.17 per share, surpassing analysts' estimate of $0.13 per share. Sales declined 54% to $2.6 billion, missing the consensus estimate of $2.7 billion. Although copper and gold sales volumes grew 10% and 95%, respectively, the company's average realized selling price for copper dropped 53% to $1.72/lb, while its gold selling price was 3% lower at $904/oz. Moreover, margins suffered tremendously as production curtailments were not sufficient to moderate the disparity between the cost of production and selling prices. Production costs only declined 38% to $0.66/lb per unit of copper produced, while the price of copper fell by more than half, resulting in a drastic compression in EBITDA margin to 36.4% from 49.6% in the year ago quarter.

Copper prices recently improved to about $2/lb, due to record level purchases from China. Ultimately, copper prices will not realize a significant upward trend until construction markets recover, especially in the U.S. FCX projects 5% lower copper sales volume in 2009 vs. a year ago, while gold sales volume is expected to double, mostly due to the higher grade ore from Grasberg. Assuming that the copper price remains at $2/lb and gold remains at about $900/oz for the rest of the year, management expects its unit production cost this year to approach $0.70/lb of copper, up sequentially from Q1, but 40% lower than in 2008. The company expects to aggressively manage costs by curtailing production and limiting capex to $1.3 billion in 2009 and $1.0 billion in 2010, less than half of what was spent in 2008. A large portion of the capex is going to be utilized to complete the Tunke Fungurume development project and ramp up production in H2 09.

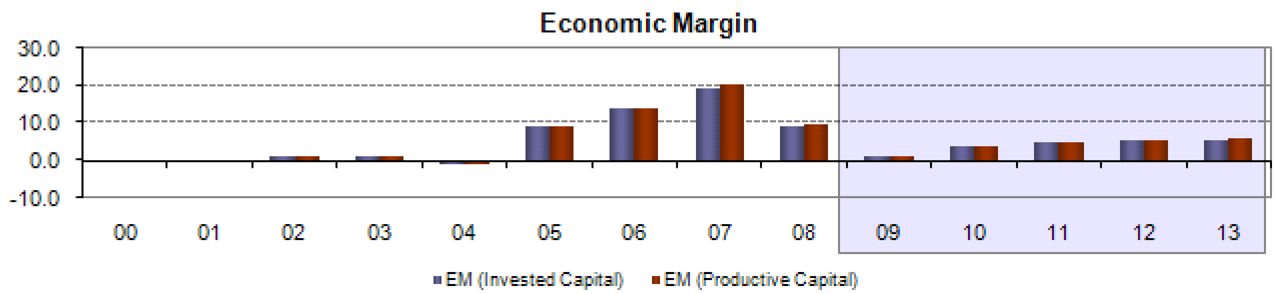
With financial markets experiencing turmoil since late 2008, we like the fact that FCX does not have any significant maturing debt until 2015. We believe that management is focused on the right initiatives to manage production and cost levels. With an understanding that much of FCX's success relies on positive spreads between commodity prices and the cost to produce, we are attracted to the company's share price appreciation potential once the global economy recovers. We maintain our Buy recommendation for FCX. Our updated model suggests a target price of $59, or 28% upside. (Please see model FCX 5-13-2009).

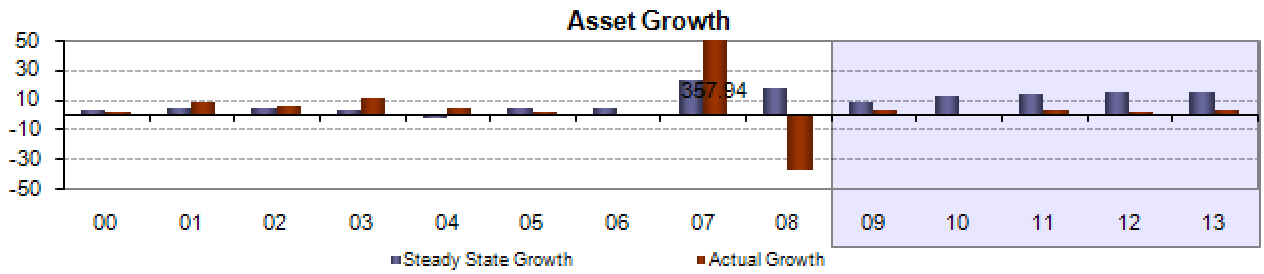
**Price Performance**




We lowered our sales projections in 2009 and 2010 to bring top line growth more in-line with current expectations. Additionally, we lowered our EBITDA margin projection for 2009 to reflect market conditions. We now project an improvement in margins beginning in 2010, due to an expected recovery in global markets driven by increased consumption of copper combined with FCX's improved cost structure.

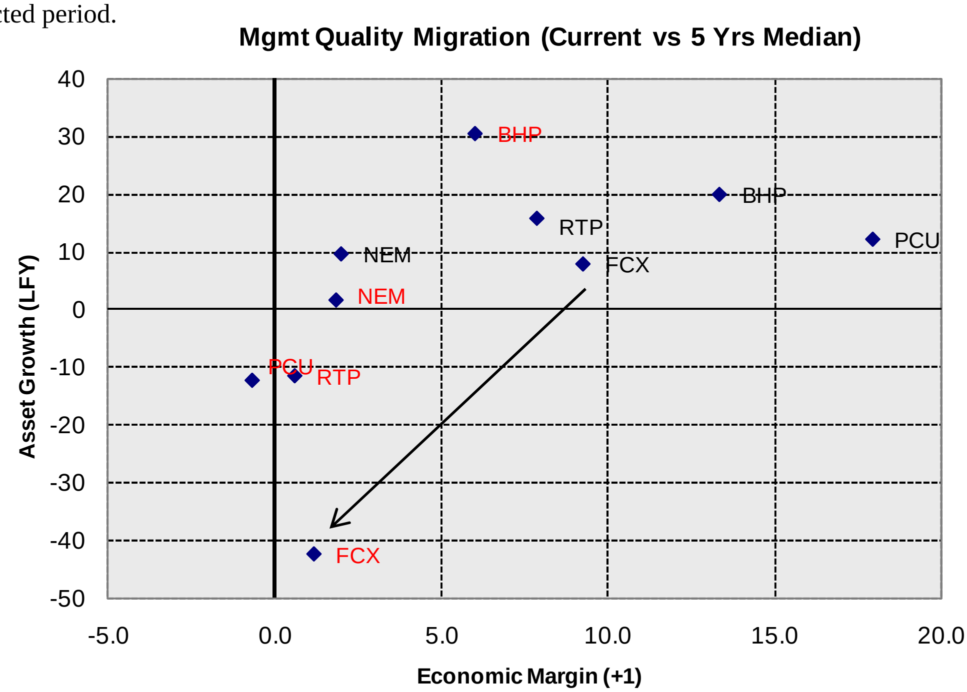
| | Model: FCX 12/1/2008 | | | | | Model: FCX 5/15/2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Value Drivers** | **2008** | **2009** | **2010** | **2011** | **2012** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Revenue Growth | 15.0% | -24.0% | 14.0% | 3.0% | 3.0% | -39.0% | 10.0% | 3.0% | 3.0% | 3.0% |
| EBITDA Margin | 41.0% | 39.5% | 38.0% | 36.5% | 35.0% | 37.0% | 39.0% | 44.0% | 47.0% | 49.0% |
| Asset Turns | 0.46 | 0.36 | 0.39 | 0.40 | 0.40 | 0.45 | 0.48 | 0.47 | 0.47 | 0.46 |




Worldwide copper prices began to increase in 2005, when prices rose about 30% vs. 2004 levels. Copper prices topped \$2/lb for the first time in 2006 and rose to an all-time high of \$4/lb in July 2008. Due to the global economic slowdown, copper is trading at \$2/lb once again and FCX has drastically cut back production in order to align production with demand. Economic Margins over the past few years reflect the boom and bust that occurred in copper markets, with EM in 2009 expected to near the lows seen at the beginning of the decade.

FCX acquired Phelps Dodge in 2007, near the peak of the commodities cycle. The subsequent economic bust forced the company to write-down a significant amount of the Phelps Dodge acquired assets, represented in the chart by a large decline in assets in 2008. Going forward, FCX has curtailed many growth projects to maintain a competitive cost structure. With the Tenke Fungurume development project in Africa expected to complete in 2009, we forecast minimal asset growth for the remaining projected period.




•Red represents the current year while black represents a 5-year median.

FCX and RTP realized significant asset impairments following the decline in commodity prices that caused a write-down in acquired assets booked in 2007.
FCX curtailed production to bring costs in-line with expected demand and EM is expected to remain positive. We expect the company to migrate to the upper right quadrant of the management Quality chart over the next few years.

## Q1 2009 Highlights

Earnings:
Earnings dropped 96% to $43 million, or $0.11 per share, down from $1.1 billion, or $2.64 per share, in the year-ago quarter. Excluding restructuring and other charges, EPS fell 94% to $0.17.
Sales:
Sales declined 54% to $2.6 billion, compared to the year-ago quarter. Sales volume declined for molybdenum (50% lower), while copper and gold had 10% and 95% higher volume, respectively, but prices were lower for all three metals.
- North American Copper Mines sales dropped 82% to $44 million, compared to the year-ago quarter, due to reduced operating rates at Morenci and Stafford as well as suspended operations at Chino, combined with a 55% decline in the average realized price of copper to $1.59/lb.
- South American Copper Mines sales declined 60% to $584 million, compared to last year, due to reduced mining rates in Candelaria and a 53% decline in the average realized copper price to $1.76/lb.
- Indonesia sales increased 4% to $920 million, as a result of higher copper and gold production vs. a year ago, partially offset by a 53% and 3% decline in the average realized price for copper and gold to $1.80/lb and $904/oz, respectively.
- Molybdenum sales declined 80% vs. last year, due to curtailed production and a 64% drop in the average realized molybdenum price to $11.52/lb.
- Rod & Refining sales declined 64% to $613 million, due to lower production from the North American Copper Mines segment.
- Atlantic Copper Smelting & Refining sales fell 56% to $292 million, due to lower shipments from the South American Copper Mines segment.

Margins:
- Gross margin compressed 1,229 bps to 38.8% from 51.1% a year ago, due to higher priced copper COGS in the North American Copper Mines segment.
- EBITDA margin declined 1,320 bps to 36.4% from 49.6% a year ago, due to the deterioration in gross margin and lower SG&A leverage.

Unit Production Costs:
Unit net cash costs averaged $0.66/lb, down 38% from $1.06/lb in Q1 08 as a result of curtailed production in some North American copper mining operations and higher copper ore grades mined in Indonesia.
Capex:
Capital expenditures were 2% higher at $519 million, due to near completion of the Tenke Fungurume project in the Democratic Republic of Congo.
Common Shares Public Offering:
On February 12, FCX raised $740 million in the sale of 26.8 million common shares at an average price of $28 per share. The proceeds of the common share offering were used to pay off debt and maintain its working capital.

## Outlook

Q2 2009 Sales Volume:
- Copper sales volume guidance is 955 million pounds, up 1% from the same quarter a year ago.
- Gold sales volume is projected to be 650 thousand ounces, 145% higher than the year-ago quarter.
- Molybdenum sales volume is expected to decline 45% to 11 million pounds vs. last year.

FY 2009 Sales Volume:
- Copper sales volume guidance is 3.9 billion pounds, down 5% from 2008.
- Gold sales volume is projected to be 2.3 million ounces, 109% higher than a year ago.
- Molybdenum sales volume is expected to decline 30% to 50 million pounds vs. last year.

Unit Production Costs:
Unit net cash costs for 2009 are expected to be $0.70/lb.
- North America is expected to incur $1.22/lb in unit net cash costs
- South America is projected to incur $1.05/lb. in unit net cash costs
- Indonesia is expected to have a unit net cash credit of $0.13/lb, due to gold and silver credits that the Indonesian operations earn.

Capex:
Capital expenditures are expected to be $1.3 billion in 2009 and $1.0 billion in 2010.
Tenke Fungurume:
First copper shipment occurred in April from the Tenke Fungurume mine in the Democratic Republic of Congo. The project is expected to ramp up production in H2 09. Annual capacity is projected to be 250 million pounds of copper and 18 million pounds of cobalt, when the project reaches its full operation run-rate.
Debt Maturity:
Only $83 million of debt matures in 2009. Significant debt is not due for repayment until 2015, when $2.5 billion matures.

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