

Freeport Slumps as Inflation Counters Bumper Copper Haul (2)

- Company trims sales guidance and raises cash cost projections
- CEO says Freeport is strongly positioned to tap opportunities

By James Attwood

(Bloomberg) --

Freeport-McMoRan Inc. shares slumped as the top publicly traded copper supplier raised its guidance for costs, taking the shine off last quarter's better-than-expected production and profit.

The Phoenix-based miner lifted its cash cost projections, reflecting broader challenges the industry faces amid soaring prices of energy, transportation and inputs like explosives and sulfuric acid as the war in Ukraine and China's lockdowns exacerbate supply chain disruptions.

The higher cost guidance is "not entirely surprising given external cost pressures, but a headwind nonetheless," BMO Capital Markets analyst David Gagliano wrote in a note to clients.

Freeport's shares fell as much as 7.2% in New York, the steepest intra-day decline in almost three months, trimming a year-to-date gain to 11%.

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The company lowered its sales guidance for this year to 4.25 billion pounds of copper from a previous call of 4.3 billion, and raised its annual cash cost forecast to \$1.44 a pound from \$1.35 and ahead of the average analyst estimate.

Freeport sees the kind of dramatic cost inflation that is affecting miners now as temporary, although "time will tell," Chief Executive Officer Richard Adkerson said on a call with analysts.

For now, cost increases are being offset by higher output and surging prices, translating into bumper profits. Adjusted earnings more than doubled to a better-than-expected \$1.07 a share.

Freeport produced 1 billion pounds of copper in the first quarter, exceeding the 996 million-pound average estimate of six analysts tracked by Bloomberg. The result was well ahead of the same period last year, although slightly below a three-year high clocked in the fourth quarter. Freeport also produced more gold than expected in the quarter.

By topping consensus for production, Freeport may ease lingering concerns over tight supplies of the metal even as Chinese demand prospects dim due to strict pandemic lockdowns. Earlier,

Antofagasta Plc and BHP Group's giant Escondida mine in Chile reported lower copper output, while community protests have disrupted two major mines in Peru.

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Freeport's production growth is being underpinned by a successful ramp-up of underground operations at the Grasberg mine in Indonesia and gains in operations in Peru, where output was restricted in the pandemic.

Sky-high prices and the prospect of strengthening longterm demand for battery metals in a global energy transition, raises the questions of accelerated project development and even dealmaking.

While Freeport is in a strong position to capitalize on growth opportunities that may arise, the company's focus is on developing its own pipeline of projects, Adkerson said. Higher prices are likely in the future as demand growth accelerates and new mines get trickier and pricier to build, he said.