

Freeport Profit Misses Estimates as Indonesia Lags Forecast

- Challenges at Grasberg mine weighed on full-year copper volume
- 2017 sales volume forecast is lower than analysts estimated
- Freeport-McMoRan Inc., the biggest publicly traded copper producer, reported a smaller-than-expected quarterly profit as the commodities producer once again had difficulty accessing high-grade ore at its Indonesian operations.
- Fourth-quarter net income was \$292 million compared with a net loss of \$4.08 billion a year earlier, Phoenix-based Freeport said Wednesday in a statement. Excluding one-time items, the profit was 25 cents a share, missing the 35-cent profit estimated on average by 16 analysts tracked by Bloomberg.
- Freeport's 2016 sales volumes from its flagship Indonesian mine were 1.05 billion pounds of copper and 1.05 million ounces of gold, missing its already lowered October guidance of 1.2 billion pounds of copper and 1.24 million ounces of gold.
- "This was a pretty massive miss on Grasberg," Jeremy Sussman, an analyst with Clarksons Platou Securities Inc., said in a phone interview from New York immediately after the results were released. "It's a difficult operational quarter and there's more questions than answers going into the conference call."
- The lower Indonesian output affected Freeport's full-year production. Full 2016 sales volumes were 4.65 billion pounds of copper and 1.08 million ounces of gold, less than previous guidance for 4.8 billion pounds of copper and 1.26 million ounces of gold.

Sales Miss

- Fourth-quarter sales were also lower than estimated, principally reflecting lower volumes from Indonesia and the impact of the company's November sale of its Tenke Fungurume mine in Democratic Republic of Congo. Excluding the latter, volumes were still 7 percent below the company's October guidance, Freeport said.
- The company said Wednesday it expects consolidated sales to be 4.1 billion pounds of copper and 2.2 million ounces of gold in 2017, lower than average estimates for

4.32 billion pounds of copper and 2.75 million ounces of gold. The guidance assumes Freeport will be allowed to resume concentrate exports from Indonesia in February and will have its smelting export license renewed, the company said.

'Future Investments'

- Freeport has been negotiating with the Indonesian government over the future of its Grasberg mine. Information from the Energy and Mineral Resources Ministry Wednesday suggests Freeport is currently facing a difficult choice. It could stick with its existing so-called Contract of Work, in which case it would no longer be allowed to export concentrates under revamped rules, and it would need to quickly advance plans to build a new smelter within Indonesia to process that material. Or it could convert its Contract to a special mining license, in which case it would be forced to divest 51 percent of its stake in its Indonesia mine.
- As of Wednesday, the Indonesian unit, called PT-FI, had not obtained approval to export concentrate, Freeport said in the statement. Assuming its smelting export license is approved, it will still need to reduce production by 40 percent to meet its current smelting capacity, the company said.
- "Under this scenario, PT-FI would be required to take near-term actions to reduce its workforce, significantly reduce costs and suspend future investments on its underground development projects and new smelter."
- This month the Indonesia Tax Court also issued a ruling against PT-FI for \$376 million in additional taxes and penalties related to surface water taxes between 2011 and 2015, Freeport said. PT-FI expects to challenge the ruling.

Shares Fall

- The earnings miss came despite higher fourth-quarter prices for both copper and gold, which rose 8.7 percent and 10 percent respectively from a year earlier.
- The earnings report was released before the start of regular trading in New York, where Freeport fell 3.6 percent to \$16.41 at 8:18 a.m. The shares rose 29 percent this year before Wednesday and almost doubled last year as the company sold assets to reduce debt and commodity prices increased.

- The key question for Freeport longer-term will be the terms of its continued presence in Indonesia, Matthew Korn, an analyst with Barclays Plc, said by phone before the results were released.
- “What’s going to happen with the divestment projects if it’s true that the Indonesian government wants to get to this 51 percent?” he said.
- The company’s fourth-quarter sales climbed 25 percent to \$4.38 billion from a year earlier, trailing the \$4.44 billion average estimate.
- Freeport expects capital expenditures to be \$1.8 billion in 2017, including \$1.1 billion for major mining projects primarily related to developing underground mines in Indonesia.