

Freeport-McMoRan's chief forecasts copper deals

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Neil Hume, Natural Resources Editor – October 24, 2018

Adkerson says lack of new development and electric car boom a catalyst for M&A

Neil Hume, Natural Resources Editor

Deals in the copper mining industry are almost inevitable as companies scramble to gain access to new deposits, says the head of Freeport-McMoRan, one of the world's biggest producers of the industrial metal.

"We almost have to [see deals] because there is an absence of new development projects," said Richard Adkerson, chief executive.

"For some time now copper has been a strategic objective of every mining company. But the more attractive deposits are owned by companies that don't want to divest them. So that creates an interesting set of dynamics."

Global miners, including BHP Billiton, have said they want to increase their exposure to copper, a commodity that will be in ever-greater demand as the green energy revolution takes hold and it is needed in battery-powered vehicles and their charging points. For the moment they are wary of hitting the acquisition trail, having spent billions of dollars on ill-timed deals during the commodities boom of the 2000s.

However, with a dearth of new projects under development they may have no alternative but to acquire assets as the electric car boom takes off. Chinese mining companies, such as Zijin Mining Group and Citic, are also looking to bulk up in copper.

New York-listed Freeport, which owns a string of copper mines in North and South America, is seen by some analysts as a potential takeover target now that a multiyear battle for control of its giant Grasberg copper mine in Indonesia is almost over.

Its shares have fallen nearly 40 per cent this year, weighed down by fears the US-China trade war could impact global growth and demand for copper. The company has an equity market value of \$17bn.

Freeport is in the final stages of divesting a majority stake in its Indonesian operations to state-owned company known as Inalum. In exchange, Freeport will gain the right to operate Grasberg, the world's second-biggest copper mine, until 2041.

"By having Inalum as partner we think that it will be positive in terms of dealing with everything from government relations, to provincial and employee relations and environmental issues," said Mr Adkerson. "We think it will make Grasberg a more stable operation."

The deal is the consequence of a push by Joko Widodo, Indonesia's president, to control more of its natural resources. Jakarta wants all miners to switch to new licences and build smelters in the country to boost local production.

Although Freeport and Jakarta signed a "definitive agreement" last month, several hurdles remain to clear before the deal is completed. These include antitrust filings with regulators and financing.

Under the deal, Freeport is divesting a less than 10 per cent stake in PTFI, its Indonesian unit, to Inalum, which at the same time is buying Rio Tinto's 40 per cent interest in Grasberg

for \$3.5bn.

There have been worries over Inalum's ability to raise debt financing because of new environmental standards on the disposal of waste material from Grasberg, which sits 4km above sea level among the soaring peaks of Indonesia's eastern Papua province. However, Mr Adkerson is quick to play down those concerns.

"The Environmental Agency has met with us and also we are told with Inalum's bankers and given assurances that those [standards] are going to be amended and dealt with in a way that does not involve significant incremental cost to the operations or disruptions," said Mr Adkerson.*

"With the Grasberg divestment issue largely behind, we expect management to turn its focus towards capital returns . . . and growth opportunities," said Chris Terry, Deutsche Bank analyst in a recent report.

Asked about Freeport's commitment to build a \$3bn copper smelter in Indonesia, Mr Adkerson said the company was studying various funding options and Inalum would also participate.

"Our intention is to form an entity and obtain debt funding for the smelter and we may well have a partnership with PT Amman," he added, referring to the owner of Batu Hijau copper mine in Indonesia. Like Freeport, it also faces an obligation to build a smelter.

Looking ahead, Mr Adkerson said his priorities were to see that the partnership with Inalum was executed "as planned", and stabilise operations at Grasberg, which is transitioning to underground mining.

Technical challenges have slowed the ramp-up of one underground project at Grasberg, while the development a large block cave under the main open pit will not start producing copper until next year.

These issues will be uppermost in the mind of investors when Freeport reports third-quarter results on Wednesday.

"We expect a focus for the quarter will be a progress report on the block cave in the main pit and at the Deep MLZ [project] where production was slowed due to seismic activity," said analysts RBC Capital Markets.

On his future, Mr Adkerson, 71, said he had no plans to retire, pointing out that he was younger than President Donald Trump who "is talking about a second term".

This article has been amended since publication to show that new environment standards are not expected to involve significant costs.