Wheaton Precious Metals

Q4 and FY17 results

A fine finish

Metals & mining

FY17 results were characterised by a record level of gold sales and of dividend payouts to shareholders. Overall, production attributable to Wheaton Precious Metals (WPM) in FY17 was 28.6Moz Ag and 355koz Au cf guidance of 28Moz Ag and 340koz Au and our prior forecast of 28.5Moz Ag and 343koz Au. Results for Q4 were notable for the close correlation of production and sales, demonstrating the traditional 'flush through' effect in the final quarter of the year. Financial results were similarly better than our forecasts (see Exhibit 1, overleaf), partly on account of an increase in gold production compared to Q317, but also on account of a material increase in other income. Nevertheless, excluding this item, Q4 net earnings still exceeded our forecasts by 3.6%.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	891.6	269.8	62	21	31.8	1.1
12/17	843.2	277.4	63	33	31.3	1.7
12/18e	841.3	279.4	63	37	31.2	1.9
12/19e	952.3	402.1	91	42	21.7	2.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Corporate development entering next phase

As at 31 December 2017, WPM had net debt of US$671.5m, which equated to financial gearing (net debt/equity) of 13.7% and leverage (net debt/[net debt+equity]) of 12.1%. All other things being equal, we estimate that WPM's net debt position will have declined organically, to US$351.8m by the end of FY18 and that it will be net debt free in H219/H120. As a result, WPM reports that it is busy from a corporate development perspective, with at least six potential deals that could close within the next 12 months and US$2-3bn of deals that could close within 12-24 months, approximately evenly split between 'development and expansion' projects and corporate 'balance sheet repair'.

Valuation: Investors in line for 40.1% IRR over 2.75yrs

Guidance for FY18 is for production of 22.5Moz Ag and 355koz Au – the variance cf FY17 primarily arising from the expiry of the Primero stream over San Dimas to be replaced by the First Majestic stream. Assuming no material purchases of additional streams (which is unlikely), we forecast a per share value for WPM of US$35.13, or C$45.93 in FY20 (at average precious metals prices of US$25.95/oz Ag and US$1,482/oz Au), implying a 40.1% pa total internal rate of return (IRR) for investors in US dollar terms over the next 2.75 years. These valuations rise by 10.5% to US$38.82, C$50.74 and 44.8% in the event that Vale decides to increase Salobo's processing capacity by 50% to 36Mpa. In the meantime, WPM's shares are trading on near-term financial ratios that are lower than those of its royalty/streaming 'peers' on at least 95% of financial measures considered in Exhibit 9, and the miners themselves in at least 36% of the same measures, despite being associated with materially less operating and cost risk. Additional potential upside still then exists in the form of the optionality provided by the development of major assets such as Pascua-Lama etc.

27 March 2018

Price	**C$25.79**
Market cap	**C$11,418m**
	C$1.3071/US$
Net debt* (US$m) at 31 December 2017 *Ex-dividend	671.5
Shares in issue	442.7m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance

%	1m	3m	12m
Abs	5.9	(6.4)	(4.6)
Rel (local)	8.8	(0.6)	(3.3)
52-week high/low		C$29.3	C$23.4

Business description

Wheaton Precious Metals is the world's pre-eminent pure precious metals streaming company, with c 30 high-quality, precious metals streaming and early deposit agreements relating to assets in Mexico, Peru, Canada, Brazil, Chile, Argentina, Sweden, Greece, Portugal, the US and Guyana.

Next events

First quarterly dividend payment	c 20 April 2018
Q118 results	May 2018
Second quarterly dividend announced	May 2018

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Edison profile page

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Q4 and FY17 in perspective

Overall, production attributable to WPM during FY17 was 28.6Moz Ag and 355koz Au, compared with guidance of 28Moz Ag and 340koz Au and our most recent forecast of 28.5Moz Ag and 343koz Au. Results for Q4 were notable for the close correlation of production and sales, demonstrating the traditional 'flush through' effect in the final quarter of the year. From a financial perspective, results were better than our prior expectations for both Q417 and FY17, partly on account of an increase in gold production compared to the prior quarter, but also on account of a material increase in other income, which largely reflected fees from contract amendments and reconciliations. Excluding this item, Q4 net earnings would otherwise have been US$80.9m (assuming no taxation effect) cf our prior forecast of US$78.1m – a 3.6% positive variance. A summary of WPM's Q4 results, as calculated by Edison, relative to both Q3 and our prior expectations is as follows:

Exhibit 1: Wheaton Precious Metals FY17 forecast, by quarter*

US$000s (unless otherwise stated)	Q117	Q217	Q317	Q417e	Q417	Chg** (%)	Diff*** (%)	FY17e	FY17	Diff**** (%)
Silver production (koz)	6,513	7,192	7,595	7,156	7,211	-5.1	0.8	28,456	28,646	0.7
Gold production (oz)	84,863	78,127	95,897	83,765	96,474	0.6	15.2	342,652	355,104	3.6
AgE production (koz)	12,454	12,898	14,874	13,549	14,572	-2.0	7.6	53,793	54,841	1.9
Silver sales (koz)	5,225	6,369	5,758	7,156	7,292	26.6	1.9	24,508	24,644	0.6
Gold sales (oz)	88,397	71,965	82,548	83,765	94,295	14.2	12.6	326,675	337,205	3.2
AgE sales (koz)	11,412	11,625	12,024	13,549	14,488	20.5	6.9	48,619	49,519	1.9
Avg realised Ag price (US$/oz)	17.45	17.09	16.87	16.72	16.75	-0.7	0.2	17.00	17.01	0.1
Avg realised Au price (US$/oz)	1,208	1,263	1,283	1,276	1,277	-0.5	0.1	1,256	1,257	0.1
Avg realised AgE price (US$/oz)	17.35	17.18	16.89	16.72	16.74	-0.9	0.1	17.01	17.03	0.1
Avg Ag cash cost (US$/oz)	4.54	4.51	4.43	4.51	4.48	1.1	-0.7	4.50	4.49	-0.2
Avg Au cash cost (US$/oz)	391	393	396	395	399	0.8	1.0	394	395	0.3
Avg AgE cash cost (US$/oz)	5.11	4.90	4.84	4.82	4.85	0.2	0.6	4.91	4.92	0.2
Sales	197,951	199,684	203,034	226,540	242,547	19.5	7.1	827,209	843,215	1.9
Cost of sales										
Cost of sales, excluding depletion	58,291	56,981	58,234	65,365	70,295	20.7	7.5	238,871	243,801	2.1
Depletion	63,943	59,772	61,852	68,924	76,813	24.2	11.4	254,491	262,380	3.1
Total cost of sales	122,234	116,753	120,086	134,289	147,108	22.5	9.5	493,362	506,181	2.6
Earnings from operations	75,717	82,931	82,948	92,251	95,439	15.1	3.5	333,846	337,034	1.0
Expenses and other income										
- General and administrative*****	7,898	9,069	8,793	8,500	8,913	1.4	4.9	34,260	34,673	1.2
- Foreign exchange (gain)/loss		41	163	0	66	-59.5	N/A	204	270	32.4
- Net interest paid/(received)	6,373	6,482	6,360	5,686	5,778	-9.2	1.6	24,901	24,993	0.4
- Other (income)/expense	94	283	1,317	0	(10,093)	-866.4	N/A	1,694	(8,399)	-595.8
Total expenses and other income	14,365	15,875	16,633	14,186	4,664	-72.0	-67.1	61,059	51,537	-15.6
Earnings before income taxes	61,352	67,056	66,315	78,065	90,775	36.9	16.3	272,788	285,497	4.7
Income tax expense/(recovery)	128	(556)	(263)	0	(195)	-25.9	N/A	(691)	-886	28.2
Marginal tax rate (%)	0.2	(0.8)	(0.4)	0.0	(0.2)	-50.0	N/A	(0.3)	-0.3	0.0
Net earnings	61,224	67,612	66,578	78,065	90,970	36.6	16.5	273,479	286,383	4.7
Avg no. shares in issue (000s)	441,484	441,784	442,094	442,094	442,469	0.1	0.1	441,864	441,961	0.0
Basic EPS (US$)	0.14	0.15	0.15	0.18	0.21	40.0	16.7	0.62	0.65	4.8
Diluted EPS (US$)	0.14	0.15	0.15	0.18	0.21	40.0	16.7	0.62	0.65	4.8

Source: Wheaton Precious Metals, Edison Investment Research. Note: *As reported, excluding impairments; **Q417 vs Q317; ***Q417 actual vs Q417 estimate; ****FY17 actual vs FY17 estimate; *****Quarterly forecasts exclude stock-based compensation costs.

From an operational perspective, key features of the quarter were strong production performances at Salobo and Penasquito, which both performed above our expectations, and positive sales performances from Penasquito and Sudbury. Combined, these more than offset a slightly less dynamic performance at WPM's 'other' gold assets, reflecting, in particular, reduced production at Minto owing to lower grades on account of mine sequencing as part of an extended mine plan.

- The Salobo plant continued to operate above nameplate capacity for a second consecutive quarter (largely on account of management initiatives, rather than ore characteristics), which resulted in the record quarterly production of copper concentrate and acted to mitigate otherwise lower grades and recovery.

- At Penasquito, by contrast, higher grades and recoveries were complemented by increased throughput as a result of the implementation of a new management operating system and the better delivery of ore to the primary crusher.
- Constancia was similarly affected by lower grade ore (as expected), albeit partially offset by higher throughput and recovery.
- Finally, extended unscheduled maintenance at the Coleman mine resulted in lower throughput at Sudbury, partially offset by higher grades and recovery.

In the longer term, the Pyrite Leach Project at Penasquito (which will add c 1Moz gold and 44Moz silver over the current life of the mine, by recovering 40% Au and 48% Ag currently reporting to the tailings) is reported to be 62% complete (vs 40% at the end of Q317) and is expected to commence commissioning three months ahead of schedule, in Q418.

Pascua-Lama impairment

On 18 January, Barrick (the operator of Pascua-Lama) reported that it had received a revised resolution from Chile's environmental regulator, SMA, requiring it to close its existing infrastructure on the Chilean side of the border. Barrick went on to say that the revised resolution does not affect its ongoing evaluation of an underground, block-caving operation at the mine, which would anyway require additional permitting and regulatory approvals in both Chile and Argentina and are unconnected to SMA's decision. Nevertheless, in the light of the order to close surface facilities, Barrick has reclassified Pascua-Lama's proven and probable mineral reserves of c 14Moz Au (based on an open-pit plan) as measured and indicated resources instead. As a result, WPM has similarly reclassified 151.7Moz of proven and probable silver reserves as measured and indicated resources, which it has interpreted as an 'indicator of impairment' in the sum of US$229m (from US$485m to US$256m).

Note that if the requirements of the Pascua-Lama completion test have not been satisfied by the deadline of 30 June 2020, WPM has the right to terminate its Pascua-Lama silver purchase agreement with Barrick, in which case it would be entitled to the return of its upfront cash payment of US$625m less cashflows received relative to the Lagunas Norte, Veladero and Pierina mines in the meantime – a figure that would have been US$261m as at 31 December 2017 (WPM figure) and we estimate is likely to be in the order of US$255m in 2020.

FY18 outlook

WPM has provided the market with production guidance of 22.5Moz of silver and 355,000oz of gold for FY18. Our updated FY18 production forecasts vary slightly compared to WPM's, as follows:

Exhibit 2: WPM FY18 production guidance

Asset	WPM estimated output (koz)	Edison estimated output (koz)	Prior Edison forecast (koz)	Comment
Silver				
Penasquito	6,500	6,279		vs 6,024koz in FY17.
San Dimas	1,000	1,000		Assumes First Majestic (FR) deal closes end-Q118.
Antamina	5,300	5,120		vs 6,554koz in FY17.
Constancia	2,800	2,705		vs 2,374koz in FY17; mining Pampacancha from H218.
Other	6,900	7,415		Cessation of Cozamin agreement in April 2017; Barrick stream expiry end-Q118.
Total	**22,500**	**22,519**	**22,528**	
Gold				
Salobo	240	234		Slight moderation from record Q417 with grade profile.
Sudbury	33	33		After impairment announced in Q417.
San Dimas	30	32		Three quarters of gold production after FR deal closes.
Constancia	17	17		vs 10koz in FY17; gold production on upward profile.
Other	35	39		vs 47koz in FY17. Lower Minto grades; reduced 777 interest.
Total	**355**	**355**	**313**	

Source: Wheaton Precious Metals, Edison Investment Research. Note: Totals may not add up owing to rounding.

San Dimas

On 12 January, First Majestic (FR, C$8.65) announced that it is to buy Primero Mining (the operator of the San Dimas mine in Mexico, over which WPM holds a silver purchase agreement). As a part of the terms of the (friendly) takeover, WPM has agreed to terminate the existing silver purchase agreement (SPA) and to then enter into a precious metals purchase agreement (PMPA) with the new operator on the following terms, including:

- 25% of gold production plus an additional amount of gold equal to 25% of silver production converted into to gold at a fixed gold:silver ratio of 70:1 (subject to certain adjustments which could render it 50:1 or 90:1 depending on market conditions) from San Dimas cf 6.0Moz plus 50% of any excess previously (to all intents and purposes 100% of silver production in recent quarters).
- For each ounce of gold delivered, WPM will pay a production payment equal to the lesser of US$600/oz, subject to a 1% annual inflationary adjustment and the prevailing market price cf US$4.32/oz Ag in Q317 similarly subject to a 1% annual inflationary adjustment.
- First Majestic will provide a corporate guarantee over the PMPA; security for such will be limited to the San Dimas assets (similar to the guarantee over its SPA with Primero).
- To the extent that ore from certain areas outside the current area of interest is processed through the San Dimas mill, such ore will be subject to the stream.
- WPM has the right of first refusal on certain areas outside the current area of interest.

Under the First Majestic PMPA, San Dimas is expected to contribute, on average, approximately 40-50koz of gold production (equivalent to 2.80-3.15Moz Ag at an Au:Ag ratio of 70:1) annually to WPM over the next five years (company estimate). In addition to the new stream, First Majestic will also issue to WPM 20.9m FR common shares with an aggregate value at the time of the announcement of US$151m (US$168m at the time of writing).

The termination of the existing SPA and the effectiveness of the First Majestic PMPA remain subject to a number of conditions, including completion of the arrangement. In addition, at the time of closing, WPM has agreed to release the guarantee previously provided by Goldcorp under the existing SPA in consideration of a payment of US$10m from the latter. It will also extinguish the US$0.50/oz penalty for each ounce less than 215Moz delivered by 2031.

Primero has indicated that closing of the transaction is anticipated before the end of April. Note that, for the purposes of the analysis below, we have assumed that it will complete on 31 March and that Q118 of WPM's financial year will therefore be governed by the existing SPA and that the new PMPA will then become effective thereafter.

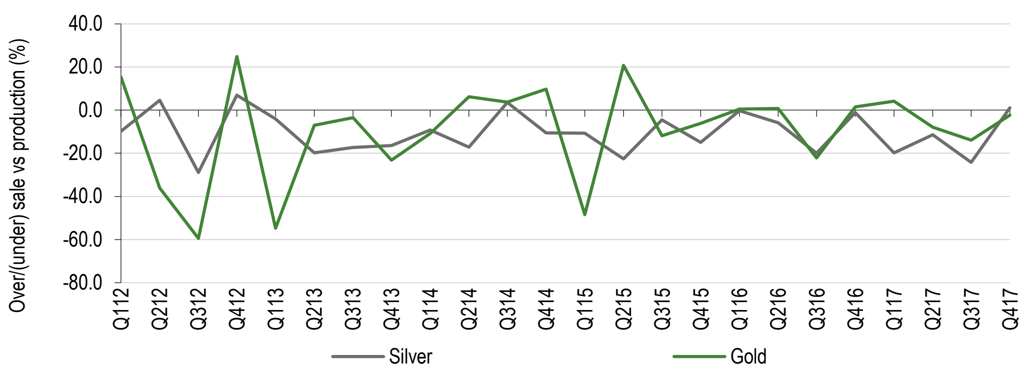
General and administrative expenses

WPM is forecasting non-stock general and administrative expenses in the range of US$34-36m for the full year, ie c US$8.5-9.0m per quarter, including all employee-related expenses, charitable contributions and additional legal costs relating to WPM's dispute with the Canadian Revenue Agency. Investors should note that our financial forecasts in Exhibits 6 and 10 exclude stock-based compensation costs.

Ounces produced but not yet delivered – aka inventory

Compared to an erstwhile 11.0% average historical under-sale of silver relative to production and a 9.5% historical under-sale of gold, production and sales of both silver and gold were closely aligned in Q417, demonstrating, among other things, the traditional 'flush through' effect in the final quarter. Note that this compares to under-sales of silver and gold of 24.2% and 13.9%, respectively, in Q317.

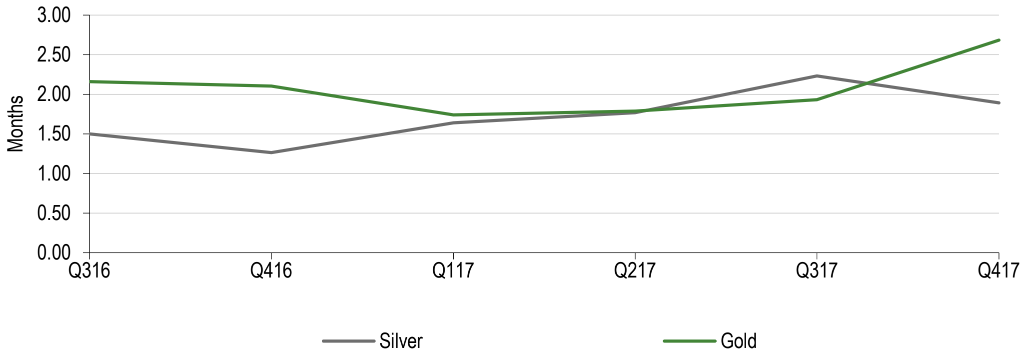
Exhibit 3: Over/(under) sale of silver and gold as a % of production, Q112-Q417



Source: Edison Investment Research, WPM

As at 31 December, payable ounces attributable to WPM produced but not yet delivered amounted to 4.5Moz silver and 79,500oz gold (cf 5.3Moz silver and 57,200oz gold reported in September). This 'inventory' equates to 1.89 months and 2.68 months of FY17 silver and gold production, respectively (cf 2.23 months and 2.00 months in Q317), or 2.31 months on a silver equivalent basis (cf 2.15 months as at end-September) and compares with WPM's target level of two months of annualised production for silver and two to three months for gold.

Exhibit 4: WPM oz produced but not yet delivered, Q316-Q417 (months of production)



Source: Edison Investment Research, Wheaton Precious Metals

Note that, for these purposes, the use of the term 'inventory' reflects ounces produced by WPM's operating counterparties at the mines over which it has streaming agreements, but which have not yet been delivered to WPM. It in no way reflects the other use of the term in the mining industry itself, where it is typically refers to metal in circuit (among other things), and may therefore (under certain circumstances) be considered to be a consequence of metallurgical recoveries in the plant.

Solid medium-term outlook

Over the next five years, including FY18, management estimates average annual production of approximately 25Moz of silver and 370,000oz of gold (cf 29Moz of silver and 340,000oz of gold in March 2017 – the difference being substantially accounted for by the First Majestic takeover of Primero and the termination of the existing San Dimas silver purchase agreement in favour of a new precious metals purchase agreement). This compares with our current expectations, which are, on average, 7.2% more conservative than guidance (simple average):

Exhibit 5: Edison forecast WPM precious metals production

	FY18e	FY19e	FY20e	FY21e	FY22e
Silver production (Moz)	22.5	22.3	23.0	23.9	23.7
Gold production (koz)	355	362	337	333	339

Source: Edison Investment Research.

In the immediate future, silver output from Penasquito attributable to Wheaton Precious is expected to recover back to its steady-state level of 7Moz as the Chile Colorado pit contributes to mill feed ahead of schedule in CY18 and grades improve once again with mine sequencing. From Q418 onwards, it will also benefit from the development of the Pyrite Leach Project, which will add an additional 1.0-1.5Moz of silver attributable to WPM per year. At the same time, mining at Constancia will start at the Pampacancha pit, which hosts significantly higher gold grades than those mined hitherto. Moreover, should the mining of Pampacancha be delayed, WPM will still be entitled to an increased portion of gold from Hudbay.

Apart from exploration success, however, the other major source of organic production growth for WPM is Salobo (which already accounts for 74-79% of WPM's gold division's output). The operator, Vale, is studying expansion scenarios and is deploying four drill rigs to test the deposit at depth. Given the open-ended nature of the deposit and depending on the work that Vale does and the decision that it makes, any expansion could add as much as 100% to gold output attributable to Wheaton Precious from Salobo per year – albeit at the cost of an additional payment from WPM. Mill throughput at the Salobo mine is currently reported to be running in excess of its 24Mtpa nameplate capacity. If throughput capacity is expanded within a predetermined period and depending on the grade of material processed, WPM will be required to make an additional payment to Vale regarding its 75% gold stream. The additional payments range in size from US$113m if throughput is expanded beyond 28Mtpa by 1 January 2036, to US$953m if throughput is expanded beyond 40Mtpa by 1 January 2021.

Potential future stream acquisitions

WPM estimates the size of the potential market open to it to be the 70% of global silver production of c 870Moz in FY17 that is produced as a by-product of either gold or base metals mines (ie approximately 609Moz silver per year). This compares with WPM's production of 28.6Moz Ag in FY17 – ie WPM estimates that it has penetrated a mere c 5.0% of its potential market.

As a consequence, WPM reports that it is busy on the corporate development front, with at least six potential deals that could close within the next 12 months and US$2-3bn of deals that could close within 12-24 months, approximately equally split between 'development and expansion' projects and corporate 'balance sheet repair'.

While it is difficult, or impossible, to predict potential future stream acquisition targets with any degree of certainty, it is perhaps possible to highlight four that may be of interest to WPM in due course and regarding which it already has strong, existing counterparty relationships:

- The 75% of the silver output at Penasquito that is currently not subject to any streaming arrangement.
- The platinum group metal (PGM) by-product stream at Sudbury.
- The 75% of the silver output at Pascua-Lama that is currently not subject to any streaming arrangement (subject to permitting and development).
- The 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

FY18 by quarter

We have honed our silver price for FY18 to US$16.75/oz in Q1, followed by US$16.50/oz thereafter to reflect recent movements in the spot market. Our gold price forecast remains unchanged at US$1,320/oz over all four quarters.

In the aftermath of these changes, our updated basic EPS forecast for FY18 remains ostensibly unchanged, at US$0.63/sh cf an average consensus estimate (source: Bloomberg) of 61.8c within a range 49-77c (cf a consensus of 64.5c, within a range 49-80c, in February). Broken down by quarter, our estimates are as follows:

Exhibit 6: Wheaton Precious Metals FY18 forecast, by quarter*

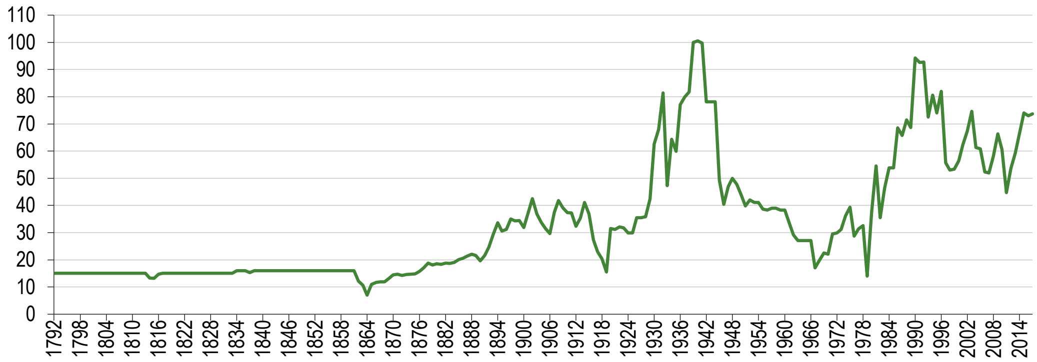
US$000s (unless otherwise stated)	Q118e	Q218e	Q318e	Q418e	FY18e (current)	FY18e (previous)
Silver production (koz)	6,736	5,261	5,261	5,261	22,519	22,528
Gold production (oz)	80,670	91,295	91,295	91,295	354,555	312,517
AgE production (koz)	13,093	12,565	12,565	12,565	50,787	46,794
Silver sales (koz)	6,736	5,261	5,261	5,261	22,519	22,528
Gold sales (oz)	80,670	91,295	91,295	91,295	354,555	312,517
AgE sales (koz)	13,093	12,565	12,565	12,565	50,787	46,794
Avg realised Ag price (US$/oz)	16.75	16.50	16.50	16.50	16.57	17.00
Avg realised Au price (US$/oz)	1,320	1,320	1,320	1,320	1,320	1,320
Avg realised AgE price (US$/oz)	16.75	16.50	16.50	16.50	16.56	17.00
Avg Ag cash cost (US$/oz)	4.62	4.58	4.58	4.58	4.59	4.54
Avg Au cash cost (US$/oz)	396	420	420	420	414	416
Avg AgE cash cost (US$/oz)	4.82	4.97	4.97	4.97	4.93	4.96
Sales	219,314	207,317	207,317	207,317	841,266	795,500
Cost of sales						
Cost of sales, excluding depletion	63,077	62,407	62,407	62,407	250,299	232,283
Depletion	66,575	64,778	64,778	64,778	260,910	235,556
Total cost of sales	129,651	127,186	127,186	127,186	511,209	467,840
Earnings from operations	89,662	80,131	80,131	80,131	330,056	327,660
Expenses and other income						
- General and administrative**	8,750	8,750	8,750	8,750	35,000	34,000
- Foreign exchange (gain)/loss					0	0
- Net interest paid/(received)	3,911	3,911	3,911	3,911	15,645	16,079
- Other (income)/expense					0	0
Total expenses and other income	12,661	12,661	12,661	12,661	50,645	50,079
Earnings before income taxes	77,001	67,470	67,470	67,470	279,411	277,581
Income tax expense/(recovery)					0	0
Marginal tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	77,001	67,470	67,470	67,470	279,411	277,581
Ave. no. shares in issue (000s)	442,469	442,469	442,469	442,469	442,469	442,094
Basic EPS (US$)	0.17	0.15	0.15	0.15	0.63	0.63
Diluted EPS (US$)	0.17	0.15	0.15	0.15	0.63	0.63
DPS (US$)	0.09	0.10	0.09	0.09	0.37	0.37

Source: WPM, Edison Investment Research. Note: *Excluding impairments. **Forecasts exclude stock-based compensation costs. Totals may not add up owing to rounding.

Note that, as a result of the conversion of the San Dimas stream from a silver one to (effectively) a gold one, we expect WPM to become a majority gold streaming company from 31 March onwards on an annual basis (albeit there will inevitably be some quarterly fluctuations depending upon the balance of production, sales etc).

In the meantime, our FY19 EPS forecast was made on the basis of assumed precious metals prices of US$22.21/oz Ag and US$1,263/oz Au (see our report, *Mining overview, Unlocking the price to NPV discount*, published in November 2017) – as much to demonstrate WPM's operational gearing to a normalisation of the gold:silver ratio from its current, unprecedented, level of over 80x:

Exhibit 7: Gold price as a multiple of silver price, 1792-2017



Source: Edison Investment Research (underlying data South African Chamber of Mines, Bloomberg and www.kitco.com)

Miscellaneous

Kutcho

WPM has an early deposit agreement with the Kutcho Copper Corporation (formerly Desert Star, market cap C$23.9m) whereby it will advance to it US$65m in instalments (upon achieving a predetermined set of milestones) in return for the right to purchase 100% of the silver and gold production from the Kutcho project in British Columbia at 20% of the spot price of the metals over the life of the mine. In the meantime, on 14 December, WPM acquired 6,153,846 shares and half warrants in Kutcho for a total consideration of C$4m (US$3m) to give it a 12.88% equity stake in the company. Additionally, it advanced Kutcho US$16m (C$20m) in exchange for a subordinated secured convertible term debt loan agreement receivable, bearing interest at a rate of 10% per annum.

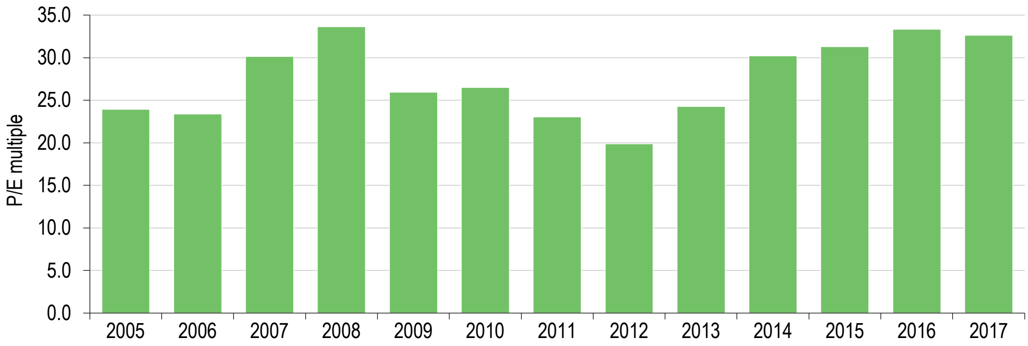
Minto

As of 2 February 2018, Minto's operator, Capstone, has agreed to sell the mine to Pembridge Resources (a UK-listed company run by David Linsley, formerly of Behre Dolbear). According to Capstone's Q417 management discussion and analysis, at the start of 2017, it was its intention to place Minto on 'care and maintenance' at the end of the year. On account of the rising copper price however, it reconsidered its position and instead decided to continue operations until at least mid-2021 (cf our expectation of 2022).

Valuation and sensitivities

Excluding FY04 (part year), WPM's shares have historically traded on a contemporary average P/E multiple of 27.6x current year basic underlying EPS, ie excluding impairments (cf 31.2x Edison or 31.8x consensus FY18e, currently – see Exhibit 9).

Exhibit 8: WPM's historic current year P/E multiples



Source: Edison Investment Research.

Applying this multiple to our EPS forecast of US$1.28 in FY20 (cf US$1.40 previously as a result of the presumed deferment of production from Rosemont until after FY20) implies a potential share value for WPM shares of US$35.13, or C$45.93 (cf US$37.90, or C$47.18 previously) in that year (excluding the US$0.38/share value of its equity interest in First Majestic).

In the meantime, from a relative perspective, it is notable that WPM is cheaper than its royalty/streaming 'peers' in at least 95% (23 out of 24) of the valuation measures used in Exhibit 9 and on multiples that are cheaper than the miners themselves in at least 36% (33 out of 90) of the same valuation measures, despite being associated with materially less operational and cost risk (as WPM's costs over time are contractually predetermined)

Exhibit 9: WPM comparative valuation vs a sample of operating and royalty/streaming companies

	P/E (x)		Yield (%)		P/CF (x)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Royalty companies						
Franco-Nevada	60.6	52.7	1.4	1.4	25.6	22.8
Royal Gold	49.1	39.2	1.2	1.2	19.4	17.1
Sandstorm Gold	72.0	46.5	0.0	0.0	17.2	13.7
Osisko	68.0	37.4	1.4	1.6	23.3	16.9
Average	**62.4**	**43.9**	**1.0**	**1.1**	**21.4**	**17.6**
Wheaton Precious (Edison forecasts)	**31.2**	**21.7**	**1.9**	**2.1**	**15.8**	**13.5**
WPM (consensus)	**31.8**	**27.2**	**1.7**	**2.1**	**15.5**	**14.3**
Gold producers						
Barrick	15.4	16.2	0.9	0.9	5.3	5.6
Newmont	26.2	23.2	1.5	1.4	9.0	8.8
Goldcorp	29.4	19.9	0.6	0.6	8.2	6.6
Newcrest	37.5	16.5	1.1	1.7	11.3	8.0
Kinross	23.9	24.7	0.0	3.4	4.5	4.4
Agnico-Eagle	61.4	41.5	1.1	1.1	12.6	11.2
Eldorado	38.0	14.8	0.6	0.8	9.4	5.8
Yamana	26.8	14.7	0.8	0.8	4.4	3.7
Randgold Resources	22.7	21.4	4.1	4.4	12.7	12.2
Average	**31.3**	**21.4**	**1.2**	**1.7**	**8.6**	**7.4**
Silver producers						
Hecla	151.4	26.0	0.2	0.2	9.4	6.3
Pan American	19.8	19.2	0.8	1.0	9.2	8.6
Coeur Mining	N/A	21.3	0.0	0.0	11.3	6.1
First Majestic	112.5	36.1	0.0	0.0	10.8	7.3
Hocschild	32.5	18.4	1.2	1.7	5.7	5.0
Fresnillo	23.9	21.3	2.1	2.3	14.1	12.9
Average	**68.0**	**23.7**	**0.7**	**0.9**	**10.1**	**7.7**

Source: Bloomberg, Edison Investment Research. Note: Peers priced on 20 March 2018.

Sensitivities

Currently, we make no provision for either future expansion at Salobo or related expansion payments in our long-term forecasts. However, in the event that Salobo were to be expanded from 24Mtpa to 36Mtpa by the addition of a further 12Mtpa processing line by 1 January 2023 – thereby attracting an estimated c US$603m incremental payment from WPM to Vale – we estimate that it would increase our estimate of WPM's earnings by a material c US$0.11 (or 15.0%) per share from the date of successful expansion. This, in turn, would increase our forecast value per share for the company to US$38.82, or C$50.74 at prevailing FX rates (excluding the US$0.38/share value of its equity interest in First Majestic), implying an internal rate of return to investors buying WPM shares currently at C$25.79, equivalent to 44.8% pa in US dollar terms.

Financials – solid equity base

As at 31 December 2017, WPM had US$98.5m in cash (ex-dividend) and US$770.0m of debt outstanding under its US$2bn revolving credit facility (which attracts an interest rate of Libor plus 120-220bp and matures in February 2022), such that it had net debt of US$671.5m overall, after US$165.1m (US$0.37/share) of cash inflows from operating activities during the quarter. Relative to the company's equity, this level of net debt equated to a financial gearing (net debt/equity) ratio of 13.7% and a leverage (net debt/[net debt+equity]) ratio of 12.1%. It also compares with a net debt position of US$784.1m as at 30 September and US$1,068.7m as at the end of December 2016, and is consistent with WPM continuing to sustainably generate c US$100-150m per quarter from operating activities before financing and investing activities. Otherwise, assuming the operational performance set out in Exhibit 6, we estimate that WPM's net debt position will have declined organically, to US$351.8m by the end of FY18 (equating to gearing of 7.0% and leverage of 6.6%), and that WPM will be net debt free early in FY20 (or in H219 if WPM's First Majestic shares are treated as cash), all other things being equal and contingent on its making no further major acquisitions (which is unlikely). Self-evidently, such a level of debt is well within the tolerances required by its banking covenants that:

- net debt should be no more than 0.75x tangible net worth (which was US$4,8997m as at end-December 2017); and
- interest should be no less than 3x covered by EBITDA (we estimate that net interest was covered 22.7x in FY17).

Note that the C$191.7m letter of guarantee that WPM has posted re 50% of the disputed taxes relating to its dispute with the CRA (see below) has been determined under a separate agreement and is therefore specifically excluded from calculations regarding WPM's banking covenants.

Canadian Revenue Agency

There have been no further substantive developments regarding WPM's dispute with the Canadian Revenue Agency (CRA) since our update note of 15 February 2016.

WPM notes that the CRA's position is that the transfer pricing provisions of the Income Tax Act (Canada) in relation to income earned by WPM's foreign subsidiaries should apply "such that the income of Silver Wheaton [sic] subject to tax in Canada should be increased by an amount equal to substantially all of the income earned outside of Canada by the company's foreign subsidiaries for the 2005-2010 taxation years". Should this interpretation be upheld, we would expect it to have potentially profound consequences for Canada's status as a supplier of finance and capital to overseas destinations in general (ie not just for the mining industry).

In 2017, WPM's CEO, Randy Smallwood, was quoted as saying that the company is willing to settle its tax dispute with the CRA via a payment of C$5-10m "with gritted teeth", but still believes no payment should be required. As such, the C$5-10m quoted should not be interpreted as an admission of guilt, but rather an appreciation of the costs involved in going to a full trial and also of the effect that the issue is having on WPM's share price rating relative to its peers (see Exhibit 9).

In the meantime, WPM is now nearing the end of the case 'discovery process' with the CRA, designed to provide both sides with the opportunity to arrive at an out-of-court settlement before formal proceedings commence. If a 'principled' settlement cannot be reached, however, the company has stated that it is willing to go to trial, which would be likely to be towards the middle of this year.

Exhibit 10: Financial summary

US$'000s	2012	2013	2014	2015	2016	2017	2018e	2019e
Dec	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	849,560	706,472	620,176	648,687	891,557	843,215	841,266	952,338
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(243,801)	(250,299)	(264,230)
Gross Profit	732,071	567,120	469,079	458,473	637,123	599,414	590,967	688,108
EBITDA	701,232	531,812	431,219	426,236	602,684	564,741	555,967	653,108
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	293,982	302,361	295,056	410,320
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	0	0	(68,151)	(384,922)	(71,000)	(228,680)	0	0
Other	788	(11,202)	(1,830)	(4,076)	(4,982)	8,129	0	0
Operating Profit	600,791	376,457	201,058	(161,343)	218,000	81,810	295,056	410,320
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(15,645)	(8,196)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	269,789	277,368	279,411	402,124
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	193,807	56,817	279,411	402,124
Tax	(14,755)	5,121	1,045	3,391	1,330	886	0	0
Profit After Tax (norm)	586,036	375,495	267,977	222,880	266,137	286,383	279,411	402,124
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	195,137	57,703	279,411	402,124
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.5	442.0	442.5	442.5
EPS - normalised (c)	166	106	75	53	62	63	63	91
EPS - normalised and fully diluted (c)	165	105	74	53	62	63	63	91
EPS - (IFRS) (c)	166	106	56	(-41)	45	13	63	91
Dividend per share (c)	35	45	26	20	21	33	37	42
Gross Margin (%)	86.2	80.3	75.6	70.7	71.5	71.1	70.2	72.3
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.6	67.0	66.1	68.6
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.0	35.9	35.1	43.1
BALANCE SHEET								
Fixed Assets	2,403,958	4,288,557	4,309,270	5,526,335	6,025,227	5,579,898	5,390,988	5,220,200
Intangible Assets	2,281,234	4,242,086	4,270,971	5,494,244	5,948,443	5,454,106	5,265,196	5,094,408
Tangible Assets	1,347	5,670	5,427	12,315	12,163	30,060	30,060	30,060
Investments	121,377	40,801	32,872	19,776	64,621	95,732	95,732	95,732
Current Assets	785,379	101,287	338,493	105,876	128,092	103,415	422,061	809,498
Stocks	966	845	26,263	1,455	1,481	1,700	1,510	1,710
Debtors	6,197	4,619	4,132	1,124	2,316	3,194	2,305	2,609
Cash	778,216	95,823	308,098	103,297	124,295	98,521	418,246	805,180
Other	0	0	0	0	0	0	0	0
Current Liabilities	(49,458)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(24,712)	(26,086)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(24,712)	(26,086)
Short term borrowings	(28,560)	0	0	0	0	0	0	0
Long Term Liabilities	(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(771,506)	(771,506)	(771,506)
Long term borrowings	(21,500)	(998,136)	(998,518)	(1,466,000)	(1,193,000)	(770,000)	(770,000)	(770,000)
Other long term liabilities	(11,305)	(4,028)	(4,338)	(2,908)	(1,274)	(1,506)	(1,506)	(1,506)
Net Assets	3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	4,899,664	5,016,831	5,232,106
CASH FLOW								
Operating Cash Flow	720,209	540,597	434,582	435,783	608,503	564,187	569,614	653,978
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(15,645)	(8,196)
Tax	(725)	(154)	(204)	(208)	28	(326)	0	0
Capex	(641,976)	(2,050,681)	(146,249)	(1,791,275)	(805,472)	(19,633)	(72,000)	(72,000)
Acquisitions/disposals	0	0	0	0	0	0	0	0
Financing	12,919	58,004	6,819	761,824	595,140	1,236	0	0
Dividends	(123,852)	(160,013)	(79,775)	(68,593)	(78,708)	(121,934)	(162,244)	(186,849)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	295,298	398,537	319,725	386,934
Opening net debt/(cash)	(761,581)	(728,156)	902,313	690,420	1,362,703	1,068,705	671,479	351,754
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	0	(12,139)	(1,003)	(5,724)	(1,300)	(1,311)	0	0
Closing net debt/(cash)	(728,156)	902,313	690,420	1,362,703	1,068,705	671,479	351,754	(35,180)

Source: Company sources, Edison Investment Research

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