Wheaton Precious Metals

Q2 results

Q218 results in line with expectations

Metals & mining

Wheaton Precious Metals' (WPM) Q218 results were closely in line with our forecasts in terms of production, sales, prices and financial results, with better than expected performances at Salobo, in particular, but also San Dimas (gold) and Antamina offsetting weakness at Sudbury, in particular, and also Minto and 777. Somewhat unusually for a second quarter, sales correlated closely with production.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	891.6	269.8	62	21	29.4	1.2
12/17	843.2	277.4	63	33	28.9	1.8
12/18e	811.5	240.5	54	35	33.5	1.9
12/19e	1,013.0	361.9	82	42	22.3	2.3

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

US$246m exceptional profit in Q218

In addition to the normal course of its business, WPM booked an exceptional profit in Q218, relating to the evolution of its silver purchase agreement at San Dimas into a precious metals purchase agreement (PMPA), following the takeover of Primero (San Dimas's erstwhile operator) by First Majestic. While the majority of the gain could be attributed to non-cash accounting entries, WPM nevertheless also received 20.9m near-cash shares in First Majestic, with a value of C$153.5m, or US$120.2m, on 10 May, under the terms of the new PMPA.

Precious metals prices under scrutiny

Our forecasts for WPM for FY18 have been conducted at gold, silver and palladium prices of US$1,225/oz, US$15.49 and US$914/oz, respectively for Q3 and Q418, compared with actual prices at the time of writing of US$1,182/oz (a 3.5% negative variance), US$14.50/oz (a 6.4% negative variance) and US$836/oz (an 8.5% negative variance). In the event that these prices prevail in H218, we estimate that it would reduce our basic EPS forecasts by c 4 US cents per share to US$0.50/share.

Valuation: 26.3% IRR implied over 3.5 years

Assuming no material purchases of additional streams, we forecast a per-share value for WPM of US$33.00, or C$43.25 in FY21 at average precious metals prices of US$25.19/oz Ag and US$1,437/oz Au. This valuation excludes the value of 20.9m shares in First Majestic held by WPM, with an immediate value of C$153.5m, or US$0.27 per WPM share. It also implies a 26.3% pa total internal rate of return for investors in US dollar terms over the next 3.5 years. In the meantime, WPM's shares are trading on near-term financial ratios that are cheaper than those of its royalty/streaming 'peers' in 91% of financial measures considered in Exhibit 8, and the miners themselves in at least 37% of the same measures, despite being associated with materially less operating and cost risk. Additional potential upside still exists in the form of the optionality provided by the development (or further development) of major assets such as Salobo, Navidad.

21 August 2018

Price	**C$24.13**
Market cap	**C$10.7bn**
	C$1.3105/US$
Net debt* (US$m) at 30 June 2018 *Cum-dividend of US$39.9m	863.8
Shares in issue	443.2m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance

%	1m	3m	12m
Abs	(16.5)	(12.7)	0.7
Rel (local)	(15.5)	(13.6)	(7.3)
52-week high/low		C$29.7	C$23.2

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

Q3 dividend payment	13 September 2018
Q318 results	November 2018
Fourth quarterly dividend announced	November 2018

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Edison profile page

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Investment summary

WPM's production, sales and costs were all very close to our prior expectations in Q218. In addition, there was a close correlation between production and sales, with the result that financial results (excluding a US$246m exceptional gain relating to the revised terms of the San Dimas stream) were also very close to our expectations:

Exhibit 1: Wheaton Precious Metals Q218 results cf Q118 and Q218e, by quarter*

US$000s (unless otherwise stated)	Q117	Q217	Q317	Q417	Q118	Q218e	Q218	Chg** (%)	Diff*** (%)	Diff*** (units)
Silver production (koz)	6,513	7,192	7,595	7,211	7,428	6,059	6,091	-18.0	0.5	32
Gold production (oz)	84,863	78,127	95,897	96,474	79,657	85,413	85,292	7.1	-0.1	-121
Palladium production (koz)	0	0	0	0	0	0	0	N/A	N/A	0
Silver sales (koz)	5,225	6,369	5,758	7,292	6,343	6,059	5,972	-5.8	-1.4	-87
Gold sales (oz)	88,397	71,965	82,548	94,295	69,973	85,413	87,140	24.5	2.0	1,727
Palladium sales (koz)	0	0	0	0	0	0	0	N/A	N/A	0
Avg realised Ag price (US$/oz)	17.45	17.09	16.87	16.75	16.73	16.53	16.52	-1.3	-0.1	0
Avg realised Au price (US$/oz)	1,208	1,263	1,283	1,277	1,330	1,306	1,305	-1.9	-0.1	-1
Avg realised Pd price (US$/oz)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Avg Ag cash cost (US$/oz)	4.54	4.51	4.43	4.48	4.49	4.51	4.54	1.1	0.7	0
Avg Au cash cost (US$/oz)	391	393	396	399	399	407	407	2.0	0.0	0
Avg Pd cash cost (US$/oz)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sales	197,951	199,684	203,034	242,547	199,252	211,693	212,400	6.6	0.3	707
Cost of sales										
Cost of sales, excluding depletion	58,291	56,981	58,234	70,295	56,414	62,111	62,580	10.9	0.8	469
Depletion	63,943	59,772	61,852	76,813	57,265	62,937	62,494	9.1	-0.7	-443
Total cost of sales	122,234	116,753	120,086	147,108	113,679	125,048	125,074	10.0	0.0	26
Earnings from operations	75,717	82,931	82,948	95,439	85,573	86,644	87,326	2.0	0.8	682
Expenses and other income										
- General and administrative****	7,898	9,069	8,793	8,913	9,757	8,750	11,972	22.7	36.8	3,222
- Foreign exchange (gain)/loss		41	163	66	-170		26	-115.3	N/A	26
- Net interest paid/(received)	6,373	6,482	6,360	5,778	5,591	5,751	5,659	1.2	-1.6	-92
- Other (income)/expense	94	283	1,317	(10,093)	2,757		466	-83.1	N/A	466
Total expenses and other income	14,365	15,875	16,633	4,664	17,935	14,501	18,123	1.0	25.0	3,622
Earnings before income taxes	61,352	67,056	66,315	90,775	67,638	72,143	69,203	2.3	-4.1	-2,940
Income tax expense/(recovery)	128	(556)	(263)	(195)	-485		-3,224	564.7	N/A	-3,224
Marginal tax rate (%)	0.2	(0.8)	(0.4)	(0.2)	-0.7	0.0	-4.7	571.4	N/A	-4.7
Net earnings	61,224	67,612	66,578	90,970	68,123	72,143	72,427	6.3	0.4	284
Avg no. shares in issue (000s)	441,484	441,784	442,094	442,469	442,728	442,728	443,191	0.1	0.1	463
Basic EPS (US$)	0.14	0.15	0.15	0.21	0.15	0.16	0.16	6.7	0.0	0.00
Diluted EPS (US$)	0.14	0.15	0.15	0.21	0.15	0.16	0.16	6.7	0.0	0.00
DPS (US$)	0.07	0.07	0.10	0.09	0.09	0.09	0.09	0.0	0.0	0.00

Source: Wheaton Precious Metals, Edison Investment Research. Note: *As reported, excluding exceptional items. **Q218 vs Q118. ***Q218 actual vs Q218 estimate. ****Quarterly forecasts exclude stock-based compensation costs.

From an operational perspective, key features of the quarter were stronger production performances than expected by Edison at Salobo, Antamina (notwithstanding mine sequencing) and San Dimas's gold stream, offset by slightly weaker performances at Sudbury (partly as a result of the unscheduled maintenance shutdown at the Coleman mine from November 2017 to April 2018), Penasquito (as a result of the transition from Phase 5D of the Penasco pit to Phase 6D), 777 and Minto (partially on account of another quarter of lower grades owing to rescheduled mine sequencing as part of an extended mine plan).

In the meantime, construction of 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 that currently report to the tailings) is now reported to have been completed (vs 86% at end Q118, 62% at the end of FY17 and 40% at the end of Q317). As a consequence, commissioning has been accelerated into the current (third) quarter – two quarters ahead of the original timeframe – with the result that the operator, Goldcorp, has modified the production plan for the third quarter with lower than planned mill throughput and low mill head grades, exclusively from the surface stockpile, to accommodate the commissioning of the new circuit. However, any production shortfall in Q3 is anticipated to be recouped in Q4 when the mine will re-sequence to higher grades and mill tonnage following the commissioning.

Exceptional gain

On 10 May, First Majestic (FR, C$9.25) announced that it had concluded its deal to buy Primero Mining (the then operator of the San Dimas mine in Mexico, over which WPM held a silver purchase agreement). As part of the terms of the (friendly) takeover, WPM agreed to terminate the existing silver purchase agreement (SPA) and then to enter into a PMPA with the new operator.

In our note, Majestic, published in February 2018, we calculated a net present value of the cash flows to WPM from San Dimas for the period FY18–33 of US$252.9m under the terms of the new PMPA at our long-term precious metals prices and customary 10% discount rate for mining companies (or US$346.9m at a 5% discount rate to reflect the lower risk attached to streaming cash flows compared to mining cash flows). This compared to a carrying value of the San Dimas stream of US$132.9m as at 31 March 2018. In conjunction with the FR shares issued to WPM under the terms of the transaction (20.9m at C$7.34/share for an aggregate value of C$153.5m, or US$120.2m, on 10 May), this suggested an exceptional profit for WPM of US$240.2m on closing the transaction, which compares to an actual gain recorded in WPM's Q2 accounts of US$245.7m.

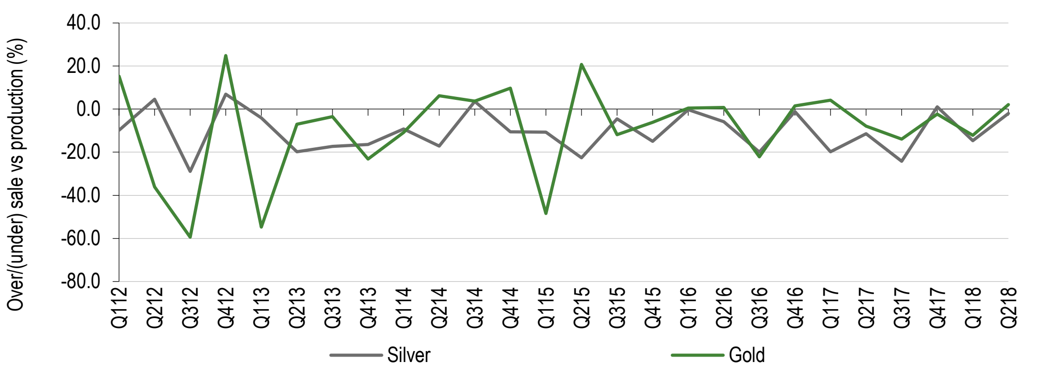
General and administrative expenses

WPM is continuing to forecast 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 (CRA). Investors should note that our financial forecasts in Exhibits 5 and 9 exclude stock-based compensation costs.

Ounces produced but not yet delivered – aka inventory

Production and sales of both gold and silver were closely correlated in Q118, with only a 2.0% under-sale of silver (cf a long-term average of 10.7%) largely offset by a 2.2% over-sale of gold (cf a long-term average of 9.3%) relative to production:

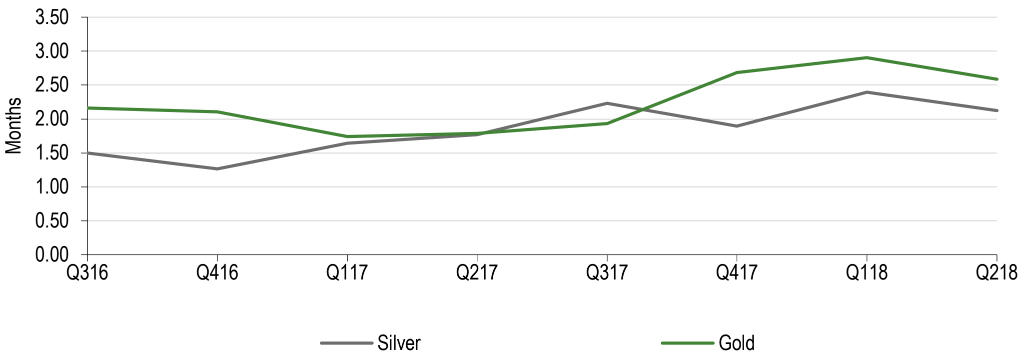
Exhibit 2: Over/(under) sale of silver and gold as a % of production, Q112–Q218



Source: Edison Investment Research, Wheaton Precious Metals

As at 30 June, payable ounces attributable to WPM produced but not yet delivered amounted to 4.3Moz silver and 75,600oz gold (cf 4.8Moz silver and 84,400oz gold reported in March). This 'inventory' equates to 2.12 months and 2.59 months of forecast FY18 silver and gold production, respectively (cf 2.48 months and 2.88 months in Q417) and compares with WPM's target level of two months of annualised production for silver, and two to three months of annualised gold production.

Exhibit 3: WPM ounces produced but not yet delivered, Q316–Q218 (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 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.

Medium-term outlook

WPM has reconfirmed its estimated attributable production forecast for 2018 of c 355koz of gold, 22.5Moz of silver and 10,400oz of palladium. Estimated average annual attributable production over the next five years is anticipated to be approximately 385,000oz of gold, 25.0Moz of silver, 27,000oz of palladium and (from FY21) 2.1Mlbs of cobalt per annum. These compare with our expectations, as follows:

Exhibit 4: Edison forecast WPM precious metals production

	FY18e	FY19e	FY20e	FY21e	FY22e
Previous					
Silver production (Moz)	24.0	22.3	23.0	23.9	23.7
Gold production (koz)	351	385	352	348	353
Cobalt production (klbs)	0	0	0	2,100	2,100
Palladium production (koz)	10.4	27	27	27	27
Current					
Silver production (Moz)	24.0	22.7	23.0	23.9	23.7
Gold production (koz)	351	385	352	348	353
Cobalt production (klbs)	0	0	0	2,100	2,100
Palladium production (koz)	10.4	27	27	27	27
Guidance					
Silver production (Moz)	22.5	25.0	25.0	25.0	25.0
Gold production (koz)	355	385	385	385	385
Cobalt production (klbs)	0	0	0	2,100	2,100
Palladium production (koz)	10.4	27	27	27	27

Source: Edison Investment Research

In the immediate future, silver output from Penasquito attributable to WPM 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 in FY19, which hosts significantly higher gold grades than those mined hitherto and of which WPM will now be entitled to an increased portion.

Potential future growth

WPM is ostensibly a precious metals streaming company (plus one cobalt stream). Considering only the silver component of its investible universe, WPM estimates the size of the potential market open to it to be the lower half of the cost curve of the 70% of global silver production of c 870Moz in FY17 that is produced as a by-product of either gold or base metal mines (ie approximately 305Moz silver per year cf WPM's production of 28.5Moz Ag in FY17). Inevitably, WPM's investible universe would be further refined by the requirement for the operations to be located in good mining jurisdictions, with relatively low political risk. Nevertheless, such figures serve to illustrate the fact that WPM's marketplace is far from saturated or mature.

As a consequence, WPM reports that it is busy on the corporate development front. It has the potential for up to six deals with a value in the range US$100-300m, and thus fully financeable via the c US$0.73bn we have estimated to be available to WPM under its revolving credit facility as at end Q318.

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

- 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 etc); and
- the 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

The main source of potential organic production growth for WPM is Salobo (which accounted for 75% of WPM's gold division's output in Q218). 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 carries out and the decision that it makes, any expansion could add as much as 100% to gold output attributable to WPM from Salobo per year – albeit at the cost of an additional payment from WPM. Mill throughput at the Salobo mine was reported to be running at 100% of its 24Mtpa nameplate capacity in Q218. 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 (effectively) c US$900m if throughput were to be expanded beyond 40Mtpa by 2022. If Salobo were to be expanded from 24Mtpa to 36Mtpa by the addition of a further 12Mtpa processing line by 1 January 2023, for example – thereby attracting an estimated c US$603m incremental payment from WPM to Vale – we estimate it would increase our forecast of WPM's earnings by a material c US$0.11 per share from the date of the expansion.

One further, major project moving closer to fruition is the Rosemont copper project in Arizona, after Coronado National Forest Supervisor Kerwin Dewberry signed the final Record of Decision (ROD) for the Rosemont copper project in June. The ROD outlines the supervisor's decision to select the Barrel Alternative and approve the mine plan of operations once amended, and to amend the 1986 Coronado National Forest Plan by creating a new management area around the mine site. This advance follows a preliminary green light provided by the US Forest Service when the latter announced the release of a draft ROD earlier this year, saying that the project, as it now stands, meets current law which, in turn, allowed other federal agencies to proceed with permitting requests. The proposed mine, which is owned by Hudbay Minerals, is located near a number of large porphyry-type producing copper mines and is expected to be one of the largest copper mines in the US with output of c 112,000t copper in concentrate per year and accounting for c 10% of total US copper production. Total by-product production of silver and gold attributable to WPM will be c 2.7Moz Ag pa and c 16,100oz Au pa, or c 3.9Moz silver equivalent pa, and we estimate it will contribute an average c US$0.11 per share to WPM's basic EPS in its first 10 years of operations for an upfront payment of US$230m (equivalent to US$0.52/share) spread over three years.

FY18 by quarter

In addition to including the Stillwater stream, we have adjusted our forecasts to reflect recent falls in the prices of both gold and silver for the remainder of the year.

Exhibit 5: Wheaton Precious Metals FY18 forecast, by quarter*

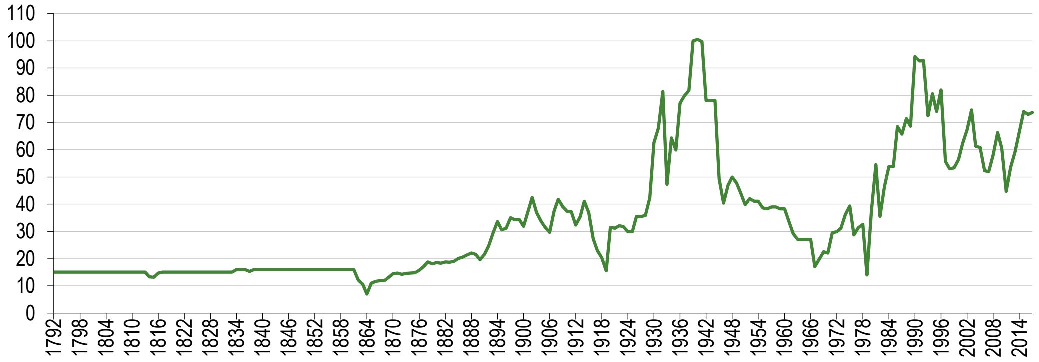
US$000s (unless otherwise stated)	Q118	Q218	Q318e	Q418e	FY18e (current)	FY18e (previous)
Silver production (koz)	7,428	6,091	4,861	5,661	24,041	24,009
Gold production (oz)	79,657	85,292	92,856	92,856	350,660	350,781
Palladium production (oz)	0	0	5,200	5,200	10,400	10,400
Silver sales (koz)	6,343	5,972	4,861	5,661	22,837	22,924
Gold sales (oz)	69,973	87,140	92,829	92,829	342,770	341,043
Palladium sales (oz)	0	0	5,179	5,179	10,358	10,358
Avg realised Ag price (US$/oz)	16.73	16.52	15.49	15.49	16.11	16.11
Avg realised Au price (US$/oz)	1,330	1,305	1,225	1,225	1,267	1,267
Avg realised Pd price (US$/oz)	N/A	N/A	914	914	914	914
Avg Ag cash cost (US$/oz)	4.49	4.54	4.74	4.66	4.60	4.50
Avg Au cash cost (US$/oz)	399	407	412	412	408	408
Avg Pd cash cost (US$/oz)	N/A	N/A	165	165	165	165
Sales	199,252	212,400	193,747	206,139	811,538	810,831
Cost of sales						
Cost of sales, excluding depletion	56,414	62,580	62,078	65,414	246,485	243,900
Depletion	57,265	62,494	70,173	72,541	262,474	255,781
Total cost of sales	113,679	125,074	132,251	137,955	508,959	499,681
Earnings from operations	85,573	87,326	61,496	68,184	302,579	311,150
Expenses and other income						
- General and administrative**	9,757	11,972	8,750	8,750	39,229	36,007
- Foreign exchange (gain)/loss	(170)	26			(144)	(170)
- Net interest paid/(received)	5,591	5,659	5,797	5,797	22,844	22,844
- Other (income)/expense	2,757	466			3,223	2,757
Total expenses and other income	17,935	18,123	14,547	14,547	65,152	61,438
Earnings before income taxes	67,638	69,203	46,949	53,637	237,427	249,712
Income tax expense/(recovery)	(485)	(3,224)			(3,709)	(485)
Marginal tax rate (%)	(0.7)	(4.7)	0.0	0.0	(1.6)	(0.2)
Net earnings	68,123	72,427	46,949	53,637	241,136	250,197
Ave. no. shares in issue (000s)	442,728	443,191	443,191	443,191	443,075	442,728
Basic EPS (US$)	0.15	0.16	0.11	0.12	0.54	0.57
Diluted EPS (US$)	0.15	0.16	0.11	0.12	0.54	0.56
DPS (US$)	0.09	0.09	0.09	0.08	0.35	0.35

Source: Wheaton Precious Metals, Edison Investment Research. Note: *Excluding impairments and exceptional gains. **Forecasts exclude stock-based compensation costs. Totals may not add up owing to rounding.

Our forecast of basic EPS of US$0.54/share compares with a consensus forecast of US$0.58/share (source: Bloomberg 15 August), within a range of US$0.52–0.68 per share.

In the meantime, our FY19 EPS forecast (see Exhibit 9) remains based on assumed precious metals prices of US$22.21/oz Ag and US$1,263/oz Au (see 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 (almost) unprecedented, level of 81.5x at the time of writing (see Exhibit 6, below). Within this context, our US$0.82 basic EPS forecast compares with a consensus of US$0.70 (source: Bloomberg 15 August), within a range of US$0.49–0.86.

Exhibit 6: 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

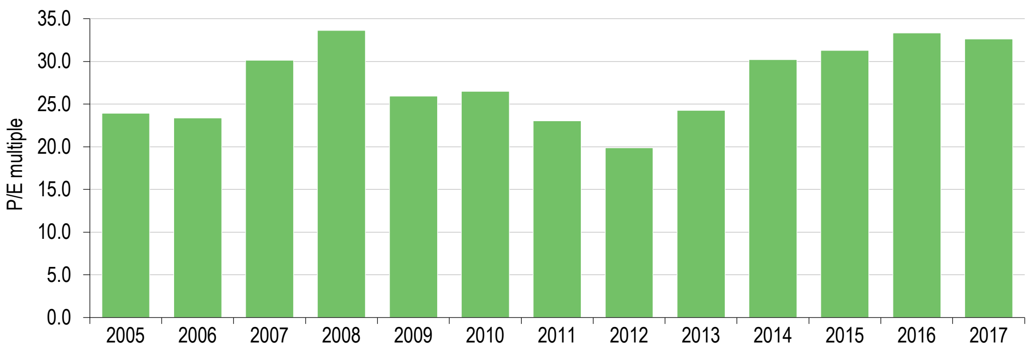
Adventus

On 17 July, WPM acquired 7.1m shares of Adventus, for a 9.99% equity interest in the company, in a private placement transaction, for a total consideration of C$6.0m. Concurrently, it also acquired a right of first refusal on any new streaming or royalty transactions on precious metals on Adventus's existing properties in Ecuador and a right of first offer on any subsequently acquired properties in Ecuador.

Valuation

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 33.5x Edison or 34.5x Bloomberg consensus FY18e, currently – see Exhibit 8).

Exhibit 7: WPM's historical current year P/E multiples



Source: Edison Investment Research

Applying this multiple to our updated EPS forecast of US$1.20 in FY21 (cf US$1.26 in FY21 previously) implies a potential share value for WPM of US$33.00, or C$43.25 in that year (cf US$34.68, or C$45.71 in FY20 previously). Note that this valuation excludes the value of 20.9m shares in First Majestic currently held by WPM, with an immediate value of C$153.5m, or US$0.27 per WPM share (priced as at 15 August).

In the meantime, from a relative perspective, it is notable that WPM is cheaper than its royalty/streaming 'peers' in 91% (22 out of 24) of the valuation measures used in Exhibit 8 and on multiples that are cheaper than the miners themselves in at least 37% (34 out of 90) of the same valuation measures (effectively irrespective of whether Edison or consensus forecasts are used), despite being associated with materially less operational and cost risk (as WPM's costs are contractually predetermined).

Exhibit 8: 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	58.1	51.6	1.3	1.4	26.1	23.0
Royal Gold	40.5	34.8	1.2	1.2	17.4	16.1
Sandstorm Gold	64.4	44.8	0.0	0.0	16.2	13.3
Osisko	77.9	53.3	1.7	1.8	21.1	18.1
Average	**60.2**	**46.1**	**1.1**	**1.1**	**20.2**	**17.6**
WPM (Edison forecasts)	**33.5**	**22.3**	**1.9**	**2.3**	**15.5**	**12.5**
WPM (consensus)	**34.5**	**28.8**	**1.8**	**1.9**	**17.1**	**15.0**
Gold producers						
Barrick	17.3	15.9	1.2	1.1	5.2	5.3
Newmont	25.5	21.8	1.7	1.7	8.9	7.9
Goldcorp	38.4	18.1	0.7	0.7	7.9	5.6
Newcrest	29.1	17.0	1.2	1.7	9.3	7.8
Kinross	16.5	20.0	0.0	3.3	3.8	3.8
Agnico-Eagle	108.2	44.8	1.2	1.2	13.2	10.8
Eldorado	246.1	109.4	0.4	0.4	7.5	5.4
Yamana	21.0	17.7	0.7	0.7	4.5	4.4
Randgold Resources	21.3	18.0	4.4	5.5	11.0	9.9
Average	**58.1**	**31.4**	**1.3**	**1.8**	**7.9**	**6.8**
Silver producers						
Hecla	118.8	23.8	0.3	0.3	10.3	6.3
Pan American	23.3	20.4	0.8	1.1	10.8	9.3
Coeur Mining	198.3	20.3	0.0	0.0	10.1	5.2
First Majestic	100.0	31.7	0.0	0.0	12.9	7.7
Hocschild	45.9	15.9	1.8	2.2	4.5	3.7
Fresnillo	17.9	16.6	2.8	2.8	9.8	9.2
Average	**84.0**	**21.4**	**0.9**	**1.1**	**9.7**	**6.9**

Source: Bloomberg, Edison Investment Research. Note: Peers priced on 15 August 2018.

Financials: Solid equity base

As at 30 June 2018, WPM had US$92.7m in cash (before a dividend of c US$39.9m payable on or about 13 September) and US$956.5m of debt outstanding under its US$2bn revolving credit facility (which attracts an interest rate of Libor plus 120–220bp and matures in February 2023), such that it had net debt of US$863.8m overall, after US$135.2m (US$0.31/share) of cash inflows from operating activities during the quarter. Relative to the company's Q2 balance sheet equity of US$5,234.6m, this level of net debt equated to a financial gearing (net debt/equity) ratio of 16.5% and a leverage (net debt/[net debt+equity]) ratio of 14.2%. It also compared with a net debt position of US$547.4m as at 31 March 2018 and is consistent with WPM generating c US$100–150m per quarter from operating activities before financing and investing activities and dividend payments.

In the aftermath of the Stillwater palladium stream acquisition, we now estimate that WPM's net debt position will be US$1,268.1m by the end of FY18 (cf US$1,270.9m previously), which will equate to gearing of 25.4% (cf 25.5% previously) and leverage of 20.3% (cf 20.3% previously), and that WPM will be net debt free in early-2021 (cf late-2020 previously), all other things being equal and contingent on its making no further major acquisitions (which is unlikely, in our view). 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$5,234.6m as at end-Q218 and which we now forecast to be US$4,985.5m as at end-FY18); and
- interest should be no less than 3x covered by EBITDA (we estimate that net interest was covered 22.6x in FY17 and that it will be covered 23.0x in FY18).

Note that the C$191.7m letter of guarantee that WPM has posted regarding 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 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 be interpreted not 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 8).

In the meantime, WPM remains in 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 Tax Court of Canada has now scheduled the trial for mid-September 2019 for a two-month period.

Exhibit 9: 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	811,538	1,012,979
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(243,801)	(246,485)	(276,853)
Gross Profit	732,071	567,120	469,079	458,473	637,123	599,414	565,053	736,126
EBITDA	701,232	531,812	431,219	426,236	602,684	564,741	525,824	696,897
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	293,982	302,361	263,350	413,185
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	0	0	(68,151)	(384,922)	(71,000)	(228,680)	245,715	0
Other	788	(11,202)	(1,830)	(4,076)	(4,982)	8,129	(3,079)	0
Operating Profit	600,791	376,457	201,058	(161,343)	218,000	81,810	505,986	413,185
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(22,844)	(51,263)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	269,789	277,368	240,506	361,922
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	193,807	56,817	483,142	361,922
Tax	(14,755)	5,121	1,045	3,391	1,330	886	3,709	0
Profit After Tax (norm)	586,036	375,495	267,977	222,880	266,137	286,383	241,136	361,922
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	195,137	57,703	486,851	361,922
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.5	442.0	443.1	443.2
EPS - normalised (c)	166	106	75	53	62	63	54	81.7
EPS - normalised and fully diluted (c)	165	105	74	53	62	63	54	81
EPS - (IFRS) (c)	166	106	56	(-41)	45	13	110	82
Dividend per share (c)	35	45	26	20	21	33	35	42
Gross Margin (%)	86.2	80.3	75.6	70.7	71.5	71.1	69.6	72.7
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.6	67.0	64.8	68.8
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.0	35.9	32.5	40.8
BALANCE SHEET								
Fixed Assets	2,403,958	4,288,557	4,309,270	5,526,335	6,025,227	5,579,898	6,279,424	6,067,712
Intangible Assets	2,281,234	4,242,086	4,270,971	5,494,244	5,948,443	5,454,106	6,153,632	5,941,920
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	3,680	4,594
Stocks	966	845	26,263	1,455	1,481	1,700	1,457	1,819
Debtors	6,197	4,619	4,132	1,124	2,316	3,194	2,223	2,775
Cash	778,216	95,823	308,098	103,297	124,295	98,521	0	0
Other	0	0	0	0	0	0	0	0
Current Liabilities	(49,458)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(522,435)	(134,505)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(24,336)	(27,331)
Short term borrowings	(28,560)	0	0	0	0	0	(498,099)	(107,174)
Long Term Liabilities	(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(771,506)	(775,215)	(775,215)
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)	(5,215)	(5,215)
Net Assets	3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	4,899,664	4,985,455	5,162,586
CASH FLOW								
Operating Cash Flow	720,209	540,597	434,582	435,783	608,503	564,187	536,151	698,978
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(22,844)	(51,263)
Tax	(725)	(154)	(204)	(208)	28	(326)	7,418	0
Capex	(641,976)	(2,050,681)	(146,249)	(1,791,275)	(805,472)	(19,633)	(962,000)	(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)	(155,346)	(184,790)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	295,298	398,537	(596,620)	390,925
Opening net debt/(cash)	(761,581)	(728,156)	902,313	690,420	1,362,703	1,068,705	671,479	1,268,099
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	1,268,099	877,174

Source: Company sources, Edison Investment Research

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