EDISON

Wheaton Precious Metals

Palladium ex machina

Stillwater stream purchase

Metals & mining

On 16 July, Wheaton Precious Metals (WPM) announced it had entered into an agreement with Sibanye to acquire 100% of the gold production plus a percentage of the palladium production from the Stillwater and East Boulder mines for an upfront cash consideration of US$500m. On an underlying basis, we expect the transaction to add 4.0c (or c 5.0%) to WPM's basic EPS per year over the 10 years from FY21 to FY30.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	891.6	269.8	62	21	35.2	1.0
12/17	843.2	277.4	63	33	34.6	1.5
12/18e	810.8	252.3	57	35	38.6	1.6
12/19e	1,004.7	377.5	85	42	25.6	1.9

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

Equivalent to a stream of 34koz AuE or 1.9Moz AgE

Effective 1 July 2018, WPM will be immediately entitled to receive an amount of gold equal to 100% of Stillwater's gold production plus 4.5% of its palladium production for ongoing payments of 18% of the spot price of gold and palladium. At the top line, this stream is approximately equivalent to a gold stream of c 34koz pa, falling to c 24koz pa after FY31, or a silver stream of c 1.9Moz pa, falling to c 1.4Moz after FY31 (albeit with a larger margin than is typically the case for gold and silver streams).

Forecasts updated for falling gold and silver prices

In addition to including the Stillwater stream, we have adjusted our FY18 forecasts to reflect recent falls in the prices of precious metals. Where before we were expecting H218 prices of US$1,320/oz and US$16.67/oz for gold and silver, respectively, we have now reduced these expectations to US$1,225/oz and US$15.49/oz, representing top-line declines of 7.2% and 7.1%, respectively, and resulting in a 10.3% decline in our earnings expectation for FY18 overall.

Valuation: C$45.71 in FY21

Assuming no material purchases of additional streams, we forecast a per-share value for WPM of US$34.68, or C$45.71 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 currently held by WPM, with an immediate value of C$188.6m, or US$0.32 per WPM share. It also implies a 20.2% 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 10, and the miners themselves in at least 35% 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 etc.

24 July 2018

Price	**C$28.96**
Market cap	**C$12,823m**
	C$1.3179/US$
Net debt* (US$m) at 31 March 2018 *Cum-dividend of US$39.9m	547.4
Shares in issue	442.8m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance

%	1m	3m	12m
Abs	(3.9)	3.0	11.1
Rel (local)	(4.0)	(2.9)	3.2
52-week high/low		C$29.7	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

Q218 results	14 August 2018
Third quarterly dividend announced	14 August 2018
Q318 results	November 2018
Fourth quarterly dividend announced	November 2018

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Edison profile page

Wheaton Precious Metals is a research client of Edison Investment Research Limited

Stillwater palladium stream acquisition

On 16 July, WPM announced it had entered into an agreement with Sibanye (largely the former South African assets of Gold Fields of South Africa and Gengold plus Stillwater in the US) to acquire 100% of the gold production plus a percentage of its palladium production from the Stillwater and East Boulder mines (together called 'Stillwater') in Montana for an upfront cash consideration of US$500m. Salient features of the agreement are as follows:

- Effective 1 July 2018, WPM will be entitled to receive an amount of gold equal to 100% of the Stillwater gold production for the life of the Stillwater and East Boulder mines.
- In addition, it will initially be entitled to an amount of palladium equal to 4.5% of palladium production until 375koz have been delivered to Wheaton, at which point the amount will decrease to 2.25% until 550koz have been delivered, at which point the amount will reduce again, to 1.00%, until the end of the life of the mine.
- WPM will make ongoing payments of 18% of the spot price of gold and the spot price of palladium until the balance of the upfront payment has been reduced to zero, at which point it will make ongoing payments of 22% of the spot price of gold and the spot price of palladium.
- The stream area of interest is defined as the area inclusive of all patented and unpatented claims at the Stillwater mining operations.

Stillwater

Stillwater is the US's only platinum group metal (PGM) mine and the largest primary producer of PGMs outside South Africa (predominantly Amplats, Implats and Northam) and Russia (predominantly Norilsk). Located in Montana in the front range of the Beartooth Mountains at elevations exceeding 1,500m above mean sea level, its operations comprise two underground PGM mines (Stillwater and East Boulder), the Blitz project and the Columbus metallurgical complex.

The Stillwater and East Boulder mines have been in operation since 1986 and 2002, respectively, producing from the J-M Reef, which is the world's highest grade PGM deposit. Each mine has its own milling and concentrator infrastructure on site. In the meantime, the Blitz project – which is part of the Stillwater mine – started ore production in 2017 and is expected to ramp up to full production in 2021. Finally, the Columbus metallurgical complex is a state-of-the-art processing plant to smelt and part-refine mine concentrates to produce a PGM-rich filter cake that is shipped to a third-party for final refining.

Stillwater reserves and resources, attributable to WPM are as follows:

Exhibit 1: Stillwater reserves & resources, attributable to WPM (31 December 2017)

Category	Tonnage (Mt)	Grade Au (g/t)	Grade Pd (g/t)	Contained Au (Moz)	Contained Pd (Moz)
Reserves					
Gold					
Proven	5.0	0.31		0.05	
Probable	36.8	0.31		0.36	
Proven & Probable	**41.8**	**0.31**		**0.41**	
Palladium					
Proven	0.2		13.2		0.08
Probable	1.3		12.6		0.53
Proven & Probable	**1.5**		**12.7**		**0.61**
Resources					
Gold					
Inferred	92.5	0.31		0.92	
Resources					
Palladium					
Inferred	1.0		12.9		0.43
Grand total gold	**134.3**	**0.31**		**1.33**	
Grand total palladium	**2.5**		**12.8**		**1.04**

Source: Wheaton Precious Metals

Declared current reserves are sufficient to support mining activities at Stillwater until 2041, but this could be significantly increased if inferred resources are upgraded. Since 2001, the average conversion of resources to reserves has been c 95% at Boulder East and c 87% at Stillwater (the lower conversion being on account of its higher cut-off grade). Note that the Blitz project is expected to have a higher conversion rate than the Stillwater mine as it will similarly utilise a lower cut-off grade owing to an efficient infrastructure set up. In addition, there is significant exploration potential both regionally and at depth below current reserves and resources, including over 12km of undeveloped mineralisation associated with the J-M reef between the two currently producing mines.

As is typical for WPM in entering a new streaming agreement (albeit with a major mining company), there is a completion test relating to the completion of the Blitz project, including the completion of underground development, critical surface infrastructure and concentrator production output.

Effect on WPM

Expected production in H218 is forecast to be c 5.4koz gold and 10.4koz palladium. In the following 10 years, production is forecast to average c 14.5koz gold and 29.0koz palladium per year. We forecast that Stillwater will have delivered 375koz palladium to WPM by the end of FY31, such that WPM's share of production halves, from 4.5% to 2.25%, and it will then receive c 14.7koz palladium per year thereafter until a further 175koz have been delivered (after a further 12 years, approximately), at which point its share of production will reduce, once again, to 1.00% for the rest of the life of the mine. Payable rates for gold and palladium have been fixed at 99.0% and 99.6%, respectively, with the result that we forecast the following production, sales and pre-tax cash flows attributable to WPM over the next 13.5 years (in real, FY18, dollar terms) at the current spot price of palladium of US$914/oz at the time of writing:

Exhibit 2: Stillwater estimated production, sales and (real) pre-tax cash flows attributable to WPM, H218e-31e

Year	H218e	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e	FY31e
Production (oz Au)	5,400	14,500	14,500	14,500	14,500	14,500	14,500	14,500	14,500	14,500	14,500	14,900	14,900	14,900
Production (koz Pd)	10.4	27	27	27	27	30	30	30	30	30	30	30	30	30
Sales (oz Au)	5,346	14,355	14,355	14,355	14,355	14,355	14,355	14,355	14,355	14,355	14,355	14,751	14,751	14,751
Sales (koz Pd)	10.4	27	27	27	27	30	30	30	30	30	30	30	30	30
Pre-tax cash flows to WPM (US$m)	13.5	35.0	37.6	37.1	35.5	38.0	37.5	37.2	38.2	39.5	40.3	41.7	39.6	37.7

Source: Edison Investment Research, Wheaton Precious Metals. Note: Gold price forecast as per Edison's long-term price forecasts, as set out in our note, Mining overview: Unlocking the price to NPV discount, published in November 2017; palladium price as at the current spot price of US$914/oz.

Within the context of an initial, upfront payment of US$500m in FY18, these cash flows imply a real internal rate of return to WPM of 4.3% in FY18 US dollar terms from FY18 to FY41.

On the basis of these forecasts, we also estimate that the balance of Wheaton's upfront payment will have declined to nil by the end of FY31. At that point, therefore, it will also be liable to make ongoing payments of 22% of the spot prices of gold and palladium (cf 18% previously).

With due deference to the different detailed terms of each transaction, at the top line, the above gold and palladium stream is therefore approximately equivalent to a gold stream of c 34koz pa, falling to c 24koz pa after FY31, or a silver stream of c 1.9Moz pa, falling to c 1.4Moz after FY13. As such, it may be compared to recent deals concluded by WPM of a similar size, as follows:

Exhibit 3: Recent comparable WPM transactions

Heading Left	Salobo II	Antamina	Salobo III	Voisey's Bay	Stillwater
Date	Q215	Q415	Q316	Q218	Q318
Counterparty	Vale	Glencore	Vale	Vale	Sibanye-Stillwater
Consideration	US$900m	US$900m	c US$818.4m*	US$390m	US$500m
Approximate metal attributable to WPM pa	70koz Au	5.1Moz Ag for 2yrs then 4.7Moz pa Ag	70koz Au	2.4Mlbs Co pa, equivalent to c 75-80koz Au or 5.7-6.2Moz Ag pa	14.5koz Au plus 29koz Pd pa initially, equivalent to c 34koz Au or 1.9Moz

Source: Edison Investment Research. Note: *See our report, Going for gold, published on 30 August 2016.

Investors should note that, whereas WPM makes ongoing payments of US$400/oz at Salobo at the current time, which equates to approximately 33% of the price of gold at the time of writing, its ongoing payments to Stillwater are approximately half this level at 18% of the spot prices of gold and palladium. Although the Stillwater stream is thus approximately half the size of the Salobo streams in terms of revenue therefore, its ongoing payments are also approximately just over half as large.

Medium term

Compared to our prior forecasts, we estimate that the Stillwater transaction will add an average of 1.9Moz (or c 4.2%) of silver equivalent to WPM's production profile over the four years from FY19-22 (inclusive):

Exhibit 4: Edison forecast WPM precious metals production

	FY18e	FY19e	FY20e	FY21e	FY22e	Updated WPM guidance
Previous						
Silver production (Moz)	24.0	22.3	23.0	23.9	23.7	
Gold production (koz)	345	370	337	333	339	
Cobalt production (klbs)	0	0	0	2,100	2,100	
Palladium production (koz)	0	0	0	0	0	
Current						
Silver production (Moz)	24.0	22.3	23.0	23.9	23.7	25.0
Gold production (koz)	351	385	352	348	353	385
Cobalt production (klbs)	0	0	0	2,100	2,100	2,100 from FY21
Palladium production (koz)	10.4	27	27	27	27	27 from FY19

Source: Edison Investment Research

On an underlying basis (ie before any changes in precious metal price assumptions – see below), we expect the Stillwater palladium stream acquisition to add 4.0c (or c 5.0%) to WPM's basic EPS per year (simple average) over the 10 years of production from FY21 to FY30 inclusive:

Exhibit 5: Voisey's Bay estimated EPS enhancement, 2021-30e

Year	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
EPS enhancement (US$)	0.01	-0.01	-0.01	0.03	0.03	0.04	0.04	0.03	0.04	0.04	0.04	0.05	0.04
EPS enhancement (%)	1.0	-1.7	-0.6	2.8	3.1	4.4	4.3	4.4	4.4	5.8	5.7	7.2	8.2

Source: Edison Investment Research, Wheaton Precious Metals

Potential future growth

WPM is a pure precious metals streaming company. 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 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 perhaps one more transaction over the next year with a value up to US$600m and/or up to six deals with a value in the range US$100-300m, and thus fully financeable via the c US$0.78bn 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); and
- the 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

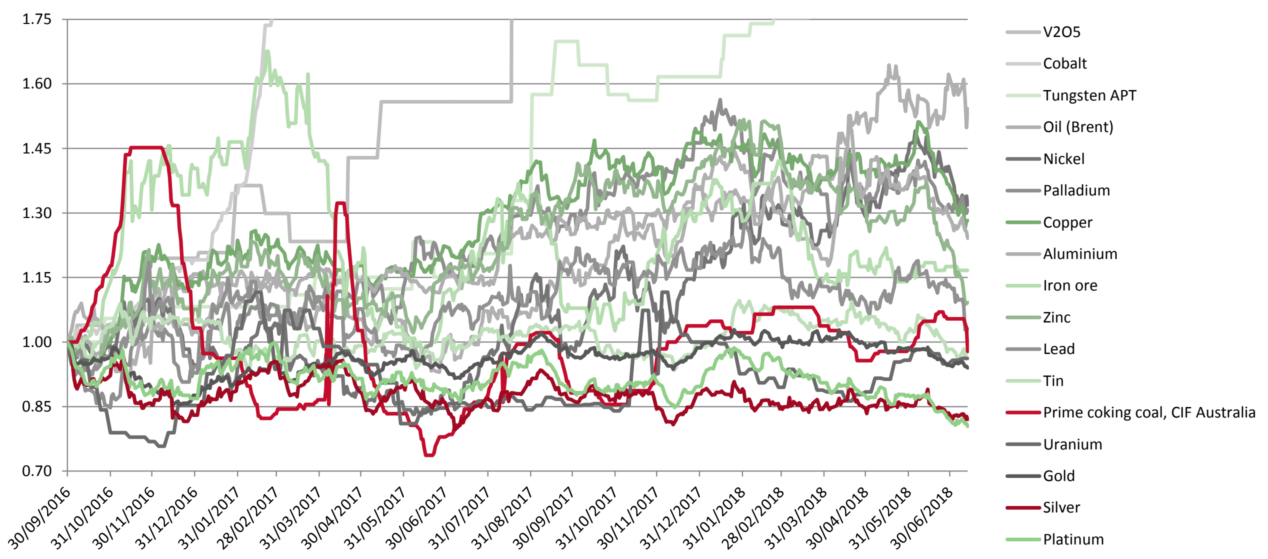
The main source of potential organic production growth for WPM is Salobo (which accounted for 77% of WPM's gold division's output in Q118). The operator, Vale, is studying expansion scenarios and is deploying four drill rigs to test the deposit at depth. Given the open-ended nature of the deposit, and 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 98% of its 24Mtpa nameplate capacity in Q118. 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 estimate 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 earlier this month. 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 record of decision 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/sh) spread over three years.

Palladium as a diversifier

Nickel, palladium and platinum all occur in the same (transition) group in the periodic table of the elements. As a result, they exhibit similar chemical characteristics and are often associated with one another in mineral deposits, albeit platinum and palladium have crustal abundances that classify them as precious metals. Historically, therefore, palladium has typically been mined as a by-product of either nickel (in Russia) or platinum (in South Africa). Both platinum and palladium are effective in hydrocarbon scrubbing and are used in industry as auto-catalysts. Whereas platinum is particularly effective in scrubbing diesel engine emissions, palladium is more effective in scrubbing petrol/gasoline engine emissions. As a result, since the start of the VW (diesel) emissions scandal in September 2016, the palladium price has outperformed the platinum price by 62.7%, as a series of government announcements around the world have been perceived to favour petrol/gasoline-based engines gaining market share at the expense of diesel-based engines.

Exhibit 6: Metals price performances since end-September 2016



Source: Thomson Reuters Datastream. Note: Order of metals and minerals in the legend on the left corresponds to the finishing position of the lines in the chart on the right.

While there is no need for PGMs in pure electric vehicles, hybrids and plug-in hybrids both use them and are likely to drive demand for palladium in conjunction with tightening emissions targets around the world that are typically met, in the first instance, by higher loadings of palladium per vehicle in auto-catalysts. Thus, while the internal combustion engine (ICE) may be destined to lose market share to electric vehicles over the coming years, as far as palladium demand is concerned, this is anticipated to be at least offset by an increasing overall market for cars (driven by growth in China and India, in particular) coupled with a greater intensity of use in the palladium using ICE and hybrid segment of the market.

FY18 forecasts

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 7: Wheaton Precious Metals FY18 forecast, by quarter*

US$000s (unless otherwise stated)	Q118	Q218e	Q318e	Q418e	FY18e (current)	FY18e (previous)
Silver production (koz)	7,428	6,059	5,261	5,261	24,009	24,009
Gold production (oz)	79,657	85,413	92,856	92,856	350,781	345,381
Palladium production (oz)	0	0	5,200	5,200	10,400	0
Silver sales (koz)	6,343	6,059	5,261	5,261	22,924	22,924
Gold sales (oz)	69,973	85,413	92,829	92,829	341,043	335,697
Palladium sales (oz)	0	0	5,179	5,179	10,358	0
Avg realised Ag price (US$/oz)	16.73	16.53	15.49	15.49	16.11	16.68
Avg realised Au price (US$/oz)	1,330	1,306	1,225	1,225	1,267	1,323
Avg realised Pd price (US$/oz)	N/A	N/A	914	914	914	N/A
Avg Ag cash cost (US$/oz)	4.49	4.51	4.49	4.49	4.50	4.52
Avg Au cash cost (US$/oz)	399	407	412	412	408	411
Avg Pd cash cost (US$/oz)	N/A	N/A	165	165	165	N/A
Sales	199,252	211,693	199,943	199,943	810,831	826,503
Cost of sales						
Cost of sales, excluding depletion	56,414	62,111	62,687	62,687	243,900	241,646
Depletion	57,265	62,937	67,790	67,790	255,781	244,912
Total cost of sales	113,679	125,048	130,477	130,477	499,681	486,558
Earnings from operations	85,573	86,644	69,466	69,466	311,150	339,945
Expenses and other income						
- General and administrative**	9,757	8,750	8,750	8,750	36,007	36,007
- Foreign exchange (gain)/loss	(170)				(170)	(170)
- Net interest paid/(received)	5,591	5,751	5,751	5,751	22,844	22,844
- Other (income)/expense	2,757				2,757	2,757
Total expenses and other income	17,935	14,501	14,501	14,501	61,438	61,438
Earnings before income taxes	67,638	72,143	54,965	54,965	249,712	278,507
Income tax expense/(recovery)	(485)				(485)	(485)
Marginal tax rate (%)	(0.7)	0.0	0.0	0.0	(0.2)	(0.2)
Net earnings	68,123	72,143	54,965	54,965	250,197	278,992
Ave. no. shares in issue (000s)	442,728	442,728	442,728	442,728	442,728	442,728
Basic EPS (US$)	0.15	0.16	0.12	0.12	0.57	0.63
Diluted EPS (US$)	0.15	0.16	0.12	0.12	0.56	0.63
DPS (US$)	0.09	0.09	0.09	0.08	0.35	0.36

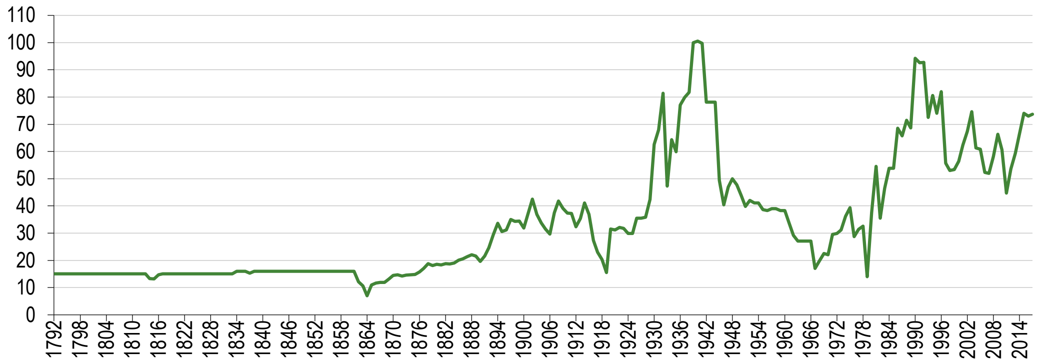
Source: Wheaton Precious Metals, Edison Investment Research. Note: *Excluding impairments. **Forecasts exclude stock-based compensation costs. Totals may not add up owing to rounding.

This revised FY18 forecast compares to our observation in our note in June (see Kobold ex machina) that if gold and silver prices remain at US$1,278/oz and US$16.47/oz for the rest of the year, it would reduce our EPS forecast by 3c, to US$0.60/share. As it stands, our forecast of basic

EPS of US$0.57/sh compares with a consensus forecast of US$0.58/sh (source: Bloomberg 18 July), within a range of US$0.48-0.63 per share.

In the meantime, our FY19 EPS forecast 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 79.1x.

Exhibit 8: Gold price as a multiple of silver price, 1792–2017

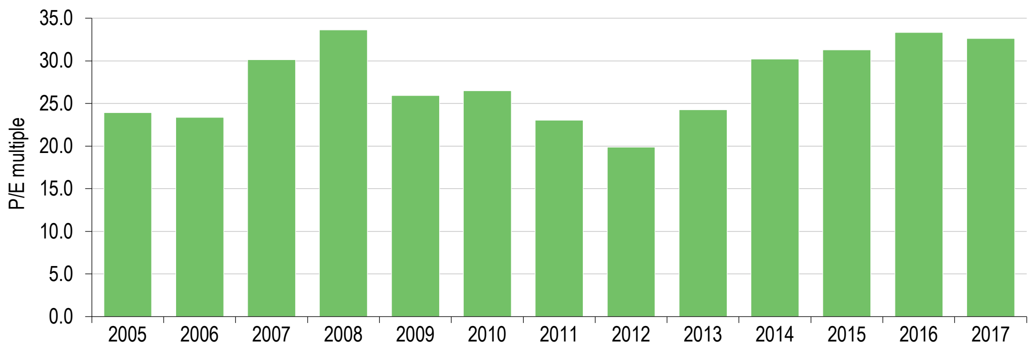


Source: Edison Investment Research (underlying data South African Chamber of Mines, Bloomberg and www.kitco.com)

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 38.6x Edison or 37.6x Bloomberg consensus FY18e, currently – see Exhibit 10).

Exhibit 9: WPM's historic current year P/E multiples



Source: Edison Investment Research

Applying this multiple to our updated EPS forecast in the wake of the Stillwater transaction of US$1.26 in FY21 (cf US$1.24 in FY20 previously) implies a potential share value for WPM of US$34.68, or C$45.71 in that year (cf US$34.11, or C$45.14 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$188.6m, or US$0.32 per WPM share.

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 10 and on multiples that are cheaper than the miners themselves in at least 35% (32 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 10: 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	61.2	56.6	1.3	1.3	27.4	24.9
Royal Gold	52.1	42.3	1.1	1.1	21.0	18.9
Sandstorm Gold	65.2	51.5	0.0	0.0	17.3	13.5
Osisko	82.2	53.2	1.5	1.6	24.4	19.6
Average	**65.2**	**50.9**	**1.0**	**1.0**	**22.5**	**19.2**
WPM (Edison forecasts)	**38.6**	**25.6**	**1.6**	**1.9**	**18.6**	**15.0**
WPM (consensus)	**37.6**	**31.0**	**1.7**	**1.7**	**18.8**	**16.6**
Gold producers						
Barrick	17.3	17.5	1.0	0.9	5.8	5.9
Newmont	26.3	23.1	1.5	1.5	9.4	8.6
Goldcorp	35.5	19.3	0.6	0.6	8.6	6.6
Newcrest	36.9	16.8	1.1	1.7	9.9	7.9
Kinross	19.9	23.8	0.0	3.3	4.5	4.6
Agnico-Eagle	101.9	52.0	1.0	1.0	15.5	13.0
Eldorado	77.0	359.1	0.0	0.4	7.8	5.8
Yamana	23.8	18.3	0.7	0.7	4.5	4.3
Randgold Resources	22.6	19.9	4.3	5.2	12.1	11.2
Average	**40.1**	**61.1**	**1.1**	**1.7**	**8.7**	**7.5**
Silver producers						
Hecla	85.7	28.6	0.2	0.2	10.7	6.8
Pan American	22.7	20.7	0.7	1.0	10.6	9.3
Coeur Mining	308.7	25.1	0.0	0.0	14.0	7.1
First Majestic	100.0	32.2	0.0	0.0	16.6	8.3
Hocschild	52.5	18.0	1.4	1.8	5.0	4.1
Fresnillo	23.2	20.3	2.1	2.4	12.5	11.3
Average	**98.8**	**24.1**	**0.7**	**0.9**	**11.6**	**7.8**

Source: Bloomberg, Edison Investment Research. Note: Peers priced on 18 July 2018.

Financials: Solid equity base

WPM's initial, upfront cash payment of US$500m in consideration of the Stillwater stream purchase will be paid using amounts drawn from its US$2bn revolving credit facility.

As at 31 March 2018, WPM had US$115.6m in cash (before a dividend of US$39.9m payable on or about 7 June) and US$663.0m of debt outstanding under its US$2bn revolving credit facility (which attracts an interest rate of Libor plus 120–220bp and matures in February 2023), such that it had net debt of US$547.4m overall, after US$125.3m (US$0.28/share) of cash inflows from operating activities during the quarter. Relative to the company's Q1 balance sheet equity of US$4,925.5m, this level of net debt equated to a financial gearing (net debt/equity) ratio of 12.7% and a leverage (net debt/[net debt+equity]) ratio of 10.0%. It also compared with a net debt position of US$671.5m as at 31 December 2017 and is consistent with WPM generating c US$100–150m per quarter from operating activities before financing and investing activities.

In the aftermath of the Stillwater palladium stream acquisition, we now estimate that WPM's net debt position will be US$1,270.9m by the end of FY18 (cf US$756.3m previously), which will equate to gearing of 25.5% (cf 15.1% previously) and leverage of 20.3% (cf 13.1% previously), and that WPM will be net debt free in late-2020 (cf mid-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$4,925.5m as at end-Q118 and which we now forecast to be US$4,992.8m 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 23.2x 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.

Exhibit 11: 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	810,831	1,004,651
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(243,801)	(243,900)	(275,253)
Gross Profit	732,071	567,120	469,079	458,473	637,123	599,414	566,931	729,399
EBITDA	701,232	531,812	431,219	426,236	602,684	564,741	530,924	693,392
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	293,982	302,361	275,143	428,864
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	(2,587)	0
Operating Profit	600,791	376,457	201,058	(161,343)	218,000	81,810	272,556	428,864
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(22,844)	(51,376)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	269,789	277,368	252,299	377,488
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	193,807	56,817	249,712	377,488
Tax	(14,755)	5,121	1,045	3,391	1,330	886	485	0
Profit After Tax (norm)	586,036	375,495	267,977	222,880	266,137	286,383	250,197	377,488
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	195,137	57,703	250,197	377,488
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.5	442.0	442.7	442.7
EPS - normalised (c)	166	106	75	53	62	63	57	85.3
EPS - normalised and fully diluted (c)	165	105	74	53	62	63	56	85
EPS - (IFRS) (c)	166	106	56	(-41)	45	13	57	85
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	69.9	72.6
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.6	67.0	65.5	69.0
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.0	35.9	33.9	42.7
BALANCE SHEET								
Fixed Assets	2,403,958	4,288,557	4,309,270	5,526,335	6,025,227	5,579,898	6,286,117	6,093,589
Intangible Assets	2,281,234	4,242,086	4,270,971	5,494,244	5,948,443	5,454,106	6,160,325	5,967,797
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	3,677	4,556
Stocks	966	845	26,263	1,455	1,481	1,700	1,456	1,804
Debtors	6,197	4,619	4,132	1,124	2,316	3,194	2,221	2,752
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)	(524,984)	(139,770)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(24,081)	(27,173)
Short term borrowings	(28,560)	0	0	0	0	0	(500,903)	(112,597)
Long Term Liabilities	(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(771,506)	(771,991)	(771,991)
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)	(1,991)	(1,991)
Net Assets	3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	4,899,664	4,992,819	5,186,385
CASH FLOW								
Operating Cash Flow	720,209	540,597	434,582	435,783	608,503	564,187	541,492	695,605
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(22,844)	(51,376)
Tax	(725)	(154)	(204)	(208)	28	(326)	970	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)	(157,042)	(183,923)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	295,298	398,537	(599,424)	388,306
Opening net debt/(cash)	(761,581)	(728,156)	902,313	690,420	1,362,703	1,068,705	671,479	1,270,903
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	1,270,903	882,597

Source: Company sources, Edison Investment Research

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