EDISON

Wheaton Precious Metals

Q3 results

Q3 results and update

Metals & mining

Despite relatively conservative precious metals price assumptions, underlying earnings for Q3 were within US$2.0m, or 2.7%, of our forecasts. Both Wheaton's gold and silver divisions outperformed our production expectations. However, a 1.6Moz under-sale of silver relative to production resulted in an 'inventory' build and a deferment of sales. In addition, there was a 14.5% quarter-on-quarter increase in general & administrative expenses (albeit entirely attributable to differences in accrued performance share units' costs), as a result of which underlying EPS was 16c (in line with consensus) compared with our forecast of 17c (which assumed no inventory and no stock-based general & administrative effects). Nevertheless, our FY19e EPS forecasts remain almost unchanged at 57c, while our FY20e forecasts exist within a wide range depending on the metal prices assumed, from 80c (at spot prices) to 130c (at our higher long-term prices) and, in particular, the gold/silver price ratio assumed.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	843.2	277.4	63	33	42.0	1.3
12/18	794.0	203.1	48	36	55.2	1.4
12/19e	869.4	246.3	57	36	46.5	1.4
12/20e	1,247.3	582.8	130	53	20.4	2.0

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

FY19 production guidance tweaked

In addition to its results, Wheaton Precious Metals (WPM) adjusted its production guidance for FY19 to 390koz of gold (cf 385koz previously) and 21.0Moz of silver (cf 22.5Moz previously). For the five-year period ending in FY23 however, it has maintained its average annual gold equivalent production at 750koz pa.

Inventories poised for traditional year-end declines

As at end-Q3, inventories of both silver and gold were towards the upper end of their ranges, at 2.31 months and 2.60 months of forecast FY19 production, respectively, compared with target levels of two months and two to three months. As such, WPM would seem to be well disposed to a fourth quarter in which there is no further inventory build and, possibly, even a reduction (which would be consistent with past years).

Valuation: C$43.37 in FY21

Assuming no material purchases of additional streams (which we think unlikely), we forecast a value per share for WPM of US$32.78, or C$43.37 in FY21 at (updated) average precious metals prices of US$24.76/oz Ag and US$1,509/oz Au. This valuation excludes the value of 20.2m shares in First Majestic held by WPM, with an immediate value of C$288.2m, or US$0.49 per WPM share. In the meantime, WPM's shares are trading on near-term financial ratios that are cheaper than those of its royalty/streaming 'peers' in at least 70% of financial measures considered in Exhibit 8, and the miners themselves in at least 34% of the same measures, despite being associated with materially less operating and cost risk.

18 November 2019

Price	C$35.61
Market cap	C$15.9bn
	C$1.3233/US$
Net debt (US$m) at 30 September 2019	865.5
Shares in issue	446.8m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance

%	1m	3m	12m
Abs	7.1	0.3	75.6
Rel (local)	3.2	(5.7)	56.2
52-week high/low		C$40.8	C$20.4

Business description

Wheaton Precious Metals is the world's pre-eminent ostensibly 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 and the US.

Next events

Q4/FY19 results	March 2020
Q120 results	May 2020
Q220 results	August 2020

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

Edison profile page

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

Q319 results

Despite relatively conservative precious metals price assumptions, underlying earnings for Q3 were within US$2.0m, or 2.7%, of our prior forecasts. Both Wheaton's gold and silver divisions outperformed our production expectations. However, a 1.6Moz under-sale of silver relative to production resulted in an 'inventory' build and a deferment of sales, albeit this was almost exactly offset by a similar reduction in associated costs, such that earnings from operations were within 1.0% and US$1.0m of our forecasts. The only other significant departure from our expectations was a 14.5% quarter-on-quarter increase in the general & administrative charge, albeit US$4.8m of the US$1.8m increase could be attributed to the differences in accrued costs associated with the company's performance share units, without which the charge would have been almost exactly in line with Edison's expectations and WPM's pro-rata guidance of non-stock general and administrative expenses in the range US$36–38m for FY19 as a whole. As a result, underlying EPS was reported to be 16c (in line with consensus) compared with our forecast of 17c (which assumed no inventory and no stock-based general & administrative effects). A full analysis of WPM's underlying Q3 results relative to our prior forecasts and Q119 results is provided in the table below:

Exhibit 1: Wheaton Precious Metals underlying Q319 results vs Q219 and Q319e, by quarter*

US$000s (unless otherwise stated)	Q118	Q218	Q318	Q418	Q119	Q219	Q319e	Q319a	Change *** (%)	Variance **** (%)	Variance **** (units)
Silver production (koz)	7,428	6,091	5,701	5,499	5,614	4,834	5,807	6,095	26.1	5.0	288
Gold production (oz)	79,657	85,292	101,552	107,567	93,585	100,577	95,419	104,175	3.6	9.2	8,756
Palladium production (koz)	0	0	8,817	5,869	4,729	5,736	5,500	5,471	-4.6	-0.5	-29
Silver sales (koz)	6,343	5,972	5,018	4,400	4,294	4,241	5,594	4,484	5.7	-19.8	-1,110
Gold sales (oz)	69,973	87,140	89,242	102,813	115,020	90,077	95,383	94,766	5.2	-0.6	-617
Palladium sales (koz)	0	0	3,668	5,049	5,189	5,273	5,478	4,907	-6.9	-10.4	-571
Avg realised Ag price (US$/oz)	16.73	16.52	14.80	14.66	15.64	14.93	16.55	17.09	14.5	3.3	1
Avg realised Au price (US$/oz)	1,330	1,305	1,210	1,229	1,308	1,320	1,416	1,471	11.4	3.9	55
Avg realised Pd price (US$/oz)	N/A	N/A	955	1,137	1,443	1,381	1,320	1,535	11.2	16.3	215
Avg Ag cash cost (US$/oz)	4.49	4.54	5.04	4.66	4.64	5.14	5.22	5.16	0.4	-1.1	0
Avg Au cash cost (US$/oz)	399	407	418	409	417	420	421	424	1.0	0.7	3
Avg Pd cash cost (US$/oz)	N/A	N/A	169	205	254	247	238	271	9.7	13.9	33
Sales	199,252	212,400	185,769	196,591	225,049	189,466	234,875	223,595	18.0	-4.8	-11,280
Cost of sales											
Cost of sales, excluding depletion	56,414	62,580	63,202	63,598	69,214	60,957	70,657	64,624	6.0	-8.5	-6,033
Depletion	57,265	62,494	64,684	67,844	68,381	61,404	69,588	63,396	3.2	-8.9	-6,192
Total cost of sales	113,679	125,074	127,886	131,442	137,595	122,361	140,245	128,020	4.6	-8.7	-12,225
Earnings from operations	85,573	87,326	57,883	65,149	87,454	67,105	94,631	95,575	42.4	1.0	944
Expenses and other income											
– General and administrative**	9,757	11,972	8,779	16,597	16,535	12,249	9,250	14,028	14.5	51.7	4,778
– Foreign exchange (gain)/loss	(170)	26	0	144	0				N/A	N/A	0
– Net interest paid/(received)	5,591	5,659	12,877	12,743	13,946	13,306	10,391	11,871	-10.8	14.2	1,480
– Other (income)/expense	2,757	466	1,301	581	(266)	(500)		(265)	-47.0	N/A	-265
Total expenses and other income	17,935	18,123	22,957	30,065	30,215	25,055	19,641	25,634	2.3	30.5	5,993
Earnings before income taxes	67,638	69,203	34,926	35,084	57,239	42,050	74,990	69,941	66.3	-6.7	-5,049
Income tax expense/(recovery)	(485)	(3,224)	905	(1,662)	(110)	(2,758)	250	(2,751)	-0.3	-1,200.4	-3,001
Marginal tax rate (%)	(0.7)	(4.7)	2.6	(4.7)	(0.2)	(6.6)	0.3	(3.9)	-40.9	-1,400.0	-4.2
Net earnings	68,123	72,427	34,021	36,745	57,349	44,808	74,740	72,692	62.2	-2.7	-2,048
Avg no. shares in issue (000s)	442,728	443,191	443,634	444,057	444,389	445,769	445,219	446,802	0.2	0.4	1,583
Basic EPS (US$)	0.15	0.16	0.08	0.08	0.13	0.10	0.17	0.16	60.0	-5.9	-0.01
Diluted EPS (US$)	0.15	0.16	0.08	0.08	0.13	0.10	0.17	0.16	60.0	-5.9	-0.01
DPS (US$)	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.0	0.0	0.00

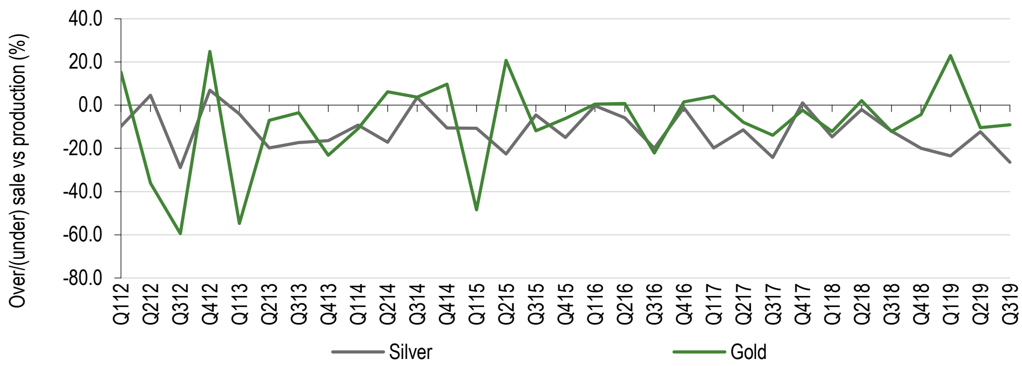
Source: Wheaton Precious Metals, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Quarterly forecasts exclude stock-based compensation costs. ***Q319 vs Q219. ****Q319a vs Q319e.

Once again, Salobo reported an exceptionally strong quarter, with lower grades and recovery offset by higher throughput, such that production records were set for both gold and copper in July, albeit 10,551oz of production remained unsold at the end of the quarter. In addition, Vale also noted that the 50% capacity expansion at Salobo (which is scheduled to start up in H122) is 27% complete, including the completion of the concrete foundations for the mill and primary crusher bases and the arrival to site of the first loads related to the long-distance conveyor belt. Otherwise, positive production performances relative to our expectations were also recorded at Constancia, San Dimas and Antamina – although in each of these cases (with the exception of San Dimas) there was an under-sale of product with respect to production. Conversely, production and sales at Penasquito were negatively affected by the illegal blockage that began there on 15 September and finished on 8 October and which Newmont (the operator) estimated cost Wheaton c 0.4Moz in attributable production. Production and sales at Sudbury were negatively affected by its traditional maintenance shutdowns in Q3.

Ounces produced but not yet delivered – aka inventory

After converging to close to their long-term rates (92.2% for gold and 88.8% for silver) in Q219, sales relative to production diverged once again in Q319, with silver sales, in particular, amounting to just 73.6% of production, principally as a result of the disruption to operations at Penasquito during the quarter:

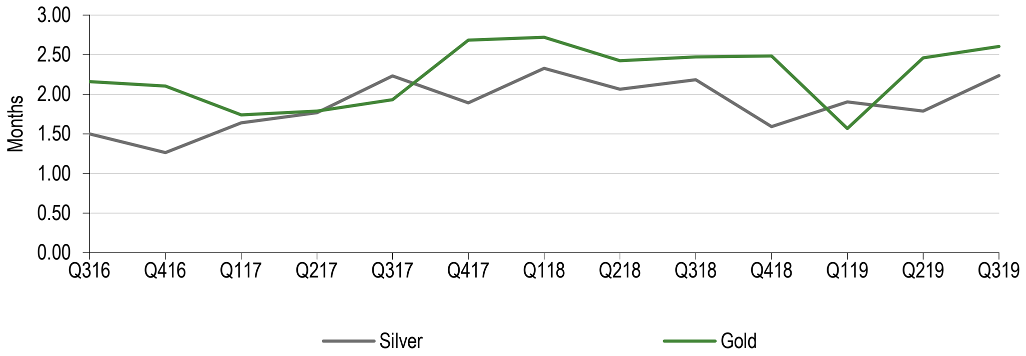
Exhibit 2: Over(/under) sale of silver and gold as a % of production, Q112–Q319



Source: Edison Investment Research, Wheaton Precious Metals

As at 30 September, payable ounces attributable to WPM produced but not yet delivered amounted to 4.2Moz silver and 85,468oz gold (vs a reported 3.3Moz silver and 80,740oz gold in June). This 'inventory' equates to 2.31 months and 2.60 months of forecast FY19 silver and gold production, respectively, and compares with WPM's target level of two months of annualised production for silver, and two to three months of annualised gold and palladium production.

Exhibit 3: WPM ounces produced but not yet delivered, Q316–Q319 (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 be considered to be a consequence of metallurgical recoveries in the plant.

Medium-term outlook

WPM has adjusted its production guidance for FY19 to 390,000oz of gold (cf 385,000oz previously), 21.0Moz of silver (cf 22.5Moz previously) and 22,000oz of palladium (unchanged). For the five-year period ending in FY23, the company has maintained its average annual gold equivalent production at 750,000oz pa. This compares with Edison's (updated) longer-term forecasts, as follows:

Exhibit 4: WPM precious metals production – Edison forecasts vs guidance

	FY19e	FY20e	FY21e	FY22e	FY23e*
Previous Edison forecast					
Silver production (Moz)	22.1	23.7	20.7	20.5	17.4
Gold production (koz)	385	388	386	356	369
Cobalt production (klbs)	0	0	2,100	2,100	2,100
Palladium production (koz)	22	27	27	27	30
Gold equivalent (koz)	666	675	806	779	741
Current Edison forecast					
Silver production (Moz)	21.7	21.8	20.7	20.5	17.4
Gold production (koz)	394	388	386	356	369
Cobalt production (klbs)	0	0	2,100	2,100	2,100
Palladium production (koz)	21	27	27	27	30
Gold equivalent (koz)	670	691	781	744	716
Current WPM guidance					
Silver production (Moz)	21.0				
Gold production (koz)	390				
Cobalt production (klbs)	0				
Palladium production (koz)	22				
Gold equivalent (koz)		750	750	750	750
Previous WPM guidance					
Silver production (Moz)	22.5				
Gold production (koz)	385				
Cobalt production (klb)	0				
Palladium production (koz)	22				
Gold equivalent (koz)	690	750	750	750	750

Source: Company guidance, Edison Investment Research forecasts. Note: *Edison forecast includes a contribution from Salobo III in FY23e.

Note that the major differences between Edison's gold equivalent production forecasts and Wheaton's may be explained by the ratio of the gold price to the silver price. Whereas Wheaton assumes an 81.25x ratio (based on a gold price of US$1,300/oz and a silver price of US$16.00/oz), the current ratio is closer to 87.2x and Edison assumes that the ratio will revert to closer its long-term average of 57x from FY20 onwards. In addition, Edison is also expecting a production contribution from Salobo III in FY23. However, in the light of recent events (see 'Rosemont', below), it has removed any contribution from Rosemont until there is more clarity regarding the legal situation.

In the medium term, 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 and grades improve once again at the main Penasco pit with mine sequencing. 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 by recovering 48% of the silver that previously reported to tailings. Production of palladium and gold at that Stillwater mine is also anticipated to increase as the Blitz project ramps up to full capacity in FY21. In the meantime, production is expected to remain at lower levels at Constancia, owing to delays in mining the Pampacancha satellite deposit (which hosts significantly higher gold grades than those mined hitherto). In lieu of this however, WPM is entitled to receive an additional 2,005oz gold per quarter during FY19 and FY20 relative to its precious metals purchase agreement.

Longer-term outlook

Salobo

On 24 October 2018, Vale announced the approval of the Salobo III brownfields mine expansion, intended to increase processing capacity at Salobo from 24Mtpa to 36Mtpa, with start-up scheduled for H122 and an estimated ramp-up time of 15 months. According to its agreement with Vale, depending on the grade of the material processed, WPM will be required to make a payment to Vale in respect of this expansion, which WPM estimates will be in the range US$550–650m in FY23, in return for which it will be entitled to its full 75% attributable share of gold production. Note: this compares to its purchase of a 25% stream in August 2016 for a consideration of US$800m (see our note, Silver Wheaton: Going for gold, published on 30 August 2016), the US$900m it paid for a similar stream in March 2015 (when the gold price averaged US$1,179/oz) and the US$1.33bn that it paid for its original 25% stream in February 2013.

Pascua-Lama

Wheaton's contract with Barrick provides for a completion test that, if unfulfilled by 30 June 2020, results in WPM's being entitled to the return of its upfront cash consideration of US$625m less a credit for any silver delivered up to that date from three other Barrick mines. At the current time it is, to all intents and purposes, impossible for Pascua-Lama to pass a completion test on 30 June 2020, as a result of which Edison had presumed that WPM would be the recipient of c US$273.4m in FY20. Given the long-term optionality provided by the Pascua-Lama project however, Wheaton has indicated that it is unlikely to enforce the repayment of its entitlement and that it prefers instead to maintain its streaming interest in the project. As a result, we have now removed this repayment item from our capital expenditure forecasts for FY20 (see 'Financials' on page 10).

Other 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 was produced as a by-product of either gold or base metal mines (ie approximately 305Moz pa silver vs WPM's production of 28.5Moz Ag in FY17). Inevitably, WPM's investible universe may 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, thus fully financeable via the c US$1.14bn available to WPM in cash and under its US$2bn revolving credit facility as at end-Q319.

While it is difficult, or impossible, to predict potential future stream acquisition targets with any degree of certainty, it is perhaps possible to highlight two 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; and
- the 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

Rosemont

One further, major project that had been moving closer to development is the Rosemont copper project in Arizona, after its operator, Hudbay, announced that it had received both a Section 404 Water Permit from the US Army Corps of Engineers and its Mine Plan of Operations (MPO) from the US Forest Service. The Section 404 permit regulates the discharge of fill material into waterways according to the Clean Water Act and was effectively the final material administrative step before the mine could be developed. Subsequently, Hudbay indicated it would seek board approval to commence construction work by the end of the year, which 'should enable first production by the end of 2022'. In the meantime, it commenced an early works programme to run concurrently with financing activities (including a potential joint venture partner) for the remainder of the year.

On 31 July however, the US District Court for the District of Arizona issued a ruling in the lawsuits challenging the US Forest Service's issuance of the Final Record of Decision effectively halting construction of the mine, saying that:

- The US Forest Service 'abdicated its duty to protect the Coronado National Forest' when it failed to consider whether the mining company held valid unpatented mining claims; and
- The Coronado Forest Service had 'no factual basis to determine that Rosemont had valid unpatented mining claims' on 2,447 acres and that the claims were invalid under the Mining Law of 1872.

In its reaction to the ruling, Hudbay said that it believed that the ruling was without precedent and that the court had misinterpreted federal mining laws and Forest Service regulations as they apply to Rosemont. It pointed out that the Forest Service issued its decision in 2017 after a 'thorough process of ten years involving 17 co-operating agencies at various levels of government, 16 hearings, over 1,000 studies, and 245 days of public comment resulting in more than 36,000 comments' and with a long list of studies that have examined the potential effects on the environment. Hudbay also pointed out that various agencies had accepted that the company could operate the mine in compliance with environmental laws. In conclusion, it said that it will appeal the ruling to the Ninth Circuit Court of Appeals. Nevertheless, in the light of the uncertainty about the timing and development of the project we have, for the moment at least, removed it from all of our forecasts.

The proposed Rosemont development is located near a number of large porphyry-type producing copper mines and is expected to be one of the largest three 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 and we estimate it could contribute an average c US$0.12 per share to WPM's basic EPS in its first eight years of operations from FY22–29 for an upfront payment of US$230m (equivalent to US$0.51/share) in two instalments of US$50m and US$180m (of which neither has yet been paid).

Other matters

Gold price

In addition to our short-term FY19 forecast adjustments, we have also adjusted our longer-term gold and silver price assumptions to those set out in our recent report, Portents of economic weakness: Gold – doves in the ascendant, as follows:

Exhibit 5: Updated Edison gold price forecasts*

US$/oz	2020e	2021e	2022e	2023e
Updated gold price forecast (US$/oz)	1,635	1,509	1,560	1,421
Previous gold price forecast (US$/oz)	1,482	1,437	1,304	1,303
Updated silver price forecast (US$/oz)	26.74	24.76	25.56	23.38
Previous silver price forecast (US$/oz)	25.95	25.19	22.90	22.89

Source: Edison Investment Research. Note: *See *Portents of economic weakness: Gold – doves in the ascendant*.

General and administrative expenses

WPM has reduced its guidance for non-stock general and administrative expenses for FY19, from US$36–38m to US$33-36m, or US$8.25–9.0m per quarter (vs a comparable forecast of US$34–36m, or US$8.5–9.0m per quarter, for FY18), including all employee-related expenses, charitable contributions, etc. Investors should note, however, that stock-based compensation costs are excluded from our financial forecasts in Exhibits 6 and 9 owing to their inherently unpredictable nature.

FY19 by quarter

Taking into account the aforementioned considerations, plus the improved precious metal pricing environment so far in H219, our updated forecasts for WPM for FY19, by quarter, are now as shown in Exhibit 6. In addition to our Q419 and FY19 forecasts, we have also taken the opportunity to show contingency forecasts for FY20, based on gold and silver prices remaining at current levels of US$1,462/oz and US$16.75/oz, respectively (note that these contrast with our formal base case forecasts in Exhibit 9, which are based on our higher long-term gold and silver prices shown in Exhibit 5). While we believe that our higher, longer-term gold price forecast for FY20 remains eminently achievable, current indications are that it will take some time longer for the silver price, in particular, to revert to its longer-term c 57x price multiple relationship with gold.

Exhibit 6: Wheaton Precious Metals FY19 forecast, by quarter*

US$000s (unless otherwise stated)	Q119	Q219	Q319	Q419 (previous)	Q419 (current)	FY19 (previous)	FY19 (current)	Q120	Q220	Q320	Q420
Silver production (koz)	5,614	4,834	6,095	5,807	5,140	22,062	21,683	5,926	5,926	5,926	5,926
Gold production (oz)	93,585	100,577	104,175	95,419	95,419	385,000	393,756	97,105	97,105	97,105	97,105
Palladium production (oz)	4,729	5,736	5,471	5,500	5,500	21,465	21,436	6.750	6.750	6.750	6.750
Silver sales (koz)	4,294	4,241	4,484	5,807	4,740	19,936	17,759	5,926	5,926	5,926	5,926
Gold sales (oz)	115,020	90,077	94,766	95,383	95,383	395,863	395,246	97,068	97,068	97,068	97,068
Palladium sales (oz)	5,189	5,273	4,907	5,478	5,478	21,418	20,847	6.723	6.723	6.723	6.723
Avg realised Ag price (US$/oz)	15.64	14.93	17.09	16.95	17.18	16.13	16.25	16.75	16.75	16.75	16.75
Avg realised Au price (US$/oz)	1,308	1,320	1,471	1,418	1,472	1,363	1,389	1,462	1,462	1,462	1,462
Avg realised Pd price (US$/oz)	1,443	1,381	1,535	1,320	1,721	1,365	1,522	1,701	1,701	1,701	1,701
Avg Ag cash cost (US$/oz)	4.64	5.14	5.16	5.20	5.31	5.07	5.07	5.09	5.09	5.10	5.10
Avg Au cash cost (US$/oz)	417	420	424	421	421	420	420	424	424	424	424
Avg Pd cash cost (US$/oz)	254	247	271	238	310	244	271	306	306	306	306
Sales	225,049	189,466	223,595	240,914	231,266	890,304	869,376	252,615	252,615	252,615	252,615
Cost of sales											
Cost of sales, excluding depletion	69,214	60,957	64,624	71,648	67,092	272,476	261,887	73,350	73,350	73,390	73,390
Depletion	68,381	61,404	63,396	70,240	66,665	269,613	259,846	71,861	71,861	71,861	71,861
Total cost of sales	137,595	122,361	128,020	141,887	133,756	542,089	521,733	145,211	145,211	145,251	145,251
Earnings from operations	87,454	67,105	95,575	99,027	97,510	348,216	347,643	107,404	107,404	107,364	107,364
Expenses and other income											
– General and administrative**	16,535	12,249	14,028	9,250	9,250	47,284	52,062	9,500	9,500	9,500	9,500
– Foreign exchange (gain)/loss	0					0	0				
– Net interest paid/(received)	13,946	13,306	11,871	10,391	10,145	48,034	49,268	8,411	8,411	8,411	8,411
– Other (income)/expense	(266)	(500)	(265)			(766)	-1,031				
Total expenses and other income	30,215	25,055	25,634	19,641	19,395	94,552	100,299	17,911	17,911	17,911	17,911
Earnings before income taxes	57,239	42,050	69,941	79,386	78,115	253,663	247,344	89,493	89,493	89,453	89,453
Income tax expense/(recovery)	(110)	(2,758)	(2,751)	250	250	(2,368)	-5,369	250	250	250	250
Marginal tax rate (%)	(0.2)	(6.6)	(3.9)	0.3	0.3	-0.9	-2.2	0.3	0.3	0.3	0.3
Net earnings	57,349	44,808	72,692	79,136	77,865	256,031	252,713	89,243	89,243	89,203	89,203
Ave. no. shares in issue (000s)	444,389	445,769	446,802	445,219	446,802	445,424	445,941	446,802	446,802	446,802	446,802
Basic EPS (US$)	0.13	0.10	0.16	0.18	0.17	0.57	0.57	0.20	0.20	0.20	0.20
Diluted EPS (US$)	0.13	0.10	0.16	0.18	0.17	0.57	0.57	0.20	0.20	0.20	0.20
DPS (US$)	0.09	0.09	0.09	0.10	0.09	0.37	0.36	0.10	0.11	0.11	0.11

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

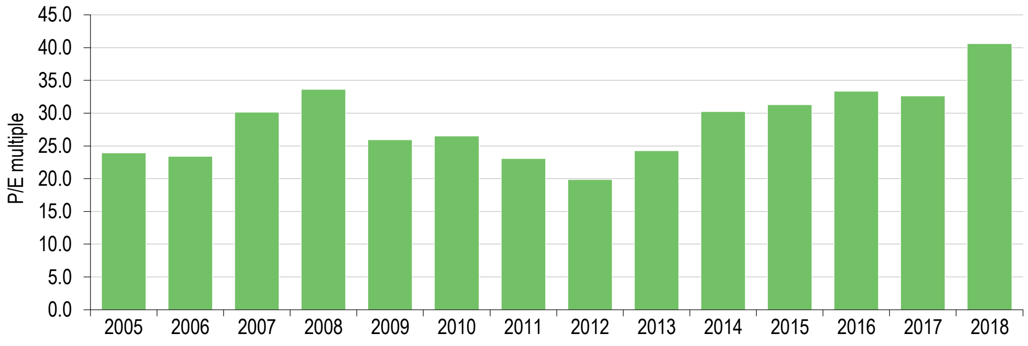
Our basic EPS forecast of US$0.57/share (the same as previously) for FY19 is in line with a consensus forecast of US$0.57/share (source: Refinitiv, 15 November 2019) within a range of US$0.49–0.62 per share.

Our US$1.30 basic EPS forecast for FY20 (see Exhibit 9) compares with a consensus of US$0.83 (source: Refinitiv, 15 November), within a range of US$0.52–1.30. As noted previously, this estimate is predicated on an average gold price during the year of US$1,635/oz and an average silver price of US$26.74/oz, which, in the latter case, is 59.6% above the current spot price. One of the central assumptions behind our silver price forecast is that it will, at some point, revert to the long-term correlation that it has exhibited with gold since the latter was demonetised in 1971. In the event that both metals remain at current levels however (US$16.75/oz and US$1,462/oz at the time of writing), we forecast that WPM will instead earn US$0.80 per share in FY20 (as shown in Exhibit 6).

Valuation

Excluding FY04 (part-year), WPM's shares have historically traded on an average P/E multiple of 28.5x current year basic underlying EPS, excluding impairments (vs 46.8x Edison or 46.2x Refinitiv consensus FY19e, currently – see Exhibit 8).

Exhibit 7: WPM's historical current year P/E multiples, 2005–18



Source: Edison Investment Research

Applying this 28.5x multiple to our updated EPS forecast of US$1.15 in FY21 (cf US$1.20 in FY20 previously) implies a potential value per share for WPM of US$32.78, or C$43.37 in that year (vs US$34.11, or C$45.37 previously). Note that, given the wide range surrounding our FY20e EPS forecasts, we have elected to roll the basis of our valuation forward by one year to FY21 cf FY20, previously. In addition, this valuation excludes the value of 20.2m shares in First Majestic currently held by WPM, with an immediate value (15 November) of C$288.2m, or US$0.49 per WPM share.

In the meantime, from a relative perspective, it is notable that WPM is cheaper than its royalty/streaming 'peers' in at least 70% (17 out of 24) of the valuation measures used in Exhibit 8 and on multiples that are cheaper even than the miners themselves in at least 34% (27 out of 78) of the same valuation measures, despite being associated with materially less operational and cost risk (since 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	59.9	48.2	0.9	0.9	30.9	25.9
Royal Gold	53.5	43.5	0.9	0.9	22.5	21.2
Sandstorm Gold	85.4	55.0	0.0	0.0	21.3	17.6
Osisko	47.1	34.8	1.8	1.8	17.5	14.6
Average	**61.5**	**45.4**	**0.9**	**0.9**	**23.1**	**19.8**
WPM (Edison forecasts)	**46.5**	**20.4**	**1.4**	**2.0**	**22.8**	**13.5**
WPM (consensus)	**46.2**	**31.7**	**1.4**	**1.7**	**22.6**	**17.6**
Gold producers						
Barrick	32.8	20.0	1.0	1.0	9.3	7.2
Newmont	28.1	15.8	1.5	1.5	9.8	6.9
Newcrest	18.8	19.1	1.0	1.1	10.4	9.9
Kinross	14.4	11.5	0.0	0.0	4.9	4.2
Agnico-Eagle	59.6	31.2	0.9	1.1	15.9	11.2
Eldorado	63.0	9.2	0.0	0.5	6.9	3.7
Yamana	29.0	18.4	0.8	1.0	6.6	5.1
Average	**35.1**	**17.9**	**0.7**	**0.9**	**9.1**	**6.9**
Silver producers						
Hecla		100.0	0.4	0.4	10.6	6.7
Pan American	32.9	20.8	0.9	0.8	12.7	7.4
Coeur Mining		33.7	0.0	0.0	11.4	6.1
First Majestic	286.7	51.2	0.0	0.0	20.2	13.2
Hochschild	19.3	12.9	1.7	1.9	5.5	4.5
Fresnillo	33.5	23.6	1.5	2.0	9.2	8.1
Average	**93.1**	**40.4**	**0.8**	**0.9**	**11.6**	**7.7**

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 15 November 2019.

Financials: Solid equity base

As at 30 September 2019, WPM had US$151.6m in cash (cf US$87.2m at the end of Q219) and US$1,017.1m of debt outstanding (cf US$1,100.0m at end-Q219), 99.6% of which is under its US$2bn revolving credit facility (which attracts an interest rate of Libor plus 120–220bp and matures in February 2024), such that it had net debt of US$865.5m (cf US$1,012.8m at end-Q2) overall, after US$142.3m (US$0.32/share) of pre-financing cash inflows during the quarter. Relative to the company's Q3 balance sheet equity of US$5,201.4m (cf US$5,111.9m at end-Q2), this level of net debt equates to a financial gearing (net debt/equity) ratio of 16.6% (cf 19.8% at end-Q2) and a leverage (net debt/[net debt+equity]) ratio of 14.2% (cf 16.5% at end-Q2). It also compares with a net debt position of US$1,057.7m as at end-March, US$1,188.2m as at end-December and US$1,261.1m as at end-September 2018. 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; and
- interest should be no less than 3x covered by EBITDA (we estimate that it will be covered 11.6x in FY19).

All other things being equal and subject to its making no further major acquisitions (which is unlikely in our view), on our current cash flow projections WPM will be net debt free late in H121 (cf FY20 previously when we assumed the return of c US$273.4m from Barrick relating to the Pascua-Lama stream – see page 5).

Exhibit 9: Financial summary

US$000s	2015	2016	2017	2018	2019e	2020e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	648,687	891,557	843,215	794,012	869,376	1,247,267
Cost of Sales	(190,214)	(254,434)	(243,801)	(245,794)	(261,887)	(286,915)
Gross Profit	458,473	637,123	599,414	548,218	607,489	960,353
EBITDA	426,236	602,684	564,741	496,568	555,427	908,291
Operating Profit (before amort. and except.)	227,655	293,982	302,361	244,281	295,581	616,425
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	(384,922)	(71,000)	(228,680)	245,715	(169,824)	0
Other	(4,076)	(4,982)	8,129	(5,826)	1,031	0
Operating Profit	(161,343)	218,000	81,810	484,170	126,788	616,425
Net Interest	(4,090)	(24,193)	(24,993)	(41,187)	(49,268)	(33,645)
Profit Before Tax (norm)	223,565	269,789	277,368	203,094	246,313	582,780
Profit Before Tax (FRS 3)	(165,433)	193,807	56,817	442,983	77,520	582,780
Tax	3,391	1,330	886	(15,868)	5,369	(1,000)
Profit After Tax (norm)	222,880	266,137	286,383	181,400	252,713	581,780
Profit After Tax (FRS 3)	(162,042)	195,137	57,703	427,115	82,889	581,780
Average Number of Shares Outstanding (m)	395.8	430.5	442.0	443.4	445.9	446.8
EPS - normalised (c)	53	62	63	48	56.7	130.2
EPS - normalised and fully diluted (c)	53	62	63	48	57	130
EPS - (IFRS) (c)	(-41)	45	13	96	19	130
Dividend per share (c)	20	21	33	36	36	53
Gross Margin (%)	70.7	71.5	71.1	69.0	69.9	77.0
EBITDA Margin (%)	65.7	67.6	67.0	62.5	63.9	72.8
Operating Margin (before GW and except.) (%)	35.1	33.0	35.9	30.8	34.0	49.4
BALANCE SHEET						
Fixed Assets	5,526,335	6,025,227	5,579,898	6,390,342	6,132,496	5,842,630
Intangible Assets	5,494,244	5,948,443	5,454,106	6,196,187	5,938,341	5,648,475
Tangible Assets	12,315	12,163	30,060	29,402	29,402	29,402
Investments	19,776	64,621	95,732	164,753	164,753	164,753
Current Assets	105,876	128,092	103,415	79,704	435,672	1,074,159
Stocks	1,455	1,481	1,700	1,541	1,561	2,239
Debtors	1,124	2,316	3,194	2,396	2,382	3,417
Cash	103,297	124,295	98,521	75,767	431,729	1,068,502
Other	0	0	0	0	0	0
Current Liabilities	(12,568)	(19,057)	(12,143)	(28,841)	(34,788)	(37,256)
Creditors	(12,568)	(19,057)	(12,143)	(28,841)	(34,788)	(37,256)
Short term borrowings	0	0	0	0	0	0
Long Term Liabilities	(1,468,908)	(1,194,274)	(771,506)	(1,269,289)	(1,269,289)	(1,269,289)
Long term borrowings	(1,466,000)	(1,193,000)	(770,000)	(1,264,000)	(1,264,000)	(1,264,000)
Other long term liabilities	(2,908)	(1,274)	(1,506)	(5,289)	(5,289)	(5,289)
Net Assets	4,150,735	4,939,988	4,899,664	5,171,916	5,264,091	5,610,243
CASH FLOW						
Operating Cash Flow	435,783	608,503	564,187	518,680	562,399	909,046
Net Interest	(4,090)	(24,193)	(24,993)	(41,187)	(49,268)	(33,645)
Tax	(208)	28	(326)	0	5,369	(1,000)
Capex	(1,791,275)	(805,472)	(19,633)	(861,406)	(2,000)	(2,000)
Acquisitions/disposals	0	0	0	0	0	0
Financing	761,824	595,140	1,236	1,279	0	0
Dividends	(68,593)	(78,708)	(121,934)	(132,915)	(160,539)	(235,628)
Net Cash Flow	(666,559)	295,298	398,537	(515,549)	355,962	636,773
Opening net debt/(cash)	690,420	1,362,703	1,068,705	671,479	1,188,233	832,271
HP finance leases initiated	0	0	0	0	0	0
Other	(5,724)	(1,300)	(1,311)	(1,205)	0	0
Closing net debt/(cash)	1,362,703	1,068,705	671,479	1,188,233	832,271	195,498

Source: Company sources, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Wheaton Precious Metals and prepared and issued by Edison, in consideration of a fee payable by Wheaton Precious Metals. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia