

# Wheaton Precious Metals

## Majestic

On 12 January, First Majestic (FR, C\$8.65) announced that it is to buy Primero Mining (the operator of the San Dimas mine, over which WPM holds a silver stream). As a result, the existing silver purchase agreement covering 100% (effectively) of the silver produced by the mine will be replaced by one covering 25% of gold production plus an additional amount of gold equal to 25% of silver production converted into gold at a fixed gold:silver ratio of 70:1. This has caused us to revise our FY18 EPS forecast from 67c to 63c on a like-for-like basis (vs a consensus of 64.5c, within a range 49-80c). In lieu of this, First Majestic will also issue to WPM 20.9m FR common shares with an aggregate value at the time of writing of US\$145m (equivalent to US\$0.33 per WPM share).

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	648.7	223.6	53	20	47.0	0.8
12/16	891.6	269.8	62	21	40.2	0.8
12/17e	827.2	274.7	62	33	40.2	1.3
12/18e	795.5	277.6	63	37	39.6	1.5

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

## WPM to become majority gold streaming

For each ounce of gold delivered, Wheaton will pay a production payment equal to the lesser of US\$600/oz (subject to a 1% annual inflationary adjustment) and the prevailing market price. Discounted at Edison's standard 10% discount rate for mining companies, we value the cash flows to WPM from San Dimas for the period FY18-33 at US\$252.9, or US\$0.57 per WPM share, on the basis of Edison's long-term gold price assumptions. On the basis of the current spot price of gold (US\$1,320/oz at the time of writing), we value them at US\$238.7m, or US\$0.54 per WPM share. As a result of the conversion of the stream from a silver one to (effectively) a gold one, we expect WPM to become a majority gold streaming company from the date of the conclusion of the FR-PMO transaction (albeit there will inevitably be some quarterly fluctuations depending upon the balance of production, sales etc).

## Valuation: Investors in line for 37.6% IRR over 3 years

Assuming no material purchases of additional streams (which is unlikely), we forecast a per share value for WPM of US\$37.90, or C\$47.18 in FY20 (at average precious metals prices of US\$25.95/oz Ag and US\$1,482/oz Au), implying a 37.6% pa total internal rate of return (IRR) for investors in US dollar terms over the next three years. These valuations rise by 9.6% to US\$41.53, C\$51.69 and 41.7% in the event that Vale decides to increase Salobo's processing capacity by 50% to 36Mpa. In the meantime, WPM's shares are trading on near-term financial ratios that are lower than those of its royalty/streaming 'peers' on 96% of financial measures considered in Exhibit 6, and the miners themselves in at least 43% of the same measures, despite being associated with materially less operating and cost risk. Additional potential upside still then exists in the form of the optionality provided by the development of major assets such as Pascua-Lama etc.

San Dimas SPA adjustment

Metals & mining

15 February 2018

Price **C\$24.93**

Market cap **C\$11,029m**

C\$1.2446/US\$

Net debt\* (US\$m) at 30 September 2017 784.1  
\*Ex-dividend

Shares in issue 442.4m

Free float 100%

Code WPM

Primary exchange TSX

Secondary exchange NYSE

### Share price performance



% 1m 3m 12m

Abs (8.8) (4.6) (14.2)

Rel (local) (3.0) (0.9) (11.7)

52-week high/low C\$29.3 C\$23.4

### Business description

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

### Next events

Q417/FY17 results March 2018

### Analyst

Charles Gibson +44 (0)20 3077 5724

[mining@edisongroup.com](mailto:mining@edisongroup.com)

[Edison profile page](#)

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

## San Dimas

---

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

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

In addition to the new stream, First Majestic will also issue to WPM 20.9m FR common shares with an aggregate value at the time of the announcement of US\$151m (US\$145m at the time of writing).

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

Note that, for the purposes of the analysis below, we have assumed that First Majestic's acquisition of Primero completes on 31 March and that Q118 of WPM's financial year will therefore be governed by the existing SPA and that the new PMPA will then become effective thereafter.

## Background

---

The San Dimas mine consists of three underground gold-silver operations, using primarily mechanised cut-and-fill and long-hole stoping mining methods, located in Mexico's San Dimas district, on the border of the Durango and Sinaloa states. With over 100 epithermal bonanza-type mineralised gold-silver veins, the San Dimas gold-silver deposit is one of the most significant precious metal deposits in Mexico. The veins vary in width from <1cm to over 15m, but typically average c 2m, and in strike from a few metres to more than 2km. It was first mined in 1757, with historical production from the district since then being estimated at 11Moz gold and 582Moz silver, affirming it as a world class epithermal mining district.

Goldcorp acquired San Dimas in 2002 for US\$75m and, on 15 October 2004, entered into a silver purchase agreement with WPM, whereby the latter would purchase 100% of the silver produced by Goldcorp's Luismin mining operations (primarily the San Dimas and Los Filos mines) for a period of 25 years, for an upfront payment of C\$46m in cash and 108m WPM shares (then trading at C\$4.00/share), and an ongoing payment equal to the lesser of US\$3.90/oz silver (subject to an

annual inflationary price adjustment) and the then prevailing market price of silver. On 30 March 2006, the two parties amended the Luismin silver purchase agreement, eliminating any capital expenditure contributions previously required to be paid by WPM, in consideration of which it issued 18m further shares to Goldcorp and a US\$20m one-year, non-interest bearing promissory note, which was paid in full on 29 March 2007.

In August 2010, Primero (formerly known as Mala Noche Resources) acquired San Dimas from Goldcorp for US\$510m in cash, shares and debt, leaving Goldcorp with a 36% share of the company. As part of the acquisition, WPM also agreed to an amended silver purchase agreement such that the term of the agreement was extended to the life of mine, in return for which Primero would deliver to WPM only the first 3.5Moz of payable silver produced at San Dimas per annum plus 50% of any excess for four years. With the agreement of both parties, this then increased to the first 6.0Moz plus 50% of any excess from the fifth year onwards.

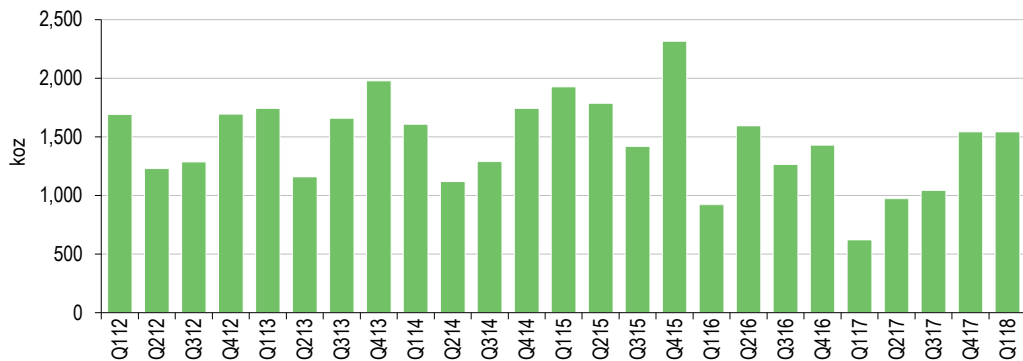
Between 2010, when it acquired the mine and 2014, Primero increased mill capacity from 1,500tpd to 2,500tpd and had plans to increase it further to 3,000tpd thereafter. In Q116 however, output at San Dimas fell by 60.2%, quarter-on-quarter, to 0.9Moz attributable silver (vs 2.3Moz in Q415) which Primero attributed to the implementation of new safety standards at the mine. As a result, mill throughput was said to be limited to 1,639tpd. This recovered to above 2,500tpd in April. However, the addition of ground support was reported to have resulted in a modified mine plan for the remainder of 2016, with the company targeting higher-grade stopes at lower tonnages, with the result that a long-planned mill expansion to 3,000tpd was deferred. After recovering to something close to normal operating conditions in Q216, production at San Dimas was affected by high unplanned worker absences and a failure to achieve mine plans in Q316, which resulted in reduced development rates and also a number of delayed ventilation improvement projects. This, in turn, limited access to certain high-grade areas of the mine and caused Primero to revise its silver production guidance to 5.5-6.0Moz for FY16. This implied output of 1.7Moz in Q4. In the event, only 1.4Moz was produced, after which workers called a strike in mid-February 2017.

## **FY17 trials and tribulations**

After two months of strike action, operations at San Dimas resumed on 18 April and a phased restart of the mine began on 22 April. Subsequently, a 13-day suspension of milling activities in mid-June followed the failure of an anchor block affixed to one of eight cables supporting the tailing suspension bridge. However, mining operations continued uninterrupted during that time with ore being stockpiled at the mill site. Full plant operations resumed on 24 June and the ore stockpile was fully processed in mid-July. Since mid-July however, Primero has reported a material deterioration in employer-employee relations to the point that productivity was materially, adversely affected.

In the aftermath of the strike, Primero's production guidance for FY17 was 4.5-5.5Moz Ag. In the first three quarters of the year, it produced 2,639koz silver attributable to WPM (an average of 880koz per quarter). In September, it revised its guidance to 4.5-5.0Moz and has maintained this range to date, albeit it is now erring towards the lower end. This compares to WPM's guidance at the time of its FY16 results in March 2017 (see our [update note](#) published on 29 March 2017) of 4.0Moz after an assumed three-month strike (vs two months actual) and Edison's current, relatively conservative, expectation of 4.2Moz, which assumes a return to San Dimas's long-term average quarterly production rate of 1.5Moz per quarter in Q417 (and then again in Q118).

**Exhibit 1: San Dimas silver production attributable to WPM, Q112-Q118e (koz)**



Source: Edison Investment Research, Wheaton Precious Metals

As such, we are forecasting that the San Dimas stream will have accounted for 14.7% of total silver production attributable to WPM in FY17 and 7.8% of silver equivalent production.

## Politics

Fundamentally, Primero's exploration at San Dimas failed to identify any replacement for the depleting Roberta and Robertita veins, with the result that mining rates above 1,800tpd (vs nameplate capacity of 2,500tpd) became increasingly difficult to maintain and Primero was in danger of failing to comply with its financial obligations to lenders and consequently cut back on exploration activities, thereby further compromising the mine's potential future life.

In addition, in February 2016, Primero announced that its Mexican subsidiary had received a legal claim from the Mexican tax authorities, Servicio de Administración Tributaria (SAT), seeking to nullify the Advance Pricing Agreement issued by SAT in 2012, which confirmed Primero's ability to pay taxes in Mexico on the sale of silver at actual prices realised by its Mexican subsidiary in connection with silver sales under Primero's silver purchase agreement (SPA) with WPM for the tax years 2010-14. In the event that SAT is retroactively successful in nullifying the deal, it may seek to audit and reassess Primero's Mexican subsidiary in respect of sales of silver in connection with the Primero SPA for the tax years 2010-14 and tax Primero on such sales at higher than realised prices, as opposed to the actual prices realised under the Primero SPA. In response, Primero notified the Mexican government that the measures taken against it by the SAT breached several provisions of Chapter 11 of the North American Free Trade Agreement (NAFTA) and that it has the option to commence international arbitration proceedings pursuant to Article 1119 of NAFTA. Nevertheless, at present, the dispute remains unresolved.

## Material exceptionality

San Dimas was the fourth largest unique contributor to WPM's sales in Q317 and, arguably, should have been the third largest and could have been the second largest under more normal circumstances. Prior to Q217, we forecast that San Dimas could sustainably produce 6.8Moz silver per annum attributable to WPM, which would ordinarily equate to c 24% of WPM's silver production in a typical year, or c 15% of silver equivalent (AgE) production. While such a contribution to WPM is therefore not immaterial, in the historical context, it is worth noting that the San Dimas stream was specifically put into WPM by Goldcorp in 2004 and WPM floated as a means of showcasing the streaming business model, and that otherwise WPM would not, in the ordinary course of business, expose itself to such a material stream from an asset with such a comparatively junior operator.

Otherwise, all terms were entered into freely by both parties and these initially left Primero in a cash flow-positive position. WPM also highlights a number of Primero's strategic decisions, such as

apparently giving precedence to gold over silver exploration and pursuing corporate expansion (eg via the Black Fox acquisition) while simultaneously reining in development expenditure at San Dimas as being material contributory factors in aggravating Primero's tribulations. In any event, it was certainly not in WPM's interest to risk a corporate bankruptcy at Primero, which was part of the reason for the corporate loan guarantees provided by it to Primero last year. As a result, with multiple mines, a single union, a pre-expanded mill and the status as Durango's largest taxpayer, WPM believes there is a tangible opportunity for First Majestic to turn around the fortunes of the San Dimas complex, including the possibility of some relatively near-term success in previously relatively neglected silver exploration.

## Economics

---

Edison's assumption that First Majestic's acquisition of Primero completes on 31 March 2018 means that our FY17 forecasts will be unaffected by the transaction. We have nevertheless updated our FY17 forecasts to reflect slightly different average silver and gold prices to those estimated at the time of WPM's Q3 results after the market close on 9 November (see Exhibit 2).

### Q4 & FY17

WPM's Q317 results were characterised by improvements in production relative to the previous quarter, but a 24.2% under-sale of silver relative to production (which was attributed to Penasquito, Zinkgruvan, Yauliyacu and Antamina) and a 13.9% under-sale of gold (which was attributed to Sudbury and Salobo). Note that, during the course of a year, WPM almost invariably experiences a period of inventory build, which is then, typically, 'flushed through' in the final quarter of the year. As always, Edison's forecasts are made on the basis that what is produced is sold and that there is therefore no inventory change between quarters over the period under review.

Overall, WPM has maintained its production guidance for FY17 at 28Moz Ag and 340koz Au, compared with Edison's forecast of 28.5Moz Ag and 343koz Au. We perceive that there is risk to our estimates from San Dimas, but regard this as being offset by upside risk (opportunity) at Penasquito. Otherwise, we have honed our Q417 silver price forecast from US\$16.91/oz to US\$16.72/oz (-1.1%) and our gold price forecast from US\$1,272/oz to US\$1,276/oz (+0.3%).

**Exhibit 2: Wheaton Precious Metals' FY17e by quarter and FY18e\***

US\$000s (unless otherwise stated)	Q117	Q217	Q317	Q417e (previous)	Q417e (current)	FY17e (previous)	FY17e (current)
Silver production (koz)	6,513	7,192	7,595	7,156	7,156	28,456	28,456
Gold production (oz)	84,863	78,127	95,897	83,765	83,765	342,652	342,652
AgE production (koz)	12,454	12,898	14,874	13,457	13,549	53,701	53,793
Silver sales (koz)	5,225	6,369	5,758	7,156	7,156	24,508	24,508
Gold sales (oz)	88,397	71,965	82,548	83,765	83,765	326,675	326,675
AgE sales (koz)	11,412	11,625	12,024	13,457	13,549	48,527	48,619
Avg realised Ag price (US\$/oz)	17.45	17.09	16.87	16.91	16.72	17.06	17.00
Avg realised Au price (US\$/oz)	1,208	1,263	1,283	1,272	1,276	1,248	1,256
Avg realised AgE price (US\$/oz)	17.35	17.18	16.89	16.91	16.72	17.07	17.01
Avg Ag cash cost (US\$/oz)	4.54	4.51	4.43	4.52	4.51	4.50	4.50
Avg Au cash cost (US\$/oz)	391	393	396	368	395	359	394
Avg AgE cash cost (US\$/oz)	5.11	4.90	4.84	4.86	4.82	4.92	4.91
Sales	197,951	199,684	203,034	227,565	226,540	828,233	827,209
<b>Cost of sales</b>							
Cost of sales, excl. depletion	58,291	56,981	58,234	65,422	65,365	238,928	238,871
Depletion	63,943	59,772	61,852	68,924	68,924	254,491	254,491
Total cost of sales	122,234	116,753	120,086	134,346	134,289	493,419	493,362
Earnings from operations	75,717	82,931	82,948	93,219	92,251	334,814	333,846
<b>Expenses and other income</b>							
– General and administrative**	7,898	9,069	8,793	8,500	8,500	34,260	34,260
– Foreign exchange (gain)/loss		41	163			204	204
– Net interest paid/(received)	6,373	6,482	6,360	5,686	5,686	24,901	24,901
– Other (income)/expense	94	283	1,317	0	0	1,694	1,694
Total expenses and other income	14,365	15,875	16,633	14,186	14,186	61,059	61,059
Earnings before income taxes	61,352	67,056	66,315	79,033	78,065	273,755	272,788
Income tax expense/(recovery)	128	(556)	(263)			-691	-691
Marginal tax rate (%)	0.2	(0.8)	(0.4)	0.0	0.0	-0.3	-0.3
Net earnings	61,224	67,612	66,578	79,033	78,065	274,446	273,479
Avg no. shares in issue (000s)	441,484	441,784	442,094	442,094	442,094	441,864	441,864
Basic EPS (US\$)	0.14	0.15	0.15	0.18	0.18	0.62	0.62
Diluted EPS (US\$)	0.14	0.15	0.15	0.18	0.18	0.62	0.62

Source: Wheaton Precious Metals, Edison Investment Research. Note: \*Excluding impairments. \*\*Quarterly forecasts exclude stock-based compensation costs.

In the aftermath of these revisions, our updated basic EPS estimate for FY17 is barely changed at 62c, which compares to a (rising) average consensus estimate (source: Bloomberg, 22 January 2018) of 60.4c, within a range of 57-66c (cf an average of 60.2c within a range of 57-64c in November and 59.5c within a range of 51-67c in August).

## FY18e

Under the First Majestic PMPA, San Dimas is expected to contribute, on average, approximately 40-50koz of gold production (equivalent to 2.80-3.15Moz Ag at an Au:Ag ratio of 70:1) annually to WPM over the next five years (company estimate).

Hitherto, Edison's FY18 EPS forecast were made on the basis of assumed precious metals prices of US\$21.54/oz Ag and US\$1,220/oz Au – as much to demonstrate WPM's operational gearing to a normalisation of the gold:silver ratio as an expression of our expectations. At the time of our Q317 results [update](#), published on 10 November, this resulted in an initial EPS forecast of US\$0.89/share for FY18, although we noted that this moderated to 67c in the event that precious metals' prices remained at the then level of spot prices, namely US\$17.12/oz and US\$1,287/oz for silver and gold, respectively. We have now formally updated these forecasts further, to reflect both updated precious metals' prices and our assumption that the First Majestic-Primero deal will close on 31 March 2018, by quarter, as follows:

**Exhibit 3: Wheaton Precious Metals' FY18e by quarter\***

US\$000s (unless otherwise stated)	Q118	Q218	Q318	Q418	FY18
Silver production (koz)	6,789	5,246	5,246	5,246	22,528
Gold production (oz)	70,161	80,786	80,786	80,786	312,517
AgE production (koz)	12,237	11,519	11,519	11,519	46,794
Silver sales (koz)	6,789	5,246	5,246	5,246	22,528
Gold sales (oz)	70,161	80,786	80,786	80,786	312,517
AgE sales (koz)	12,237	11,519	11,519	11,519	46,794
Avg realised Ag price (US\$/oz)	17.00	17.00	17.00	17.00	17.00
Avg realised Au price (US\$/oz)	1,320	1,320	1,320	1,320	1,320
Avg realised AgE price (US\$/oz)	17.00	17.00	17.00	17.00	17.00
Avg Ag cash cost (US\$/oz)	4.50	4.56	4.56	4.56	4.54
Avg Au cash cost (US\$/oz)	395	422	422	422	416
Avg AgE cash cost (US\$/oz)	4.76	5.03	5.03	5.03	4.96
<b>Sales</b>	<b>208,030</b>	<b>195,823</b>	<b>195,823</b>	<b>195,823</b>	<b>795,500</b>
<b>Cost of sales</b>					
Cost of sales, excl. depletion	58,289	57,998	57,998	57,998	232,283
Depletion	59,531	58,675	58,675	58,675	235,556
Total cost of sales	117,820	116,673	116,673	116,673	467,840
Earnings from operations	90,210	79,150	79,150	79,150	327,660
<b>Expenses and other income</b>					
– General and administrative**	8,500	8,500	8,500	8,500	34,000
– Foreign exchange (gain)/loss					0
– Net interest paid/(received)	4,020	4,020	4,020	4,020	16,079
– Other (income)/expense					0
Total expenses and other income	12,520	12,520	12,520	12,520	50,079
Earnings before income taxes	77,690	66,630	66,630	66,630	277,581
Income tax expense/(recovery)					0
Marginal tax rate (%)	0.0	0.0	0.0	0.0	0.0
Net earnings	77,690	66,630	66,630	66,630	277,581
Avg no. shares in issue (000s)	442,094	442,094	442,094	442,094	442,094
Basic EPS (US\$)	0.18	0.15	0.15	0.15	0.63
Diluted EPS (US\$)	0.18	0.15	0.15	0.15	0.63

Source: Edison Investment Research. Note: \*Excluding impairments. \*\*Forecast excluded stock-based compensation costs.

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

As such, Edison's EPS forecasts for FY18 are ostensibly flat compared to FY17 and compare to a consensus estimate of 64.5c, within a range 49-80c (cf a consensus of 65.3c, within the range 42-81c, excluding Edison, at the time of WPM's Q317 results in November 2017).

## Accounting and discounting

Edison has recently updated its long-term gold and silver price expectations (see *Mining overview: Unlocking the price to NPV discount*, published in November 2017). On the basis of our revised production and sales expectations in the light of the new First Majestic PMPA, our updated forecasts for the cash-flows derived by WPM from the San Dimas stream are as follows:

**Exhibit 4: San Dimas cash flows to WPM, 2012-26e (US\$m, unless otherwise indicated)**

	Historical							Forecast							
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Production (koz Ag)	5,905	6,542	5,760	7,449	5,212	4,182	1,543	6,828	6,828	6,828	6,828	6,828	6,828	6,828	6,828
Production (koz AuE)							31,875	42,500	42,500	42,500	42,500	42,500	42,500	42,500	42,500
Cash flow at LT prices	158.0	129.4	80.8	82.5	68.9	52.4	42.5	27.9	37.0	34.8	28.9	28.6	26.7	25.1	28.4
Cash flow at spot prices	158.0	129.4	80.8	82.5	68.9	52.4	42.5	30.3	30.1	29.8	29.6	29.3	29.0	28.8	28.5

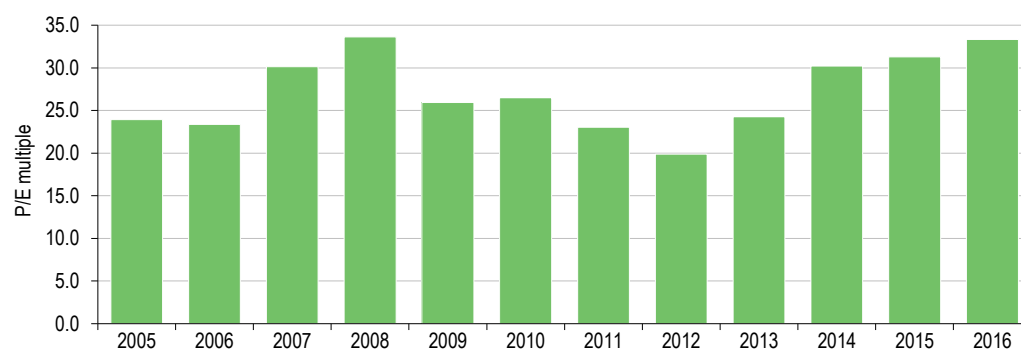
Source: Edison Investment Research, Wheaton Precious Metals

Discounted at Edison's standard 10% discount rate for mining companies, we value the cash-flows to WPM from San Dimas for the period FY18-33 at US\$252.9, or US\$0.57 per WPM share, on the basis of Edison's long-term gold price assumptions or US\$238.7m, or US\$0.54 per WPM share, on the basis of the current spot price of gold (US\$1,320/oz at the time of writing).

Stated alternatively, we estimate that the entire San Dimas stream will henceforward contribute c US\$0.04-0.08 per annum to WPM's EPS, compared with an estimated US\$0.11 in FY17 (the last full year of the existing silver purchase agreement). In recognition of this, First Majestic is also issuing WPM 20.9m FR common shares with an aggregate value of US\$151m at the time of the announcement, or US\$145m at the time of writing – equivalent to US\$0.33 per WPM share. These values compare with an adjusted purchase price of the San Dimas stream of US\$190m and a carrying value, for accounting purposes, of US\$136.8m, which suggests the possibility of an exceptional profit once the FR-PMO transaction concludes.

## Valuation

Excluding FY04 (part year), WPM's shares have historically traded on an average P/E multiple of 27.1x current year basic underlying EPS, ie excluding impairments (cf 35.0x Edison or 33.6x consensus FY18e, currently – see Exhibit 6).

**Exhibit 5: WPM's historic current year P/E multiples**


Source: Edison Investment Research.

Applying this multiple to our long-term EPS forecast of US\$1.40 in FY20 (at Edison's updated average long-term precious metals prices) implies a potential share value for WPM shares of US\$37.90, or C\$47.18 in that year (excluding the US\$0.33/share value of its equity interest in First Majestic).

In the meantime, from a relative perspective, it is notable that WPM is cheaper than its royalty/streaming 'peers' in 96% (ie 23 out of 24) of the valuation measures used in Exhibit 6 and on multiples that are cheaper than the miners themselves in at least 43% (ie 39 out of 90) of the same valuation measures, despite being associated with materially less operational and cost risk.



**Exhibit 6: Wheaton Precious Metals' valuation of a sample of major operating and royalty/streaming companies**

	P/E (x)		Yield (%)		P/CF (x)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
<b>Royalty companies</b>						
Franco-Nevada	69.9	66.4	1.2	1.2	28.2	27.5
Royal Gold	49.1	40.5	1.1	1.2	19.3	17.7
Sandstorm Gold	91.4	65.6	0.0	0.0	19.6	19.3
Osisko Gold Royalties	58.1	48.3	1.1	1.3	33.4	22.3
<b>Average</b>	<b>67.1</b>	<b>55.2</b>	<b>0.9</b>	<b>0.9</b>	<b>25.1</b>	<b>21.7</b>
<b>Wheaton Precious (Edison forecasts)</b>	<b>35.5</b>	<b>35.0</b>	<b>1.5</b>	<b>1.7</b>	<b>18.2</b>	<b>18.3</b>
<b>WPM (consensus)</b>	<b>35.9</b>	<b>33.6</b>	<b>1.4</b>	<b>1.5</b>	<b>18.1</b>	<b>17.3</b>
<b>Gold producers</b>						
Barrick	19.6	17.5	0.8	0.8	6.3	6.1
Newmont	27.2	29.8	0.7	0.9	9.1	9.6
Goldcorp	32.9	29.5	0.6	0.6	10.7	8.7
Newcrest	32.9	20.3	1.0	1.4	11.4	9.5
Kinross	26.5	32.4	0.0	0.0	5.5	5.1
Agnico-Eagle	45.7	49.8	0.9	0.9	13.3	13.4
Eldorado	70.5	26.3	1.3	0.5	13.5	7.3
Yamana	77.0	29.0	0.6	0.6	6.9	5.0
Randgold Resources	32.4	25.7	1.8	2.6	17.3	15.1
<b>Average</b>	<b>40.5</b>	<b>28.9</b>	<b>0.9</b>	<b>0.9</b>	<b>10.4</b>	<b>8.8</b>
<b>Silver producers</b>						
Hecla	54.1	27.6	0.2	0.2	12.0	8.3
Pan American	28.4	19.7	0.6	0.7	11.9	8.9
Coeur Mining	187.3	36.5	0.0	0.0	9.8	8.0
First Majestic	634.0	51.3	0.0	0.0	15.2	10.4
Hocschild	50.1	38.9	1.2	1.1	7.3	7.1
Fresnillo	29.3	26.3	1.6	1.7	19.1	15.5
<b>Average</b>	<b>163.9</b>	<b>33.4</b>	<b>0.6</b>	<b>0.6</b>	<b>12.5</b>	<b>9.7</b>

Source: Bloomberg, Edison Investment Research. Note: Priced on 22 January 2018.

## Sensitivities

Currently, we make no provision for either future expansion at Salobo or related expansion payments in our long-term forecasts. However, in the event that Salobo were to be expanded from 24Mtpa to 36Mtpa by the addition of a further 12Mtpa processing lines by 1 January 2023 – thereby attracting an estimated c US\$603m incremental payment from WPM to Vale – we estimate that it would increase our estimate of WPM's earnings by a material US\$0.08-0.13/share. This, in turn, would increase our forecast value per share for the company to US\$41.53, or C\$51.69 at prevailing FX rates (excluding the US\$0.33/share value of its equity interest in First Majestic), implying an internal rate of return to investors buying WPM shares currently at C\$27.33, equivalent to 41.7% pa in US dollar terms.

## Financials

As at 30 September 2017, WPM had US\$69.9m in cash (ex-dividend) and US\$854.0m of debt outstanding under its US\$2bn revolving credit facility (which attracts an interest rate of Libor plus 120-220bp and matures in February 2022), such that it had net debt of US\$784.1m overall, after US\$129.1m (US\$0.29/share) of cash inflows from operating activities during the quarter. Relative to the company's equity, this level of net debt equated to a financial gearing (net debt/equity) ratio of 15.5% and a leverage (net debt/[net debt+equity]) ratio of 13.4%. It also compares with a net debt position of US\$876.4m as at 30 June, US\$980.2m as at 31 March, US\$1,068.7m as at the end of December 2016, US\$1,219.5m as at the end of September 2016 and US\$1,362.7m as at the end of December 2015 and is consistent with WPM continuing to generate c US\$100-150m per quarter

from operating activities before financing and investing activities. Otherwise, assuming the operational performance set out in Exhibits 2 and 3, we estimate that WPM's net debt position will have declined organically, to US\$690.1m by the end of FY17 (equating to gearing of 13.6% and leverage of 12.0%), and that WPM will be net debt free early in FY20 (or in H219 if WPM's First Majestic shares are treated as cash), all other things being equal and contingent on its making no further major acquisitions (which is unlikely). Self-evidently, such a level of debt is well within the tolerances required by its banking covenants that:

- net debt should be no more than 0.75x tangible net worth (which was US\$5,067.3m as at end-September 2017 and which we forecast to be US\$5,067.6m as at end-December 2017); and
- interest should be no less than 3x covered by EBITDA (we estimate that net interest will have been 22.3x covered in FY17).

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

## CRA

---

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 not be interpreted as an admission of guilt, but rather an appreciation of the costs involved in going to a full trial and also of the effect that the issue is having on WPM's share price rating relative to its peers (see Exhibit 6).

In the meantime, Wheaton Precious is now nearing the end of the case 'discovery process' with the CRA, designed to provide both sides with the opportunity to arrive at an out-of-court settlement before formal proceedings commence. If a 'principled' settlement cannot be reached however, the company has stated that it is willing to go to trial, which would be likely to be towards the middle of 2018.

**Exhibit 7: Financial summary**

	US\$'000s	2012	2013	2014	2015	2016	2017e	2018e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		849,560	706,472	620,176	648,687	891,557	827,209	795,500
Cost of Sales		(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(238,871)	(232,283)
Gross Profit		732,071	567,120	469,079	458,473	637,123	588,337	563,217
EBITDA		701,232	531,812	431,219	426,236	602,684	554,077	529,217
Operating Profit (before amort. and except.)		600,003	387,659	271,039	227,655	293,982	299,586	293,660
Intangible Amortisation		0	0	0	0	0	0	0
Exceptionals		0	0	(68,151)	(384,922)	(71,000)	0	0
Other		788	(11,202)	(1,830)	(4,076)	(4,982)	(1,898)	0
Operating Profit		600,791	376,457	201,058	(161,343)	218,000	297,688	293,660
Net Interest		0	(6,083)	(2,277)	(4,090)	(24,193)	(24,901)	(16,079)
Profit Before Tax (norm)		600,003	381,576	268,762	223,565	269,789	274,686	277,581
Profit Before Tax (FRS 3)		600,791	370,374	198,781	(165,433)	193,807	272,788	277,581
Tax		(14,755)	5,121	1,045	3,391	1,330	691	0
Profit After Tax (norm)		586,036	375,495	267,977	222,880	266,137	273,479	277,581
Profit After Tax (FRS 3)		586,036	375,495	199,826	(162,042)	195,137	273,479	277,581
Average Number of Shares Outstanding (m)		353.9	355.6	359.4	395.8	430.5	441.9	442.1
EPS - normalised (c)		166	106	75	53	62	62	63
EPS - normalised and fully diluted (c)		165	105	74	53	62	62	63
EPS - (IFRS) (c)		166	106	56	(-41)	45	62	63
Dividend per share (c)		35	45	26	20	21	33	37
Gross Margin (%)		86.2	80.3	75.6	70.7	71.5	71.1	70.8
EBITDA Margin (%)		82.5	75.3	69.5	65.7	67.6	67.0	66.5
Operating Margin (before GW and except.) (%)		70.6	54.9	43.7	35.1	33.0	36.2	36.9
<b>BALANCE SHEET</b>								
Fixed Assets		2,403,958	4,288,557	4,309,270	5,526,335	6,025,227	5,779,736	5,597,754
Intangible Assets		2,281,234	4,242,086	4,270,971	5,494,244	5,948,443	5,702,952	5,520,970
Tangible Assets		1,347	5,670	5,427	12,315	12,163	12,163	12,163
Investments		121,377	40,801	32,872	19,776	64,621	64,621	64,621
Current Assets		785,379	101,287	338,493	105,876	128,092	506,657	800,448
Stocks		966	845	26,263	1,455	1,481	1,485	1,428
Debtors		6,197	4,619	4,132	1,124	2,316	2,266	2,179
Cash		778,216	95,823	308,098	103,297	124,295	502,905	796,840
Other		0	0	0	0	0	0	0
Current Liabilities		(49,458)	(21,134)	(16,171)	(12,568)	(19,057)	(23,788)	(23,138)
Creditors		(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(23,788)	(23,138)
Short term borrowings		(28,560)	0	0	0	0	0	0
Long Term Liabilities		(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(1,194,965)	(1,194,965)
Long term borrowings		(21,500)	(998,136)	(998,518)	(1,466,000)	(1,193,000)	(1,193,000)	(1,193,000)
Other long term liabilities		(11,305)	(4,028)	(4,338)	(2,908)	(1,274)	(1,965)	(1,965)
Net Assets		3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	5,067,640	5,180,098
<b>CASH FLOW</b>								
Operating Cash Flow		720,209	540,597	434,582	435,783	608,503	556,956	547,137
Net Interest		0	(6,083)	(2,277)	(4,090)	(24,193)	(24,901)	(16,079)
Tax		(725)	(154)	(204)	(208)	28	1,382	0
Capex		(641,976)	(2,050,681)	(146,249)	(1,791,275)	(805,472)	(9,000)	(72,000)
Acquisitions/disposals		0	0	0	0	0	0	0
Financing		12,919	58,004	6,819	761,824	595,140	0	0
Dividends		(123,852)	(160,013)	(79,775)	(68,593)	(78,708)	(145,827)	(165,123)
Net Cash Flow		(33,425)	(1,618,330)	212,896	(666,559)	295,298	378,610	293,935
Opening net debt/(cash)		(761,581)	(728,156)	902,313	690,420	1,362,703	1,068,705	690,095
HP finance leases initiated		0	0	0	0	0	0	0
Other		0	(12,139)	(1,003)	(5,724)	(1,300)	0	0
Closing net debt/(cash)		(728,156)	902,313	690,420	1,362,703	1,068,705	690,095	396,160

Source: Company sources, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Wheaton Precious Metals and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.