

# Wheaton Precious Metals

Q1 considerations

## Refining numbers

Ahead of Wheaton's Q120 results, which are scheduled to be released on Wednesday 6 May, after the bell, we have refined our forecasts. They now take account of four factors: 1) the anticipated outlook for gold production from Salobo during the period 2020–25, as disclosed in Wheaton's release of a technical report on 30 March, 2) the timing of mine closures as a result of anti-coronavirus measures, in particular, in Peru and Mexico, 3) updated precious metals forecasts and 4) the possible effects of the recent rise in Wheaton's share price on general and administrative expenses.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	794.0	203.1	48	36	83.1	0.9
12/19	861.3	242.7	56	36	71.2	0.9
12/20e	1,009.0	375.6	84	43	47.4	1.1
12/21e	1,175.7	503.6	112	53	35.5	1.3

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

## Constancia closure timing

In our last note, we stated that, 'We expect the mine closures in late March to have little effect on our Q1 forecasts as any closures will provide mines with the opportunity to sell metal out of inventory and should therefore lead to a drawdown in ounces produced but not yet sold.' While that is, in general, true (especially regarding WPM's partners' Mexican mining operations), in the case of HudBay's Constancia, in Peru, the mine was ramped down and closed over three days from 20 March, after Peru closed its borders on 16 March. In order to properly reflect the increased period during which Constancia is likely to have been non-producing, we have therefore reduced our gold and silver production forecasts attributable to WPM from Constancia by 11.1% each in Q120.

## Salobo accelerates gold production

At the same time, on 30 March, WPM released a technical document outlining its expectations for production from Salobo in the five years from FY20 to FY25, during which time the 50% Salobo III capacity increase is to be implemented. While the total amount of gold expected to be mined from Salobo in the period FY20–25, inclusive, is little (-1.8%) changed compared with our prior forecasts, in general there is an acceleration of production forward into earlier years as a result of the expansion.

## FY20 EPS forecast up 8c/share

The combination of higher prevailing precious metals prices and an assumption about potential total general and administrative costs (ie including stock-based compensation expenses in the light of Wheaton's rising share price so far in FY20) has resulted in us reducing our Q120 basic EPS forecast by 1c to 22c/share. However, we have increased our forecasts for Q2–Q420 by 2–3c each to result in an 8c increase in our EPS forecast for the full-year, from 76c/share to 84c/share (cf a consensus of 86c/share).

## Metals & mining

30 April 2020

Price **C\$56.06**

Market cap **C\$25bn**

C\$1.4049/US\$

Net debt (US\$m) at 30 December 2019 774.8

Shares in issue 447.8m

Free float 100%

Code WPM

Primary exchange TSX

Secondary exchange NYSE

## Share price performance



% 1m 3m 12m

Abs 42.2 47.4 93.6

Rel (local) 18.5 69.5 111.1

52-week high/low C\$56.06 C\$26.56

## 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

Q120 results 6 May 2020

Q220 results August 2020

Q320 results November 2020

## Analyst

Charles Gibson +44 (0)20 3077 5724

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

[Edison profile page](#)

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## Updated FY20 forecasts by quarter

In this note, we have refined our forecasts for Wheaton Precious Metals (WPM) for FY20 for four factors:

- The anticipated outlook for gold production from Salobo during the period 2020–25, as disclosed in Wheaton’s technical report on Sedar released on 30 March.
- The timing of mine closures as a result of anti-COVID-19 measures, in particular in Peru and Mexico.
- Updated precious metals forecasts.
- The possible effects of the recent rise in Wheaton’s share price on general and administrative expenses.

Each of these is considered in turn, below.

### Long-term Salobo production guidance

On 30 March, WPM released a technical document on Sedar outlining its expectations for production from Salobo in the five years from FY20 to FY25. It is the first technical document to be released since the development of Salobo III was sanctioned in October 2018.

The expansion of Salobo III involves a 50% increase in processing capacity, from 24Mtpa to 36Mtpa, from H122. As a result, our new expectations for gold production from Salobo are shown in Exhibit 1 (with WPM’s 75% share also shown), relative to our prior expectations.

**Exhibit 1: Long-term Salobo gold production guidance (koz)**

	2020	2021	2022	2023	2024	Total
Updated Salobo production guidance (koz)	352	316	325	367	292	1,652
WPM 75% share (koz)	264	237	244	275	219	1,239
Previous Edison estimate of WPM share (koz)	246	223	211	264	317	1,261
Change (%)	+7.2	+6.3	+15.4	+4.2	-30.9	-1.8

Source: Wheaton Precious Metals, Edison Investment Research

Whereas Edison had previously simply increased its forecast gold output in FY23 and FY24 pro rata with the increase in milling capacity, the new production numbers have now refined these estimates with the added benefit of greater accuracy (and therefore less associated risk). From Exhibit 1, it can be seen that, while the total output of gold over the five-year period is little changed compared with our prior estimate (-1.8%), in general production is now anticipated to be higher in earlier years and lower in later ones.

### Mexican and Peruvian mine closure timings

In our last note on WPM ([Swings and roundabouts](#), published on 3 April), we said, ‘We expect the mine closures in late March to have little effect on our Q1 forecasts as any closures will provide mines with the opportunity to sell metal out of inventory and should therefore lead to a drawdown in ounces produced but not yet sold.’ While that is, in general, true (for example, the order closing Mexico’s mines was finalised on 31 March and was effective on 30 March), Constancia was ramped down and closed over three days by its operator (Hudbay Minerals) from 20 March, after Peru closed its borders on 16 March and implemented a night-time curfew from 18 March. Note that the state of emergency in Peru has since been extended to 10 May, although, self-evidently, it is possible that it could be extended once again as it already has been on at least two occasions previously. Nevertheless, to reflect the increased period during which Constancia is likely to have been non-producing (and also unlikely to deliver metal), we have reduced our gold and silver production forecasts attributable to WPM from Constancia by 11.1% each in Q120.

## Updated precious metals prices

In common with its traditional practice, Edison has also updated its forecasts for precious metals for the remainder of the year to those prevailing at the time of writing, as shown below:

<b>Exhibit 2: Updated FY20 precious metals prices (US\$/oz)</b>				
	Q120	Q220	Q320	Q420
<b>Previous</b>				
Silver	16.89	14.17	14.17	14.17
Gold	1,581	1,591	1,591	1,591
Palladium	2,296	2,296	2,296	2,296
<b>Current</b>				
Silver	16.89	15.05	15.02	15.02
Gold	1,581	1,696	1,704	1,704
Palladium	2,296	1,988	1,923	1,923
<b>Change (%)</b>				
Silver	u/c	+6.2	+6.0	+6.0
Gold	u/c	+6.6	+7.1	+7.1
Palladium	u/c	-13.4	-16.2	-16.2

Source: Edison Investment Research.

Note that, while the effect of these changes is, generally, to increase prices over the course of the remainder of the year, they remain unchanged for Q1 specifically.

## Stock-based G&A expenses

While it has historically been Edison's policy to forecast WPM's results exclusive of stock-based general and administrative expenses, it is very clear from history that a rising share price has an effect on total G&A expenses in the form of both equity settled stock-based compensation expenses and performance share unit (PSU) accruals related to the anticipated fair value of the PSUs issued. As a result, in FY19 (during a period of a steadily rising WPM share price in both Canadian dollar and US dollar terms) total G&A expenses amounted to US\$54.7m, compared with US\$31.6m (excluding stock-based compensation expenses and PSUs) and guidance of US\$36–38m for non-stock G&A expenses. Exhibit 3 demonstrates the potential magnitude of this effect, by quarter:

<b>Exhibit 3: Historical WPM share price changes vs total quarterly G&amp;A expenses</b>							
	Q418	Q119	Q219	Q319	Q419	Q120	Current
WPM share price at period end (C\$)	26.65	31.81	31.67	34.74	38.64	38.73	55.73
Change (%)		+19.4	-0.4	+9.7	+11.2	+0.2	+43.9
WPM share price at period end (US\$)	19.56	23.80	24.19	26.24	29.77	27.30	39.64
Change (%)		+21.7	+1.6	+8.5	+13.5	-8.3	+45.2
Total quarterly G&A expense (US\$000s)	21,142	16,535	12,249	14,028	11,695		
Pro rata mid-range non-stock G&A guidance (US\$000s)	8,750	9,250	9,250	9,250	9,250	9,750	
Premium of actual vs mid-range guidance (%)	+141.6	+78.8	+32.4	+51.7	+26.4		

Source: Edison Investment Research, Wheaton Precious Metals

WPM's non-stock G&A guidance for FY20 is US\$38–40m. However, in the light of WPM's ostensibly flat share price in Q120 in Canadian dollar terms (potentially analogous to Q219) and its strongly higher share price to date in Q220, we believe that it is likely that stock-based compensation expenses will add to the total in at least these quarters.

While a precise estimate is hard to make without knowing the exact details of the PSUs and other stock-based compensation schemes, in order to allow for this effect, for the moment, Edison has assumed that total G&A in Q1–Q420 will equal the quarterly average in FY19 – ie US\$13.627m per quarter – compared to non-stock G&A guidance of US\$38–40m for the 12-month period (or an average of US\$9.75m per quarter).

## Updated FY20 forecasts

In the light of the four factors considered above, our updated forecasts for WPM for FY20 are as shown in Exhibit 4, below. As before, our forecasts assume that Yauliyacu, Constancia, Penasquito, San Dimas and Los Filos all remain closed for the entirety of Q220. Clearly, there exists risk associated with both the potential lifting of existing lockdowns in this respect (upside) or the imposition of new lockdown restrictions (downside). Apart from precious metals prices, the principal remaining risk to our forecasts relates to the extent to which sales differ from production and therefore, by extension, the extent to which inventory (in the form of ounces produced but not yet delivered to Wheaton) either increases or decreases during the course of the year.

**Exhibit 4: Wheaton Precious Metals FY20 forecast, by quarter\***

US\$000s (unless otherwise stated)	FY19	Q120e	Q220e	Q320e	Q420e	FY20e (current)	FY20e (previous)
Silver production (koz)	22,562	5,851	2,578	5,926	5,926	20,282	20,357
Gold production (oz)	406,675	96,410	86,688	101,563	101,563	386,223	373,544
Palladium production (koz)	21,993	5,938	5,938	5,938	5,938	23,750	23,750
Silver sales (koz)	17,703	5,851	2,578	5,926	5,926	20,282	20,357
Gold sales (oz)	389,086	96,373	86,651	101,526	101,526	386,078	373,399
Palladium sales (oz)	20,681	5,914	5,914	5,914	5,914	23,655	23,655
Avg realised Ag price (US\$/oz)	16.29	16.89	15.05	15.02	15.02	15.56	14.96
Avg realised Au price (US\$/oz)	1,391	1,581	1,696	1,704	1,704	1,671	1,588
Avg realised Pd price (US\$/oz)	1,542	2,296	1,988	1,923	1,923	2,032	2,296
Avg Ag cash cost (US\$/oz)	5.02	5.15	5.14	5.10	5.10	5.12	5.09
Avg Au cash cost (US\$/oz)	421	425	403	425	425	420	420
Avg Pd cash cost (US\$/oz)	273	413	358	346	346	366	413
Sales	861,332	264,771	197,480	273,386	273,386	1,009,023	951,998
<b>Cost of sales</b>							
Cost of sales, excluding depletion	258,559	73,550	50,327	75,452	75,452	274,782	270,365
Depletion	256,826	70,808	55,376	73,330	73,330	272,844	268,537
Total cost of sales	515,385	144,358	105,703	148,783	148,783	547,626	538,902
Earnings from operations	345,947	120,412	91,777	124,604	124,604	461,397	413,097
<b>Expenses and other income</b>							
– General and administrative**	54,507	13,627	13,627	13,627	13,627	54,507	39,000
– Foreign exchange (gain)/loss	0					0	0
– Net interest paid/(received)	48,730	7,830	7,830	7,830	7,830	31,320	31,320
– Other (income)/expense	(217)					0	0
Total expenses and other income	103,020	21,457	21,457	21,457	21,457	85,827	70,320
Earnings before income taxes	242,927	98,955	70,321	103,147	103,147	375,570	342,777
Income tax expense/(recovery)	(9,066)	250	250	250	250	1,000	1,000
Marginal tax rate (%)	(3.7)	0.3	0.4	0.2	0.2	0.3	0.3
Net earnings	251,993	98,705	70,071	102,897	102,897	374,570	341,777
Ave. no. shares in issue (000s)	446,021	447,500	447,800	447,800	447,800	447,725	446,802
Basic EPS (US\$)	0.56	0.22	0.16	0.23	0.23	0.84	0.76
Diluted EPS (US\$)	0.56	0.22	0.16	0.23	0.23	0.84	0.76
DPS (US\$)	0.36	0.10	0.11	0.10	0.12	0.43	0.43

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.

If desired, comparisons between current and past forecasts for individual quarters may be made by comparing the figures in Exhibit 4 with those of Exhibit 1 in our last note, *Swings and roundabouts*, published on 3 April 2020.

Our updated production forecasts of 20.3Moz silver and 386.2koz gold compare to WPM's prior production guidance (now withdrawn) of 22.0–23.5Moz silver and 390–410koz gold and our prior forecasts of 20.4Moz silver and 373.5koz gold. Our production forecast for palladium remains unchanged. At annual average prices for the year, our updated production forecasts now equate to 605.1koz of gold equivalent production (cf 599.7koz previously). At WPM's nominal prices of US\$18.00/oz silver, US\$1,500/oz gold and US\$2,000/oz palladium, they equate to 661.3koz (cf 649.5koz previously and a prior guidance range of 685–725koz).

Our updated basic EPS forecast of US\$0.84/share for FY20 is 2.3% below the consensus forecast of US\$0.86/share (source: Refinitiv, 28 April 2020) within a range of US\$0.76–0.98 per share. On a quarterly basis, our forecasts compare to consensus as follows:

<b>Exhibit 5: WPM FY20 and FY21 consensus EPS forecasts of Edison (US\$/share)</b>							
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Sum Q1-Q4</b>	<b>FY20</b>	<b>FY21</b>
<b>Current Edison</b>	0.22	0.16	0.23	0.23	0.84	<b>0.84</b>	<b>1.12</b>
Previous Edison	0.23	0.14	0.20	0.20	0.76	0.76	1.14
<b>Mean consensus</b>	<b>0.22</b>	<b>0.19</b>	<b>0.21</b>	<b>0.22</b>	<b>0.84</b>	<b>0.86</b>	<b>0.99</b>
High	0.24	0.25	0.25	0.25	0.99	0.98	1.28
Low	0.20	0.14	0.17	0.17	0.68	0.76	0.77

Source: Refinitiv, Edison Investment Research. Note: At 28 April 2020.

Our US\$1.12 basic EPS forecast for FY21 (vs US\$1.14/share previously, see also Exhibit 6) remains, to all intents and purposes, essentially unchanged and compares with a consensus of US\$0.99 (source: Refinitiv, 28 April 2020), within a range of US\$0.77–1.28. This estimate is predicated on unchanged average gold and silver prices during the year of US\$1,509/oz and US\$24.76/oz, respectively, which, in the latter case, is 64.8% 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 1971. If both metals remain at current levels, however (US\$15.02/oz Ag and US\$1,704/oz Au at the time of writing), we forecast that WPM will instead earn US\$0.88 per share in FY21.

**Exhibit 6: Financial summary**

	US\$'000s	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>											
Revenue		849,560	706,472	620,176	648,687	891,557	843,215	794,012	861,332	1,009,023	1,175,686
Cost of Sales		(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(243,801)	(245,794)	(258,559)	(274,782)	(293,905)
Gross Profit		732,071	567,120	469,079	458,473	637,123	599,414	548,218	602,773	734,241	881,782
EBITDA		701,232	531,812	431,219	426,236	602,684	564,741	496,568	548,266	679,734	827,275
Operating Profit (before amort. and except.)		600,003	387,659	271,039	227,655	293,982	302,361	244,281	291,440	406,890	514,129
Intangible Amortisation		0	0	0	0	0	0	0	0	0	0
Exceptionals		0	0	(68,151)	(384,922)	(71,000)	(228,680)	245,715	(165,855)	0	0
Other		788	(11,202)	(1,830)	(4,076)	(4,982)	8,129	(5,826)	217	0	0
Operating Profit		600,791	376,457	201,058	(161,343)	218,000	81,810	484,170	125,802	406,890	514,129
Net Interest		0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(48,730)	(31,320)	(10,555)
Profit Before Tax (norm)		600,003	381,576	268,762	223,565	269,789	277,368	203,094	242,710	375,570	503,573
Profit Before Tax (FRS 3)		600,791	370,374	198,781	(165,433)	193,807	56,817	442,983	77,072	375,570	503,573
Tax		(14,755)	5,121	1,045	3,391	1,330	886	(15,868)	9,066	(1,000)	(1,000)
Profit After Tax (norm)		586,036	375,495	267,977	222,880	266,137	286,383	181,400	251,993	374,570	502,574
Profit After Tax (FRS 3)		586,036	375,495	199,826	(162,042)	195,137	57,703	427,115	86,138	374,570	502,573
Average Number of Shares Outstanding (m)		353.9	355.6	359.4	395.8	430.5	442.0	443.4	446.0	447.7	447.8
EPS - normalised (c)		166	106	75	53	62	63	48	56.5	83.7	112.2
EPS - normalised and fully diluted (c)		165	105	74	53	62	63	48	56	83	112
EPS - (IFRS) (c)		166	106	56	(-41)	45	13	96	19	84	112
Dividend per share (c)		35	45	26	20	21	33	36	36	43	53
Gross Margin (%)		86.2	80.3	75.6	70.7	71.5	71.1	69.0	70.0	72.8	75.0
EBITDA Margin (%)		82.5	75.3	69.5	65.7	67.6	67.0	62.5	63.7	67.4	70.4
Operating Margin (before GW and except.) (%)		70.6	54.9	43.7	35.1	33.0	35.9	30.8	33.8	40.3	43.7
<b>BALANCE SHEET</b>											
Fixed Assets		2,403,958	4,288,557	4,309,270	5,526,335	6,025,227	5,579,898	6,390,342	6,123,255	5,852,411	5,541,265
Intangible Assets		2,281,234	4,242,086	4,270,971	5,494,244	5,948,443	5,454,106	6,196,187	5,768,883	5,498,039	5,186,893
Tangible Assets		1,347	5,670	5,427	12,315	12,163	30,060	29,400	44,615	44,615	44,615
Investments		121,377	40,801	32,872	19,776	64,621	95,732	164,753	309,757	309,757	309,757
Current Assets		785,379	101,287	338,493	105,876	128,092	103,415	79,704	154,752	622,222	1,200,868
Stocks		966	845	26,263	1,455	1,481	1,700	1,541	43,628	1,812	2,111
Debtors		6,197	4,619	4,132	1,124	2,316	3,194	2,396	7,138	2,764	3,221
Cash		778,216	95,823	308,098	103,297	124,295	98,521	75,767	103,986	617,646	1,195,536
Other		0	0	0	0	0	0	0	0	0	0
Current Liabilities		(49,458)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(28,841)	(64,700)	(80,008)	(81,894)
Creditors		(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(28,841)	(63,976)	(79,284)	(81,170)
Short term borrowings		(28,560)	0	0	0	0	0	0	(724)	(724)	(724)
Long Term Liabilities		(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(771,506)	(1,269,289)	(887,387)	(887,387)	(887,387)
Long term borrowings		(21,500)	(998,136)	(998,518)	(1,466,000)	(1,193,000)	(770,000)	(1,264,000)	(878,028)	(878,028)	(878,028)
Other long term liabilities		(11,305)	(4,028)	(4,338)	(2,908)	(1,274)	(1,506)	(5,289)	(9,359)	(9,359)	(9,359)
Net Assets		3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	4,899,664	5,171,916	5,325,920	5,507,238	5,772,852
<b>CASH FLOW</b>											
Operating Cash Flow		720,209	540,597	434,582	435,783	608,503	564,187	518,680	548,301	741,232	828,405
Net Interest		0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(41,242)	(31,320)	(10,555)
Tax		(725)	(154)	(204)	(208)	28	(326)	0	(5,380)	(1,000)	(1,000)
Capex		(641,976)	(2,050,681)	(146,249)	(1,791,275)	(805,472)	(19,633)	(861,406)	10,571	(2,000)	(2,000)
Acquisitions/disposals		0	0	0	0	0	0	0	0	0	0
Financing		12,919	58,004	6,819	761,824	595,140	1,236	1,279	37,198	0	0
Dividends		(123,852)	(160,013)	(79,775)	(68,593)	(78,708)	(121,934)	(132,915)	(129,986)	(193,252)	(236,960)
Net Cash Flow		(33,425)	(1,618,330)	212,896	(666,559)	295,298	398,537	(515,549)	419,462	513,660	577,890
Opening net debt/(cash)		(761,581)	(728,156)	902,313	690,420	1,362,703	1,068,705	671,479	1,188,233	774,766	261,106
HP finance leases initiated		0	0	0	0	0	0	0	0	0	0
Other		0	(12,139)	(1,003)	(5,724)	(1,300)	(1,311)	(1,205)	(5,995)	0	0
Closing net debt/(cash)		(728,156)	902,313	690,420	1,362,703	1,068,705	671,479	1,188,233	774,766	261,106	(316,784)

Source: Company sources, Edison Investment Research

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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