EDISON

Wheaton Precious Metals

Q221 results

Solid Q221 results set up H221

Metals & mining

WPM's Q221 results were characterised by record quarterly revenue, which contributed towards record revenue and cash-flow for the half-year period and a fourth successive increase in the quarterly dividend, to US$0.15/share for Q321 (cf US$0.10/share for Q320). In general, financial results were closely aligned with our prior expectations and well within the range of analysts' expectations. Production was strong from both Wheaton's gold and silver divisions although, whereas the gold division's sales were closely aligned with production, the silver division reverted to its more normal pattern of a 16.7% under-sale of metal relative to production and a consequent (albeit modest) increase in ounces produced but not yet delivered. In the wake of Q221 results, we have adjusted our forecasts for WPM for FY21 to reflect the 'flash crash' in precious metals prices between 4-10 August, although we do not believe that there will be an end to the structural bull market unless and until real interest rates in the US exceed 4% on a sustained basis.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	861.3	242.7	54	36	81.8	0.8
12/20	1,096.2	503.2	112	42	39.4	1.0
12/21e	1,320.8	646.9	143	57	30.9	1.3
12/22e	1,673.1	966.5	214	80	20.6	1.8

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

New initiatives and opportunities

The quarter was also notable for the delivery of initial precious metals to Wheaton from the high grade Pampacancha pit at Constancia, the production of inaugural cobalt from the Voisey's Bay underground extension, the production of first gold and silver from the Marmato project, the closing of WPM's precious metals purchase agreement with Capstone regarding the Santo Domingo project and, subsequent to the quarter's end, the resolution of the Sudbury strike and WPM's entering into an agreement on a new precious metals stream on Rio2's Fenix Gold project in Chile – demonstrating, among other things, that opportunities continue to abound despite COVID-19.

Valuation: Up 2.6% to US$64.92, C$81.86 or £47.21

In normal circumstances and assuming no material purchases of additional streams in the foreseeable future (which we think unlikely), we forecast a value per share for WPM of US$64.92 or C$81.86 or £47.21 in FY23 (cf US$63.28 previously). In the meantime, WPM's shares are trading on near-term financial ratios that are cheaper than the averages of its peers on at least two thirds of nine common valuation measures regardless of whether Edison or consensus forecasts are used. Hence, if WPM's shares were to trade at the same level as the average of its peers, then we calculate that its current year 1 share price should be US$56.48 (C$71.22 or £41.08), based on Edison's forecasts for FY21. Alternatively, if precious metals return to favour and WPM to a premium rating, we believe that an US$88.02 (C$111.24 or £64.01) per share valuation is achievable (see pages 12–13).

18 August 2021

Price	**C$55.70**
Market cap	**C$25,080m**

C$1.2611/US$, US$1.3750/£

Net cash end-June* (US$m)	235.4

*Excludes US$3.3m in lease liabilities.

Shares in issue	450.3m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	LSE, NYSE

Share price performance

%	1m	3m	12m
Abs	(0.1)	(2.9)	(20.3)
Rel (local)	(1.9)	(7.2)	(34.8)
52-week high/low		C$72.18	C$45.11

Business description

Wheaton Precious Metals is the world's pre-eminent ostensibly precious metals streaming company, with 32 high-quality precious metals streaming and early deposit agreements relating to assets in Mexico, Peru, Canada, Brazil, Chile, the United States, Argentina, Sweden, Greece,

Next events

Q321 results	4 November 2021
Q421/FY21 results	March 2022
Q122 results	May 2022
Q222 results	August 2022

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Edison profile page

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Q221 results

As in Q121, WPM's Q221 results were characterised by record quarterly revenue, which contributed towards record revenue and cash-flow for the half-year period as well and a fourth successive increase in the quarterly dividend, to US$0.15/share for Q321 (cf US$0.10/share for Q320). The quarter also witnessed the delivery of initial precious metals to Wheaton from the high grade Pampacancha pit at Constancia, the production of inaugural cobalt from the Voisey's Bay underground extension, the production of first gold and silver from the Marmato project, the closing of WPM's precious metals purchase agreement (PMPA) with Capstone regarding the latter's Santo Domingo project (now incorporated into our financial forecasts) and, subsequent to the end of the quarter, WPM's entering into an agreement on a new previous metals stream on Rio2's Fenix Gold project in Chile (not yet incorporated into our forecasts).

In general, production was strong from both Wheaton's gold and silver divisions although, whereas the gold division's sales were closely aligned with production, the silver division reverted to its more normal pattern of a 16.7% under-sale of metal relative to production and a consequent (albeit modest) increase in ounces produced but not yet delivered to Wheaton. Otherwise, financial results were closely aligned with our prior expectations, with the only notable variance being in net interest, which continued to register a financial expense to the group, despite Wheaton now being in an overall net cash position. Adjusted EPS were also well within the range of analysts' expectations of US$0.33-0.41/share (source: Refinitiv, 30 July). A summary of WPM's financial and operating results in the context of both its results in the preceding quarters and Edison's prior forecasts is as follows:

Exhibit 1: WPM underlying Q221 results vs Q121 and Q221e, by quarter*

US$000s (unless otherwise stated)	Q120	Q220	Q320	Q420	Q121	Q221e	Q221a	Change **(%)	Variance ***(%)	Variance ***(units)
Silver production (koz)	6,704	3,650	6,028	6,509	6,754	5,853	6,720	-0.5	14.8	867
Gold production (oz)	94,707	88,631	91,770	93,137	77,733	82,226	90,290	16.2	9.8	8,064
Palladium production (koz)	5,312	5,759	5,444	5,672	5,769	5,561	5,301	-8.1	-4.7	-260
Cobalt production (klbs)					1,161	433	380	-67.3	-12.2	-53
Silver sales (koz)	4,928	4,729	4,999	4,576	6,657	5,902	5,600	-15.9	-5.1	-302
Gold sales (oz)	100,405	92,804	90,101	86,243	75,104	84,056	90,090	20.0	7.2	6,034
Palladium sales (koz)	4,938	4,976	5,546	4,591	5,131	5,539	3,869	-24.6	-30.1	-1,670
Cobalt sales (klbs)					132.3	531	395	198.6	-25.6	-136
Avg realised Ag price (US$/oz)	17.03	16.73	24.69	24.72	26.12	26.68	26.69	2.2	0.0	0.01
Avg realised Au price (US$/oz)	1,589	1,716	1,906	1,882	1,798	1,814	1,801	0.2	-0.7	-13
Avg realised Pd price (US$/oz)	2,298	1,917	2,182	2,348	2,392	2,788	2,797	16.9	0.3	9
Avg realised Co price (US$/lb)					22.19	20.76	19.82	-10.7	-4.5	-0.94
Avg Ag cash cost (US$/oz)	4.50	5.23	5.89	5.51	6.33	6.76	6.11	-3.5	-9.6	-0.65
Avg Au cash cost (US$/oz)	436	418	428	433	450	430	450	0.0	4.7	20
Avg Pd cash cost (US$/oz)	402	353	383	423	427	502	503	17.8	0.2	1
Avg Co cash cost (US$/lb)					4.98	3.74	4.41	-11.4	17.9	0.67
Sales	254,789	247,954	307,268	286,213	324,119	336,406	330,393	1.9	-1.8	-6,013
Cost of sales										
Cost of sales, excluding depletion	66,908	65,211	70,119	64,524	78,783	80,829	78,445	-0.4	-2.9	-2,384
Depletion	64,841	58,661	60,601	59,786	70,173	71,533	70,308	0.2	-1.7	-1,225
Total cost of sales	131,748	123,872	130,720	124,310	148,956	152,363	148,753	-0.1	-2.4	-3,610
Earnings from operations	123,040	124,082	176,548	161,902	175,164	184,044	181,640	3.7	-1.3	-2,404
Expenses and other income										
– General and administrative	13,181	21,799	21,326	9,391	11,971	18,329	18,465	54.2	0.7	136
– Foreign exchange (gain)/loss	0	0	0	0						
– Net interest paid/(received)	7,118	4,636	2,766	2,196	1,573	(1,465)	1,357	-13.7	-192.6	2,822
– Other (income)/expense	-1,861	234	391	850	420		136	-67.6	N/A	136
Total expenses and other income	18,438	26,669	24,483	12,437	13,964	16,864	19,958	42.9	18.3	3,094
Earnings before income taxes	104,602	97,413	152,065	149,465	161,199	167,180	161,682	0.3	-3.3	-5,498
Income tax expense/(recovery)	8,442	59	58	24	67	250	56	-16.4	-77.6	-194
Marginal tax rate (%)	8.1	0.1	0.0	0.0	0.0	0.1	0.0	-16.7	-76.8	-0.1
Net earnings	96,160	97,354	152,007	149,441	161,132	166,930	161,626	0.3	-3.2	-5,304
Average no. shares in issue (000s)	447,805	448,636	449,125	449,320	449,509	449,659	450,088	0.1	0.1	429
Basic EPS (US$)	0.215	0.217	0.338	0.333	0.358	0.371	0.359	0.3	-3.2	-0.012
Diluted EPS (US$)	0.214	0.216	0.336	0.331	0.358	0.371	0.358	0.0	-3.5	-0.013
DPS (US$)	0.10	0.10	0.10	0.12	0.13	0.14	0.14	7.7	0.0	0.00

Source: WPM, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Q221 versus Q121. ***Q221 actual versus Q221 estimate.

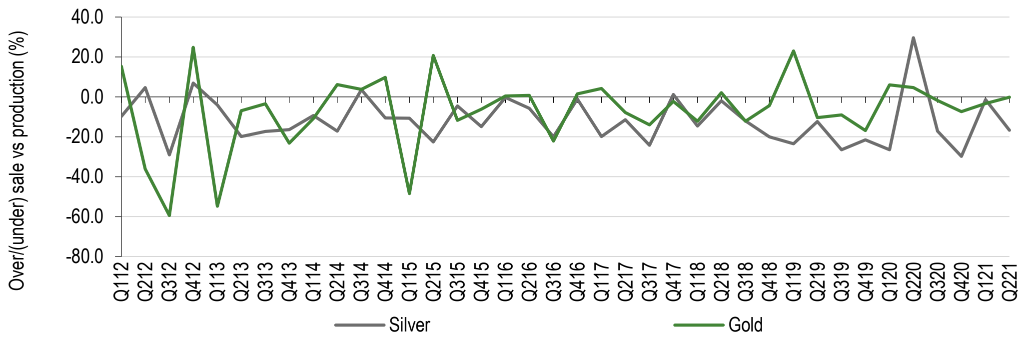
From an operational perspective, production from Salobo and Stillwater was affected by lower grades albeit, in Salobo's case, partially mitigated by higher throughput as mine maintenance workshops continued to ramp up during the quarter after a review in Q1 which limited mine movement. Output at Sudbury was affected by the strike that lasted from 1 June until 9 August, but which has now been resolved (see our note *Honing forecasts*, published on 4 August). Otherwise, all six of WPM's partners' mines that were directly affected by shutdowns and suspensions in 2020 (namely Penasquito, San Dimas, Antamina, Constancia, Yauliyacu and Los Filos) recorded strong year-on-year growth in both production and sales. Of WPM's 19 active streams, all but seven met or exceeded our prior expectations in terms of either production or sales or both, being Salobo, Sudbury, Constancia, San Dimas, Minto, Marmato, Penasquito, Antmina, Los Filos, Yauliyacu, Neves-Corvo and Voisey's Bay.

In the meantime, according to Vale's most recent performance report, physical completion of the Salobo III mine expansion was 77% at end-Q221 (cf 73% at end-Q121, 68% at end-Q420, 62% at end-Q3, 54% at end-Q2, 47% at end-Q1, 40% at end-Q419 and 27% at end-Q319) and is on schedule for start-up in H222.

Ounces produced but not yet delivered, aka inventory

For the sixth quarter in succession sales of gold closely approximated production, while those of silver reverted to a slightly more normal pattern. Gold sales were 0.2% less than production (cf a long-term historical average of 7.1%), while silver sales were 16.7% less (cf a long-term, historical average of 11.6%).

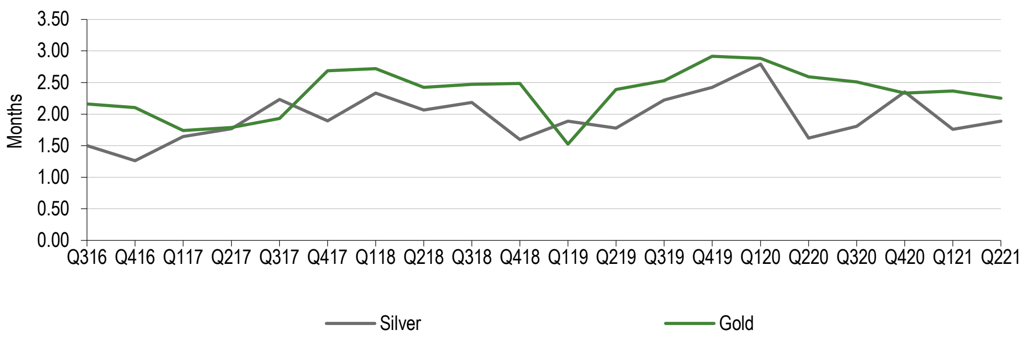
Exhibit 2: Over/(under) sale of silver and gold as a percentage of production, Q112–Q221



Source: Edison Investment Research, WPM. Note: As reported.

As at 30 June, payable ounces attributable to WPM produced but not yet delivered to WPM amounted to 4.0Moz silver and 65,943oz gold (cf 3.7Moz silver and 69,328oz gold as at end-March, 4.5Moz silver and 71,590oz gold as at end-December and 3.4Moz silver and 75,750oz gold as at end-September). This 'inventory' currently equates to 1.89 and 2.25 months of Edison's forecast FY21 silver and gold production, respectively (cf 1.79 and 2.32 months as at end-Q121, 2.35 and 2.33 months as at end-Q420 and 1.80 and 2.51 months as at end-Q320) and compares with WPM's target level of two months of silver and two to three months of gold and palladium production, respectively:

Exhibit 3: WPM ounces produced but not yet delivered, Q316–Q221 (months of production)



Source: Edison Investment Research, WPM. Note: As reported.

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, where it typically refers to metal in circuit and ore on stockpiles, etc.

General and administrative expenses

WPM provided guidance for non-stock general and administrative (G&A) expenses of US$42–45m (or US$10.5–11.25m per quarter) in FY21, compared to a guided range of US$40–43m in FY20 and an actual outcome of US$38.7m (ie 3.1% below the bottom of the range), including all employee-related expenses, charitable contributions, etc, but excluding performance share units (PSUs) and equity settled stock-based compensation. In the event, G&A expenses in Q121 and Q221 were below the pro-rata quarterly rate implied by WPM's full-year guidance. However, management now expects some inflation in G&A expenses such that the full-year outcome is towards the higher end of the guided range.

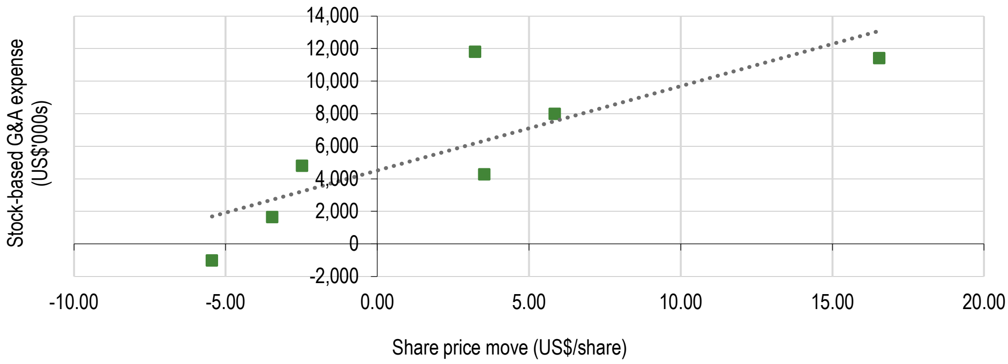
Exhibit 4: WPM Q419–FY21 general and administrative expense (US$000s)

Item	FY21e	Q221	Q121	FY20	Q420	Q320	Q220	Q120	FY19	Q419
G&A excluding PSU* and equity settled stock-based compensation		4,634	4,709	16,733	4,466	4,037	4,095	4,135	13,840	7,434
Other (inc. depreciation, donations and professional fees)		5,852	5,632	22,013	5,957	5,488	6,302	4,266	17,802	
Sub-total		**10,486**	**10,341**	**38,746**	**10,423**	**9,525**	**10,397**	**8,401**	**31,642**	**7,434**
Guidance	**42,000–45,000**	10,500-11,250	10,500–11,250	**40,000–43,000**					**33,000–36,000**	
PSU* accrual		6,672	305	21,520	(2,336)	10,482	10,097	3,277	17,174	2,830
Equity settled stock-based compensation		1,307	1,325	5,432	1,305	1,319	1,305	1,503	5,691	1,432
Total general & administrative		**18,465**	**11,971**	**65,698**	**9,392**	**21,326**	**21,799**	**13,181**	**54,507**	**11,696**
Total/sub-total (%)		**+76.1**	**+15.8**	**+69.6**	**-9.9**	**+123.9**	**+109.7**	**+56.9**	**+72.3**	**+57.3**

Source: WPM, Edison Investment Research. Note: *Performance share units.

Compared with non-stock G&A expenses, total G&A expenses are relatively difficult to forecast, given their dependence on the price of WPM's shares. However, a simple analysis of stock-based G&A expenses over the past seven quarters compared to the change in WPM's share price (also in US dollars) exhibits a relatively close Pearson product moment (correlation) coefficient between the two of 0.80, which is just statistically significant at the 5% level for a directional hypothesis (ie there is less than a 5% probability that this relationship occurred by random chance). The graph relating to the analysis is shown below, including its linear trendline:

Exhibit 5: Graph of historical share price move (US$/share) vs quarterly stock-based G&A expense, Q419–Q221



Source: Edison Investment Research (underlying data: Bloomberg and Wheaton Precious Metals)

The point on the graph relating to Q221 is at point (5.86, 7,979) – ie almost exactly on the trendline for the amount by which WPM's share price increased over the course of the quarter.

To date, in Q321, Wheaton's share price has increased by US$0.13, or 0.3%, leading us to believe that, all other things being equal, WPM's stock-based G&A will be in the order of US$4.6m in Q321 (to date) and US$4.5m in Q421. That being the case, we would expect a full G&A expense for those two quarters of US$16.2m and US$16.1m, respectively, which we have now incorporated into our updated financial forecasts, below (albeit with suitable caveats).

Recent developments

Relative to our last note (see *Honing forecasts*, published on 4 August), we have updated our financial forecasts for the remainder of the year for the following five factors, which are briefly described below:

- Metals prices. Edison does not believe that there has been a fundamental reversal of the bull market for precious metals. While we believe that the possibility of Fed tapering may remove upward pressure on the gold price, we do not believe that downward pressure will be brought to bear unless and until real interest rates (defined as the Fed Funds rate minus the US CPI) consistently maintain a level of 4% or more (as per 1979-1980, see Edison Gold Report June '20 A Golden Future), which has not occurred since before the year 2000 and which we do not predict in the foreseeable future. Nevertheless, in recognition of the recent price declines in gold and silver over the course of the past month, we have reduced our price forecasts for these two metals, in particular, for the remainder of the year to those shown below (NB There have been no changes to our longer term metals price forecasts):

Exhibit 6: Edison forecast metals' prices for remainder of FY21

Metals	Current forecast	Previous forecast	Change (%)
Gold	US$1,787/oz	US$1,810/oz	-1.3
Silver	US$23.72/oz	US$25.54/oz	-7.1
Palladium	US$2,519/oz	US$2,652/oz	-5.0
Cobalt	US$23.58/lb	US$23.77/lb	-0.8
Simple average			**-3.6**

Source: Edison Investment Research.

- Strike resolution at Sudbury. After two and a half months on strike, shortly after our last note was published, workers at Sudbury voted to accept a new five-year collective bargaining agreement between the United Steelworkers (USW) union and Vale and to return to work in the week commencing 9 August. Whereas we had previously assumed zero production of gold from Sudbury attributable to Wheaton in Q321, we have now revised this to a half quarter of production, with sales equivalent to one month of production.
- Pampacancha. Pampacancha (which hosts significantly higher gold grades than those mined hitherto at Constancia) achieved commercial production in April 2021. This was approximately nine quarters behind schedule however, during which period of time, Wheaton was variously entitled to require Hudbay to deliver up to an additional 8,020oz per annum (2,005oz per quarter) of gold to WPM (which was hitherto incorporated into Edison's models). However, on 10 May, Wheaton and Hudbay agreed to amend the Constancia streaming agreement such that Hudbay would no longer be required to deliver these additional ounces of gold, in return for which, Hudbay agreed to increase the fixed gold recoveries that apply to Constancia's ore production from 55% to 70% during Pampacancha's reserve life and these new terms and conditions have now been incorporated into Edison's financial models for WPM (NB Using a 10% discount rate, we estimate that the revised terms add US$77.0m in value to Wheaton's future cash-flows from the Constancia stream).
- Santo Domingo. Whereas we had previously not included the Santo Domingo stream in our financial forecasts, on 21 April 2021, Wheaton closed its precious metals purchase agreement with Capstone Mining relative to the project with an initial upfront cash consideration of US$30m being paid to Capstone on that date and, as a result, we have now incorporated Santo Domingo into our financial model (see our note Q121 results preview, published on 31 March 2021).
- Finance costs. On 9 June, Wheaton extended the term of its US$2.0bn revolving term loan by an additional year (with the facility now maturing on 9 June 2026) and, in so doing, incurred fees of US$2.0m in relation to the extension. In addition, Wheaton incurs costs of c US$1.3m

per quarter in relation to undrawn credit facilities. While these were relatively inconsequential relative to interest charges when Wheaton had net debt on its balance sheet (ie up to the end of Q320), now that WPM is in a net cash position, they appear material in relation to interest earned and, as a result, Edison now models these fees separately.

In addition to the above developments, on 20 July, Wheaton signed a non-binding term sheet with Rio2 Ltd to enter into a precious metals purchase agreement in connection with the Fenix Gold project located in Chile. Under the terms of the proposed PMPA, Wheaton will acquire 6% of Fenix's gold production until 90,000oz have been delivered and 4% of its gold production until 140,000oz have been delivered, after which the stream will drop to 3.5% for the remainder of the life of the mine. In consideration for this stream, Wheaton will pay a total upfront cash consideration of US$50m to Rio2, of which US$25m will be payable upon closing and US$25m will be payable upon Rio2's receipt of its Environmental Impact Assessment (EIA) for the project (subject to conditions). In addition, the WPM will make ongoing delivery payments equal to approximately 18% of the spot price of gold until the aggregate value of the gold delivered less the production payment is equal to the upfront consideration of US$50m, at which point the production payment will increase to 22% of the spot gold price. However, the entering into of the Fenix PMPA is subject to, among other matters, the negotiation and completion of definitive documentation and therefore, for the time being, Edison has left it excluded from its financial forecasts for Wheaton. As with a number of its other streams however, once in production, WPM believes that there is ample scope for Fenix to double, treble and potentially even quadruple production relative to its initial output rates and it expects these potential scenarios to be given Rio2 management's full consideration over the course of the next two years.

FY21 updated forecasts by quarter

In the light of the above developments, Edison's updated forecasts for WPM for FY21 are as shown in Exhibit 6, below. The forecasts assume that operations will continue throughout the remainder of the year without major interruptions. Apart from precious metals prices, the principal remaining risk to our forecasts relates to the extent to which sales differ from production and therefore the extent to which inventory (in the form of ounces produced but not yet delivered to WPM – see Exhibits 2 and 3) either increases or decreases during the year.

Exhibit 7: WPM FY21 forecast, by quarter*

US$000s (unless otherwise stated)	FY20	Q121	Q221	Q321e (prior)	Q321e (current)	Q421e (prior)	Q421e (current)	FY21e (current)	FY21e (prior)
Silver production (koz)	22,892	6,754	6,720	5,939	5,939	5,955	5,955	25,368	24,502
Gold production (oz)	367,419	77,733	90,290	85,930	88,175	95,930	95,225	351,423	341,819
Palladium production (koz)	22,187	5,769	5,301	5,561	5,561	5,561	5,561	22,192	22,452
Cobalt production (klb)		1,161	380	525	525	525	525	2,591	2,644
Silver sales (koz)	19,232	6,657	5,600	5,937	5,923	5,955	5,955	24,135	24,451
Gold sales (oz)	369,553	75,104	90,090	85,897	87,159	95,897	95,192	347,545	340,954
Palladium sales (oz)	20,051	5,131	3,869	5,539	5,539	5,539	5,539	20,078	21,747
Cobalt sales (klb)		132.3	395	525	525	525	525	1,577	1,713
Avg realised Ag price (US$/oz)	20.78	26.12	26.69	25.60	24.59	25.54	23.72	25.29	25.99
Avg realised Au price (US$/oz)	1,767	1,798	1,801	1,808	1,792	1,810	1,787	1,794	1,808
Avg realised Pd price (US$/oz)	2,183	2,392	2,797	2,678	2,623	2,652	2,519	2,569	2,632
Avg realised Co price (US$/lb)		20.90	19.82	23.64	23.15	23.77	23.58	22.38	22.67
Avg Ag cash cost (US$/oz)	5.28	6.33	6.11	6.71	6.23	6.72	6.21	6.23	6.62
Avg Au cash cost (US$/oz)	426	450	450	431	430	428	428	439	434
Avg Pd cash cost (US$/oz)	389	427	503	482	472	477	453	461	473
Avg Co cash cost (US$/lb)		4.98	4.41	4.26	4.17	4.28	4.24	4.32	4.16
Sales	1,096,224	324,119	330,393	334,567	328,533	352,843	337,705	1,320,750	1,347,935
Cost of sales									
Cost of sales, excluding depletion	266,763	78,783	78,445	81,767	79,247	85,953	82,502	318,978	327,333
Depletion	243,889	70,173	70,308	69,093	68,995	79,449	77,390	286,866	290,249
Total cost of sales	510,652	148,956	148,753	150,861	148,242	165,402	159,892	605,843	617,582
Earnings from operations	585,572	175,164	181,640	183,706	180,291	187,440	177,813	714,906	730,353
Expenses and other income									
– General and administrative**	65,698	11,971	18,465	18,329	16,169	18,329	16,101	62,705	66,958
– Foreign exchange (gain)/loss								0	0
– Net interest paid/(received)	16,715	1,573	1,357	(2,959)	1,240	(4,443)	1,137	5,307	(7,294)
– Other (income)/expense	(387)	420	136					556	420
Total expenses and other income	82,026	13,964	19,958	15,370	17,408	13,886	17,238	68,568	60,084
Earnings before income taxes	503,546	161,199	161,682	168,337	162,882	173,555	160,576	646,338	670,270
Income tax expense/(recovery)	211	67	56	250	250	250	250	623	817
Marginal tax rate (%)	0.0	0.0	0.0	0.1	0.2	0.1	0.2	0.1	0.1
Net earnings	503,335	161,132	161,626	168,087	162,632	173,305	160,326	645,715	669,453
Average no. shares in issue (000s)	448,964	449,509	450,088	449,809	450,271	449,809	450,271	450,035	449,697
Basic EPS (US$)	1.12	0.358	0.359	0.374	0.361	0.385	0.356	1.43	1.49
Diluted EPS (US$)	1.12	0.358	0.358	0.374	0.360	0.385	0.355	1.43	1.49
DPS (US$)	0.42	0.13	0.14	0.16	0.15	0.16	0.15	0.57	0.59

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

Readers should note that, consistent with past practice, for the purposes of FY21 we are assuming production and sales are closely aligned and that there is little or no change in the level of ounces produced but not yet delivered. Within this context, our basic EPS forecast of US$1.43/share for FY21 is closely in line with the consensus forecast of US$1.50/share (source: Refinitiv, 16 August 2021) and towards the middle of the range of analysts' expectations of US$1.36–1.66 per share for the period:

Exhibit 8: WPM FY21e consensus EPS forecasts (US$/share), by quarter

	Q121	Q221	Q321e	Q421e	Sum Q1–Q421e	FY21e
Edison forecasts	0.358	0.359	0.361	0.356	1.434	1.43
Mean consensus	0.358	0.359	0.39	0.40	1.507	1.50
High consensus	0.358	0.359	0.45	0.46	1.627	1.66
Low consensus	0.358	0.359	0.34	0.34	1.397	1.36

Source: Refinitiv, Edison Investment Research. Note: As at 6 May 2021.

In the meantime, our basic EPS forecast of US$2.14/share for FY22 (see Exhibit 10) compares with a consensus of US$1.60/share within a range of US$1.17–2.10/share (source: Refinitiv, 18 August 2021). In this case, our estimate is, once again, predicated on an average gold price during the year of US$1,892/oz and an average silver price of US$30.78/oz, which assumes, among other things, the silver price will revert to the long-term correlation that it has exhibited with gold since the latter was demonetised in 1971. If both metals instead remain at current levels, however (US$23.72/oz Ag and US$1,787/oz Au at the time of writing), our forecast for WPM's EPS in FY22 then moderates to US$1.68 per share and our forecast for its DPS to US$0.69/share.

FY21 and five-year and 10-year guidance

At the time of its Q420/FY20 results, WPM provided production guidance of 720–780koz AuE for FY21 and well as five-year average production guidance of 810,000oz AuE per annum and maiden 10-year average guidance of 830,000oz AuE per annum. This compares with Edison's updated forecasts in the wake of Q221 results, now incorporating Santo Domingo (see our note Q121 results preview, published on 31 March 2021), as follows:

Exhibit 9: WPM precious metals production – Edison forecasts cf guidance

	FY21e	*FY22–25 average	FY26–30 average
Previous Edison forecast			
Silver production (Moz)	24.5		
Gold production (koz)	341.8		
Cobalt production (klb)	2,644		
Palladium production (koz)	22.5		
Gold equivalent (koz)	737	786	778
Current Edison forecast			
Silver production (Moz)	25.4		
Gold production (koz)	351.4		
Cobalt production (klb)	2,591		
Palladium production (koz)	22.2		
Gold equivalent (koz)	758	824	804
WPM guidance			
Silver production (Moz)	22.5–24.0		
Gold production (koz)	370–400		
Cobalt & palladium production (koz AuE)	40–45		
Palladium production (koz)	N/A		
Gold equivalent (koz)	720–780	810	830

Source: WPM, Edison Investment Research forecasts. Note: *Edison forecasts include a contribution from Salobo III from FY23e and Rosemont from FY25e.

WPM's updated five-year guidance and its 10-year guidance are now based on standardised pricing assumptions of US$1,800/oz gold (Au), US$25.00/oz silver (Ag), US$2,300/oz palladium (Pd) and US$17.75/lb cobalt (Co). Of note in this context is an implied gold/silver ratio of 72.0x, which compares with its current ratio of 75.3x and a long-term average of 61.5x (since gold was demonetised on 15 August 1971).

Readers will note that Edison's FY21 silver production forecast is now above the top end of WPM's guidance range. After producing 13.5Moz Ag in H121 however, WPM's mines will only be required to produce at a rate of 5.3Moz Ag per quarter for the remaining two quarters of the year in order to achieve the top end of WPM's guidance range of 22.5–24.0Moz Ag for FY21. This compares with a long-term average quarterly production rate of 6.6Moz per quarter since Q112. Conversely, Edison's gold production forecast remains slightly below the bottom end of WPM's guidance range. After producing 168.0koz Au in H121, WPM's mines would have to produce at a rate of 101.0koz Au per quarter for the remaining two quarters of the year in order to achieve the bottom end of WPM's guidance range of 370–400koz Au for FY21. While this is certainly possible (WPM's gold mines produced at an average rate of 102.4koz per quarter in the period Q318–Q419), we think that it may prove demanding, given the recent strike action at Sudbury and in the event of any lingering coronavirus induced disruptions at Salobo in Brazil in particular. In this respect, Edison's financial forecasts for FY21 may prove conservative. Self-evidently however, at the standardised prices indicated, Edison's gold equivalent production forecast of 758koz gold equivalent (AuE) remains well within WPM's guidance of 720–780koz AuE.

Otherwise, readers will note that Edison's (updated) production forecasts are within 3.3% of WPM's guidance for the period FY22–30.

Short-term organic growth opportunities

In the short term, First Majestic has announced plans to increase production at San Dimas by restarting mining operations at the past-producing Tayoltita mine and expects to ramp up production to add another 300tpd (12%) to throughput. In addition, it intends to install a new 3,000tpd high-intensity grinding mill circuit and an autogenous grinding mill in H221 to further improve recoveries and reduce operating costs. Production of palladium and gold at Stillwater (operated by Sibanye-Stillwater) will similarly increase under the influence of the Fill-the-Mill project at East Boulder (although the Blitz project has now been delayed by two years, until 2024, following the suspension of growth capital activities owing to COVID-19).

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 at that point scheduled for H222 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 US$570–670m in FY23, in return for which it will be entitled to its full 75% attributable share of expanded gold production. This compares to its purchase of a 25% stream in August 2016 for a consideration of US$800m (see our note 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.

According to Vale's Q121 performance report, the Salobo III mine expansion is now 77% complete (cf 73% at the end of Q121, 68% at the end of Q420, 62% at the end of Q320, 54% at the end of Q220, 47% at the end of Q120, 40% at the end of Q419 and 27% at the end of Q319) and is on schedule for start-up in H222.

Once Salobo III has been completed however, WPM now believes that reserves and resources could support a further 33% capacity increase at Salobo, from 90ktpd to 120ktpd (denoted Salobo IV). In addition to its long-term underground mining potential, WPM believes that such an expansion could nevertheless still be supported by output from the open pit. Under the terms of its agreement with Vale, there would be no additional payment due from WPM in respect of this expansion, although Vale could exercise a right to alter the timing of the incremental payment due in respect of Salobo III.

Pascua-Lama

WPM's contract with Barrick provided for a completion test that, if unfulfilled by 30 June 2020, would result in WPM 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 which point it would have no further streaming interest in the mine). Given the test was unfulfilled, we calculate that WPM had the right to an estimated US$252.3m (the carrying value of Pascua-Lama in WPM's accounts) repayment from Barrick in FY20. Given the long-term optionality provided by the Pascua-Lama project, however, WPM instead opted not to enforce the repayment of its entitlement and to instead maintain its streaming interest in the project (which was originally expected to deliver an attributable 1.7–12.0Moz silver pa, averaging 5.2Moz Ag pa, to WPM at a cost of US$3.90/oz (inflating at 1% per year).

Rosemont

Another major project with which WPM has a streaming agreement for attributable gold and silver production is Rosemont copper in Arizona.

The proposed Rosemont development is near a number of large porphyry-type producing copper mines and would 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 is estimated to be c 2.7Moz Ag pa and c 16,100oz Au pa.

Rosemont's operator, Hudbay, has received both a Mine Plan of Operations from the US Forest Service and a Section 404 Water Permit from the US Army Corps of Engineers (in March 2019), which was effectively the final material administrative step before the mine could start development. Subsequently, Hudbay indicated it would seek board approval to start construction work by the end of CY19, which would have enabled first production 'by the end of 2022'. In the meantime, it started early works to run concurrently with financing activities (including a potential joint venture partner).

On 31 July 2019, however, the US District Court for the District of Arizona issued a ruling relating to a number of lawsuits challenging the US Forest Service's issuance of the Final Record of Decision effectively halting construction, 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 Forest Service had 'no factual basis to determine that Rosemont had valid unpatented mining claims' on 2,447 acres and the claims were invalid under the Mining Law of 1872.

In response, Hudbay said that it believed the ruling to be 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 10 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 of the proposed mine on the environment. Hudbay also pointed out that various agencies had accepted that the company could operate the mine in compliance with environmental laws. As a result, Hudbay has appealed the ruling to the Ninth Circuit Court of Appeals, which it expects to be successful, not least as a result of there being legal precedents for its waste disposal plan. As per its MD&A for the year ended December 2020, final briefs relating to its appeal were filed in November 2020 and the oral hearing was completed in early February 2021, such that Hudbay expects a ruling from the Ninth Circuit in H221. Nevertheless, as an alternative, it is also able to adapt its mine and waste plan to accommodate its waste dumps on privately owned, patented land alone, if necessary.

Once in production, we estimate Rosemont will contribute c 16,750oz gold and 2.7Moz silver to WPM's production profile in return for an upfront payment of US$230m in two instalments of US$50m and US$180m (neither of which has yet been paid). Note that, whereas before, we had not included Rosemont in our longer-term forecasts, we are now including it from FY25. In the meantime however, Hudbay has continued exploration at Rosemont and, on 29 March 2021, announced the intersection of high-grade copper sulphide and oxide mineralisation at shallow depth on its wholly-owned patented mining claims, located within 7km of the proposed Rosemont mine. As a result of the discovery, Hudbay has initiated a second phase of exploration drilling with a 70,000ft (21,336m) follow-up drill programme and has doubled the number of drill rigs operating at site from three to six. Note that the discovery is contained within WPM's 'area of interest' as defined under the PMPA between it and Hudbay.

Other potential future growth opportunities

WPM reports that its corporate development team remains 'exceptionally busy'. While the majority of deals are now reported to be with development companies in the US$100–300m range (with fewer 'balance sheet repair' opportunities), it is also reported that there have been a number of approaches made by producing companies for transactions to fund expansion and even to fund M&A activity. In the first instance, WPM would fund any such transactions via the US$2bn available under its revolving credit facility, plus US$235.4m in cash (as at end-Q221) and, potentially, its US$300m at-the-market equity programme.

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

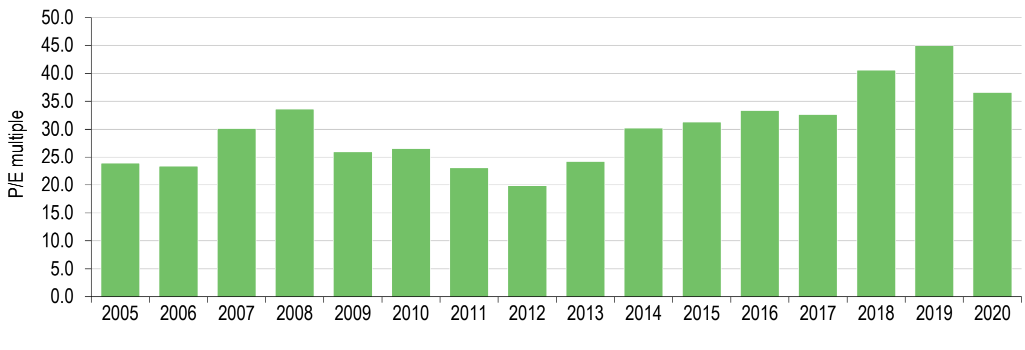
- the platinum group metal (PGM) by-product stream at Sudbury (operated by Vale); and
- the 30% of the gold output at Constancia that is currently not subject to any streaming arrangement.

Otherwise, WPM also has streaming agreements with other potential producing mines, including Navidad and Cotabambas, and a recently acquired 2.0% net smelter return royalty interest with the Brewery Creek mine in the Yukon in Canada.

Valuation

Excluding FY04 (part-year), WPM's shares have historically traded on an average P/E multiple of 30.0x current year basic underlying EPS, excluding impairments (cf 30.2x Edison or 29.6x Refinitiv consensus FY21e, currently – see Exhibit 11).

Exhibit 10: WPM's historical current year P/E multiples, 2005–20



Source: Edison Investment Research

Applying this 30.0x multiple to our EPS forecast of US$2.16 in FY23 (previously US$2.11) would ordinarily imply a potential value per share for WPM of US$64.92 or C$81.86 in that year. However, the graph above suggests that the current year multiple has been on a broadly upward trend between FY12 and FY19, on which basis we would argue that a multiple in excess of 40x (as evidenced by FY18 and FY19) could be supported in the event of a return to favour of precious metals and precious metals stocks (not least given the fact that these years were not subject to the extraordinary trials and tribulations experienced in FY20). In this case, applying a 40.7x earnings multiple (the average of FY18, FY19 and FY20) to our updated EPS forecast of US$2.16 in FY23 implies a potential value per share for WPM of US$88.03 or C$111.24 in that year (note that this analysis implicitly assumes that metals prices in FY24 would be experiencing the same sort of increases relative to FY23 that they did in FY20 relative to FY19 and that the average multiple would probably then contract again in FY24 as EPS 'caught up' with the share price). Even at such share price levels, however, a multiple of over 40.7x would put WPM's shares on no more than par relative to Franco-Nevada (see Exhibit 11).

In the meantime, from a relative perspective, it is notable that WPM has a lower valuation than the average of its royalty/streaming 'peers' on eight out of nine valuation measures if Edison forecasts are used or six out of nine valuation measures if consensus forecasts are used. On an individual basis, it is cheaper than its peers on 81% (29 out of 36) of the valuation measures used in Exhibit 11 if Edison estimates are adopted or 67% (24 out of 36) of the same valuation measures if consensus forecasts are adopted. Among other things, this could possibly indicate the market has more conservative precious metal pricing expectations than we do (especially in FY22 and FY23).

Exhibit 11: WPM comparative valuation vs a sample of operating and royalty/streaming companies

	P/E (x)			Yield (%)			P/CF (x)		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Royalty companies									
Franco-Nevada	44.4	41.9	41.0	0.7	0.8	0.8	29.9	28.3	27.6
Royal Gold	27.5	30.0	30.3	1.0	1.0	1.0	15.7	17.2	17.5
Sandstorm Gold	38.6	32.9	45.0	0.0	0.0	0.0	17.2	14.4	18.5
Osisko	36.4	30.1	26.0	1.3	1.3	1.4	18.2	16.1	13.3
Average	**36.7**	**33.7**	**35.6**	**0.8**	**0.8**	**0.8**	**20.3**	**19.0**	**19.2**
WPM (Edison forecasts)	**30.8**	**20.6**	**20.4**	**1.3**	**1.8**	**1.9**	**20.8**	**15.6**	**15.4**
WPM (consensus)	**29.6**	**27.6**	**28.8**	**1.3**	**1.4**	**1.5**	**20.8**	**19.6**	**19.9**
Implied WPM share price (US$)*	**52.65**	**72.29**	**76.93**	**73.83**	**102.15**	**108.73**	**42.95**	**53.88**	**55.22**

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 16 August 2021. *Derived using Edison forecasts and average consensus multiples.

Financials: US$235.4m in net cash

As at 30 June, WPM had US$235.4m in cash (cf US$191.2m in Q121 and US$192.7m in Q420) and no debt outstanding (cf US$195.0m in Q420) under its US$2bn revolving credit facility, such that (including a modest US$3.3m in leases) it had US$232.1m in net cash overall (cf US$187.7m in Q121 and US$6.0m in Q420) after US$216.4m of cash generated by operating activities during the quarter (cf US$232.2m in Q121 and US$208.0m in Q420). This figure of US$232.1m as at end-Q121 compares with our prior estimate of a net cash figure of US$257.8m (albeit this latter figure excluded the US$30.0m paid by WPM to Capstone in respect of the Santo Domingo PMPA during the quarter).

EDISON

Exhibit 12: Financial summary

US$'000s	2017	2018	2019	2020	2021e	2022e	2023e
Dec	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	843,215	794,012	861,332	1,096,224	1,320,750	1,673,083	1,700,245
Cost of Sales	(243,801)	(245,794)	(258,559)	(266,763)	(318,978)	(333,854)	(346,587)
Gross Profit	599,414	548,218	602,773	829,461	1,001,772	1,339,229	1,353,659
EBITDA	564,741	496,568	548,266	763,763	939,067	1,276,523	1,290,953
Operating Profit (before amort. and except.)	302,361	244,281	291,440	519,874	652,201	965,506	972,374
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	(228,680)	245,715	(156,608)	4,469	5,368	0	0
Other	8,129	(5,826)	217	387	(556)	0	0
Operating Profit	81,810	484,170	135,049	524,730	657,013	965,506	972,374
Net Interest	(24,993)	(41,187)	(48,730)	(16,715)	(5,307)	1,031	2,380
Profit Before Tax (norm)	277,368	203,094	242,710	503,159	646,894	966,537	974,754
Profit Before Tax (FRS 3)	56,817	442,983	86,319	508,015	651,706	966,537	974,754
Tax	886	(15,868)	(181)	(211)	(623)	(1,000)	(1,000)
Profit After Tax (norm)	286,383	181,400	242,746	503,335	645,715	965,537	973,754
Profit After Tax (FRS 3)	57,703	427,115	86,138	507,804	651,083	965,537	973,754
Average Number of Shares Outstanding (m)	442.0	443.4	446.0	448.7	450.0	450.3	450.3
EPS - normalised (c)	63	48	54	112	143	214	216
EPS - normalised and fully diluted (c)	63	48	54	112	143	209	211
EPS - (IFRS) (c)	13	96	19	113	145	214	216
Dividend per share (c)	33	36	36	42	57	80	86
Gross Margin (%)	71.1	69.0	70.0	75.7	75.8	80.0	79.6
EBITDA Margin (%)	67.0	62.5	63.7	69.7	71.1	76.3	75.9
Operating Margin (before GW and except.) (%)	35.9	30.8	33.8	47.4	49.4	57.7	57.2
BALANCE SHEET							
Fixed Assets	5,579,898	6,390,342	6,123,255	5,755,441	5,585,605	5,442,588	5,909,009
Intangible Assets	5,454,106	6,196,187	5,768,883	5,521,632	5,348,899	5,205,882	5,672,303
Tangible Assets	30,060	29,402	44,615	33,931	34,451	34,451	34,451
Investments	95,732	164,753	309,757	199,878	202,255	202,255	202,255
Current Assets	103,415	79,704	154,752	201,831	582,342	1,333,605	1,455,433
Stocks	1,700	1,541	43,628	3,265	2,371	3,004	3,053
Debtors	3,194	2,396	7,138	5,883	3,618	4,584	4,658
Cash	98,521	75,767	103,986	192,683	576,353	1,326,018	1,447,722
Other	0	0	0	0	0	0	0
Current Liabilities	(12,143)	(28,841)	(64,700)	(31,169)	(49,607)	(51,074)	(52,330)
Creditors	(12,143)	(28,841)	(63,976)	(30,396)	(48,834)	(50,301)	(51,557)
Short term borrowings	0	0	(724)	(773)	(773)	(773)	(773)
Long Term Liabilities	(771,506)	(1,269,289)	(887,387)	(211,532)	(16,532)	(16,532)	(16,532)
Long term borrowings	(770,000)	(1,264,000)	(878,028)	(197,864)	(2,864)	(2,864)	(2,864)
Other long term liabilities	(1,506)	(5,289)	(9,359)	(13,668)	(13,668)	(13,668)	(13,668)
Net Assets	4,899,664	5,171,916	5,325,920	5,714,571	6,101,809	6,708,587	7,295,580
CASH FLOW							
Operating Cash Flow	564,187	518,680	548,301	784,843	960,107	1,276,393	1,292,086
Net Interest	(24,993)	(41,187)	(41,242)	(16,715)	(5,307)	1,031	2,380
Tax	(326)	0	(5,380)	(2,686)	(623)	(1,000)	(1,000)
Capex	(19,633)	(861,406)	10,571	149,648	(117,030)	(168,000)	(785,000)
Acquisitions/disposals	0	0	0	0	0	0	0
Financing	1,236	1,279	37,198	22,396	0	0	0
Dividends	(121,934)	(132,915)	(129,986)	(167,212)	(258,477)	(358,759)	(386,762)
Net Cash Flow	398,537	(515,549)	419,462	770,274	578,670	749,665	121,704
Opening net debt/(cash)	1,068,705	671,479	1,188,233	774,766	5,954	(572,716)	(1,322,381)
HP finance leases initiated	0	0	0	0	0	0	0
Other	(1,311)	(1,205)	(5,995)	(1,462)	0	0	0
Closing net debt/(cash)	671,479	1,188,233	774,766	5,954	(572,716)	(1,322,381)	(1,444,085)

Source: Company sources, Edison Investment Research.

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