

Wheaton Precious Metals

Swings and roundabouts

Q419/FY19 results

Metals & mining

3 April 2020

Price **C\$40.32**

Market cap **C\$18bn**

C\$1.4127/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 3.3 4.5 27.9

Rel (local) 30.5 36.4 58.8

52-week high/low C\$44.28 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 May 2020

Q220 results August 2020

Q320 results November 2020

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[Edison profile page](#)

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On 1 April, Wheaton Precious Metals (WPM) announced that all of its partners' mines are operational, with the exception of Voisey's Bay, Constancia, Yauliyacu and Penasquito. Voisey's Bay is not scheduled to deliver cobalt to WPM until FY21, so its temporary furlough will make no difference to FY20 estimates. However, other mines at risk of temporary closure include San Dimas and Los Filos in Mexico. As a result, WPM has withdrawn its production guidance for FY20. However, assuming these mines remain closed throughout Q220, but at higher prevailing metals prices (see Exhibit 1, overleaf), our FY20 EPS forecast for WPM has increased by 18.6%.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	794.0	203.1	48	36	59.5	1.3
12/19	861.3	242.7	56	36	51.0	1.3
12/20e	952.0	342.8	76	43	37.6	1.5
12/21e	1,154.6	508.3	114	52	25.0	1.8

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

Temporary mine suspensions due to COVID-19

Vale made the decision to temporarily suspend operations at Voisey's Bay on 17 March, while Hudbay announced it was to shut down operations at Constancia on account of the limited availability of critical mining supplies on 20 March. Yauliyacu is similarly reported to have shut down on account of supply chain issues. Finally, on 31 March, the Mexican government mandated that all non-essential businesses should suspend operations until 30 April and on 1 April Newmont reported that mining had been deemed non-essential and that, as a result, it was taking steps towards a 'safe and orderly ramp down of operations' at Penasquito. Other Mexican mining operations over which WPM has precious metals purchase agreements include the San Dimas and Los Filos mines.

Updated production forecasts

Assuming these six mines remain closed for the entirety of Q220, our full-year production forecasts for WPM are 20.4Moz Ag and 373.5koz Au, compared with WPM's prior (but now withdrawn) guidance of 22.0–23.5Moz Ag and 390–410koz Au. Together with unchanged forecast palladium production of 23.75koz, this equates to 599.7koz of gold equivalent production (at average annual prices) or 649.5koz at WPM's nominal prices of US\$18.00/oz silver, US\$1,500/oz gold and US\$2,000/oz palladium (cf a prior guidance range of 685–725koz).

Valuation: Effectively unchanged at C\$47.27

Assuming no material purchases of additional streams (which we think unlikely), we forecast a value per share for WPM of US\$33.46 (cf US\$33.63 previously), or C\$47.27 (cf C\$46.34 previously) in FY21. This excludes the value of 20.2m shares in First Majestic held by WPM, with an immediate value of C\$176.7m, or US\$0.28 per WPM share.

Updated FY20 forecasts by quarter

In our last note on WPM ([In the right place at the right time](#), 23 March), we based our FY20 earnings expectations on the then prevailing gold and silver prices of US\$1,479/oz and US\$12.00/oz, respectively, for the remainder of the year. To date, this has proved unduly conservative, as the gold price has since rallied to c US\$1,591/oz, while the silver price has rallied proportionately more, to c US\$14.17/oz. Self-evidently, given the current environment, both are potentially susceptible to elevated levels of volatility.

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 precise forecasts are difficult to make in the current environment, the following table demonstrates the effect on our FY20 forecasts of Yauliyacu, Constancia, Penasquito, San Dimas and Los Filos all remaining closed for the entirety of Q220 at our updated metals prices:

Exhibit 1: 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	5,926	2,578	5,926	5,926	20,357	23,705
Gold production (oz)	406,675	97,105	82,230	97,105	97,105	373,544	388,419
Palladium production (koz)	21,993	5,938	5,938	5,938	5,938	23,750	23,750
Silver sales (koz)	17,703	5,926	2,578	5,926	5,926	20,357	23,705
Gold sales (oz)	389,086	97,068	82,193	97,068	97,068	373,399	388,274
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	14.17	14.17	14.17	14.96	13.14
Avg realised Au price (US\$/oz)	1,391	1,581	1,591	1,591	1,591	1,588	1,501
Avg realised Pd price (US\$/oz)	1,542	2,296	2,296	2,296	2,296	2,296	1,844
Avg Ag cash cost (US\$/oz)	5.02	5.16	5.06	5.06	5.06	5.09	5.02
Avg Au cash cost (US\$/oz)	421	425	402	425	425	420	425
Avg Pd cash cost (US\$/oz)	273	413	413	413	413	413	370
Sales	861,332	267,138	180,881	251,990	251,990	951,998	937,831
Cost of sales							
Cost of sales, excluding depletion	258,559	74,282	48,564	73,760	73,760	270,365	291,778
Depletion	256,826	71,623	53,669	71,623	71,623	268,537	286,490
Total cost of sales	515,385	145,904	102,233	145,382	145,382	538,902	578,268
Earnings from operations	345,947	121,234	78,648	106,607	106,607	413,097	359,563
Expenses and other income							
– General and administrative**	54,507	9,750	9,750	9,750	9,750	39,000	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	17,580	17,580	17,580	17,580	70,320	70,320
Earnings before income taxes	242,927	103,654	61,068	89,027	89,027	342,777	289,243
Income tax expense/(recovery)	(9,066)	250	250	250	250	1,000	1,000
Marginal tax rate (%)	(3.7)	0.2	0.4	0.3	0.3	0.3	0.3
Net earnings	251,993	103,404	60,818	88,777	88,777	341,777	288,243
Ave. no. shares in issue (000s)	446,021	446,802	446,802	446,802	446,802	446,802	446,802
Basic EPS (US\$)	0.56	0.23	0.14	0.20	0.20	0.76	0.65
Diluted EPS (US\$)	0.56	0.23	0.14	0.20	0.20	0.76	0.64
DPS (US\$)	0.36	0.10	0.12	0.10	0.11	0.43	0.42

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

Our updated production forecasts of 20.4Moz silver and 373.5koz 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 23.7Moz silver and 388.4koz gold. Our production forecast for palladium remains

unchanged. At annual average prices for the year, our updated production forecasts now equate to 599.7koz of gold equivalent production. 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 649.5koz (cf a prior guidance range of 685–725koz). Self-evidently, these forecasts are at risk to the downside if the mine shutdowns last longer than one quarter and are at risk to the upside if they are shut down for less than one quarter.

Relative to our prior FY20e EPS forecast of 65c, the change (+11c) to achieve our updated forecast of 76c may be apportioned as follows:

- To increased precious metals prices (+18c)
- To decreased production (-7c)

A subsequent quarter (Q320) of the same mines remaining no furlough would result in our EPS forecast decreasing by another 6c to 70c per share.

Our updated basic EPS forecast of US\$0.76/share for FY20 is 13.6% below the consensus forecast of US\$0.88/share (source: Refinitiv, 2 April 2020) within a range of US\$0.64–1.05 per share.

Relative to the consensus, our forecasts compare as follows on a quarterly basis:

Exhibit 2: WPM FY20 consensus EPS forecasts (US\$/share)

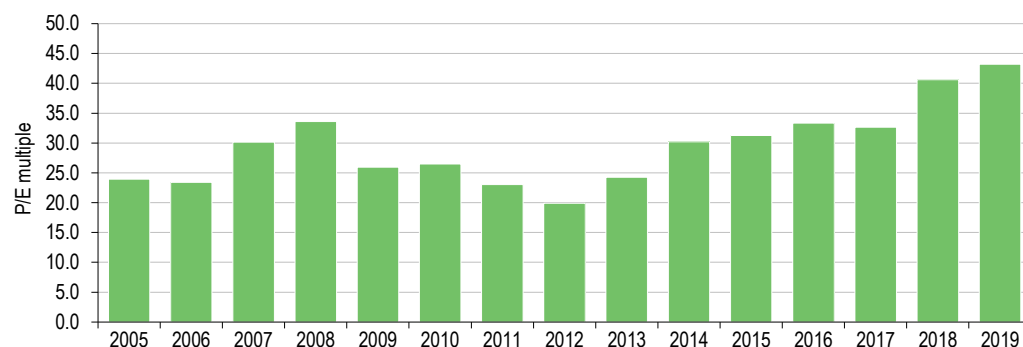
	Q1	Q2	Q3	Q4	Sum Q1-Q4	FY20
Mean	0.21	0.21	0.21	0.21	0.84	0.88
High	0.24	0.25	0.27	0.27	1.03	1.05
Low	0.17	0.14	0.14	0.14	0.59	0.64

Source: Refinitiv, Edison Investment Research. Note: At 13 March 2020.

Our US\$1.14 basic EPS forecast for FY21 (see Exhibit 4) remains, to all intents and purposes, unchanged and compares with a consensus of US\$0.95 (source: Refinitiv, 2 April 2020), within a range of US\$0.76–1.36. 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 74.7% 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 gold was demonetised in 1971. If both metals remain at current levels, however (US\$14.17/oz and US\$1,591/oz at the time of writing), we forecast that WPM will instead earn US\$0.76 per share in FY21.

Valuation

Relative to our last note, our valuation of WPM remains ostensibly unchanged. Excluding FY04 (part-year), WPM's shares have historically traded on an average P/E multiple of 29.5x current year basic underlying EPS, excluding impairments (vs 37.6x Edison or 31.4x Refinitiv consensus FY20e, currently).

Exhibit 3: WPM's historical current year P/E multiples, 2005–19


Source: Edison Investment Research

Applying this 29.5x multiple to our updated EPS forecast of US\$1.14 in FY21 implies a potential value per share for WPM of US\$33.46 (cf US\$33.63 previously), or C\$47.27 (cf C\$46.34 previously) in that year. Note that this excludes the value of 20.2m shares in First Majestic held by WPM, with an immediate value (2 April) of C\$176.7m, or US\$0.28 per WPM share.

Exhibit 4: 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
PROFIT & LOSS										
Revenue	849,560	706,472	620,176	648,687	891,557	843,215	794,012	861,332	951,998	1,154,559
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(243,801)	(245,794)	(258,559)	(270,365)	(288,135)
Gross Profit	732,071	567,120	469,079	458,473	637,123	599,414	548,218	602,773	681,634	866,424
EBITDA	701,232	531,812	431,219	426,236	602,684	564,741	496,568	548,266	642,634	827,424
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	293,982	302,361	244,281	291,440	374,097	520,201
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	374,097	520,201
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(48,730)	(31,320)	(11,930)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	269,789	277,368	203,094	242,710	342,777	508,271
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	193,807	56,817	442,983	77,072	342,777	508,271
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	341,777	507,272
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	195,137	57,703	427,115	86,138	341,777	507,271
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.5	442.0	443.4	446.0	446.8	446.8
EPS - normalised (c)	166	106	75	53	62	63	48	56	76	114
EPS - normalised and fully diluted (c)	165	105	74	53	62	63	48	56	76	113
EPS - (IFRS) (c)	166	106	56	(41)	45	13	96	19	76	114
Dividend per share (c)	35	45	26	20	21	33	36	36	43	52
Gross Margin (%)	86.2	80.3	75.6	70.7	71.5	71.1	69.0	70.0	71.6	75.0
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.6	67.0	62.5	63.7	67.5	71.7
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.0	35.9	30.8	33.8	39.3	45.1
BALANCE SHEET										
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	5,856,718	5,551,495
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	5,502,346	5,197,123
Tangible Assets	1,347	5,670	5,427	12,315	12,163	30,060	29,402	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	587,949	1,168,375
Stocks	966	845	26,263	1,455	1,481	1,700	1,541	43,628	1,709	2,073
Debtors	6,197	4,619	4,132	1,124	2,316	3,194	2,396	7,138	2,608	3,163
Cash	778,216	95,823	308,098	103,297	124,295	98,521	75,767	103,986	583,632	1,163,139
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)	(79,572)	(81,325)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(28,841)	(63,976)	(78,848)	(80,601)
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	5,477,709	5,751,158
CASH FLOW										
Operating Cash Flow	720,209	540,597	434,582	435,783	608,503	564,187	518,680	548,301	703,954	828,258
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(41,242)	(31,320)	(11,930)
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)	(189,988)	(233,821)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	295,298	398,537	(515,549)	419,462	479,646	579,507
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	295,120
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	295,120	(284,387)

Source: Company sources, Edison Investment Research.

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