Wheaton Precious Metals

Q321 results

Imperturbable

Metals & mining

Notwithstanding a quarter in which COVID-19 related constraints continued to disrupt the industry and in which the palladium price showed notable weakness, Wheaton's Q3 financial and operational results were broadly in line with our prior expectations and have caused us to revise our earnings estimate for FY21 by no more than 0.5%. Revenue, earnings and cash flow for the first nine months of 2021 remained at record levels, as a result of which the company declared a relatively generous dividend of US$0.15/share, representing a 25% increase cf the prior year period.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	861.3	242.7	54	36	74.6	0.9
12/20	1,096.2	503.2	112	42	35.9	1.0
12/21e	1,234.6	608.8	135	57	29.8	1.4
12/22e	1,408.0	690.3	153	65	26.3	1.6

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

Refining guidance

At the same time as announcing its Q321 results, Wheaton took the opportunity to refine its guidance. In this case, WPM now estimates that attributable production in 2021 will be approximately 735–765koz gold equivalent (AuE), which is in line with the mid-point of previous guidance, albeit achieved via the production of approximately 12.3% less gold and 11.8% more silver.

Refining FY22 forecasts

As well as honing EPS forecasts for FY21, Edison has also updated its forecasts for FY22. In this case, our basic EPS forecast has declined from US$2.05/share to US$1.53/share, albeit this reduction reflects only a change in our assumed metals prices from US$1,892/oz gold (Au) and US$30.78/oz silver (Ag) to those prevailing currently. While we believe that it is still possible for gold and silver to hit these levels in FY22, we think that it is unlikely that they will average these levels over the course of the full 12-month period. This revision brings our year two forecasts into line with the current consensus estimates (see page 8).

Valuation: History implies US$61.23, peers US$50.43

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$61.23 or C$76.27 or £45.48 in FY23 (cf US$61.99 previously). WPM's shares are trading on near-term financial ratios that are cheaper than those of its peers on at least 72% of 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 year one share price should be US$50.43 (C$62.82 or £37.46), based on our forecasts for FY21. Alternatively, if precious metals return to favour and WPM to a premium rating, we believe an US$83.03 (C$104.92 or £61.68) per share valuation is still achievable (see page 12).

8 November 2021

Price	**C$50.15**
Market cap	**C$22,583m**
	C$1.2457/US$, US$1.3462/£
Net cash at end-September (US$m) excluding US$3.1m in lease liabilities.	372.5
Shares in issue	450.3m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchanges	LSE, NYSE

Share price performance

%	1m	3m	12m
Abs	8.6	(10.1)	(20.6)
Rel (local)	2.2	(14.6)	(39.7)
52-week high/low		C$65.61	C$45.11

Business description

Wheaton Precious Metals (WPM) 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, Portugal and Colombia.

Next events

Q421/FY21 results	March 2022
Q122 results	May 2022
Q222 results	August 2022

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Edison profile page

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

Q321 results analysis

Notwithstanding a quarter in which COVID-19 related constraints continued to disrupt the industry and in which the palladium price showed notable weakness, Wheaton's Q3 financial and operational results were broadly in line with our prior expectations (see our note Honing Q321 forecasts, published on 8 October) and within the range of analysts' forecasts, albeit towards the lower half of the range. Revenue, earnings and cash flow for the first nine months of 2021 remained at record levels. As a result, the company declared a relatively generous dividend of US$0.15/share, representing a 25% increase compared to Q420. Operationally, Antamina, Constancia, Penasquito and San Dimas all outperformed our expectations, although this was offset to a large degree by a greater than expected increase in ounces produced but not yet delivered at Salobo, which continued to suffer from COVID-19 related disruptions and accounted for 20,020oz out of a total gold under-sale of 18,292oz during the period (ie more than 100%). As a consequence, the company narrowed its annual guidance for production to 735–765koz AuE (cf 720–780koz AuE previously), consistent with the mid-point of its previous guidance, but with a slightly different mix of metals (eg more silver and other metals and less gold – see Exhibits 7 & 9).

In general, both gold and silver production during the quarter met or exceeded our forecasts. However, the extent of the under-sale of gold relative to production exceeded our expectations by 10.6koz (effectively being solely attributable to Salobo), which resulted in a US$31.0m (or 10.3%) negative variance in sales relative to our prior forecasts. This was substantially offset by a US$19.4m, or 14.1%, positive (ie lower than expected) variance in total costs, with the difference of US$11.7m effectively falling straight through to the bottom line. A summary of WPM's financial and operating results in the context of both its results in the preceding quarters and Edison's prior expectations is provided in the exhibit below:

EDISON

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

US$000s (unless otherwise stated)	Q120	Q220	Q320	Q420	Q121	Q221	Q321e	Q321a	Change **(%)	Variance ***(%)	Variance ***(units)
Silver production (koz)	6,704	3,650	6,028	6,509	6,754	6,720	5,757	6,394	-4.9	11.1	637
Gold production (oz)	94,707	88,631	91,770	93,137	77,733	90,290	85,735	85,941	-4.8	0.2	206
Palladium production (koz)	5,312	5,759	5,444	5,672	5,769	5,301	5,561	5,105	-3.7	-8.2	-456
Cobalt production (klbs)					1,161	380	390	370.5	-2.5	-5.0	-20
Silver sales (koz)	4,928	4,729	4,999	4,576	6,657	5,600	5,741	5,487	-2.0	-4.4	-254
Gold sales (oz)	100,405	92,804	90,101	86,243	75,104	90,090	78,212	67,649	-24.9	-13.5	-10,563
Palladium sales (koz)	4,938	4,976	5,546	4,591	5,131	3,869	5,539	5,703	47.4	3.0	164
Cobalt sales (klbs)					132.3	395	400	131.2	-66.8	-67.2	-269
Avg realised Ag price (US$/oz)	17.03	16.73	24.69	24.72	26.12	26.69	24.30	23.80	-10.8	-2.1	-1
Avg realised Au price (US$/oz)	1,589	1,716	1,906	1,882	1,798	1,801	1,790	1,795	-0.3	0.3	5
Avg realised Pd price (US$/oz)	2,298	1,917	2,182	2,348	2,392	2,797	2,452	2,426	-13.3	-1.1	-26
Avg realised Co price (US$/lb)					22.19	19.82	17.65	23.78	20.0	34.7	6
Avg Ag cash cost (US$/oz)	4.50	5.23	5.89	5.51	6.33	6.11	6.15	5.06	-17.2	-17.7	-1
Avg Au cash cost (US$/oz)	436	418	428	433	450	450	433	464	3.1	7.2	31
Avg Pd cash cost (US$/oz)	402	353	383	423	427	503	441	468	-7.0	6.1	27
Avg Co cash cost (US$/lb)					4.98	4.41	4.24	5.15	16.8	21.5	1
Sales	254,789	247,954	307,268	286,213	324,119	330,393	299,971	268,957	-18.6	-10.3	-31,014
Cost of sales											
Cost of sales, excluding depletion	66,908	65,211	70,119	64,524	78,783	78,445	73,259	62,529	-20.3	-14.6	-10,730
Depletion	64,841	58,661	60,601	59,786	70,173	70,308	63,599	54,976	-21.8	-13.6	-8,623
Total cost of sales	131,748	123,872	130,720	124,310	148,956	148,753	136,858	117,505	-21.0	-14.1	-19,353
Earnings from operations	123,040	124,082	176,548	161,902	175,164	181,640	163,113	151,452	-16.6	-7.1	-11,661
Expenses and other income											
– General and administrative	13,181	21,799	21,326	9,391	11,971	18,465	12,765	13,595	-26.4	6.5	830
– Foreign exchange (gain)/loss	0	0	0	0					N/A	N/A	0
– Net interest paid/(received)	7,118	4,636	2,766	2,196	1,573	1,357	1,240	1,379	1.6	11.2	139
– Other (income)/expense	-1,861	234	391	850	420	136		(684)	-602.9	N/A	-684
Total expenses and other income	18,438	26,669	24,483	12,437	13,964	19,958	14,004	14,290	-28.4	2.0	286
Earnings before income taxes	104,602	97,413	152,065	149,465	161,199	161,682	149,109	137,162	-15.2	-8.0	-11,947
Income tax expense/(recovery)	8,442	59	58	24	67	56	250	75	33.9	-70.0	-175
Marginal tax rate (%)	8.1	0.1	0.0	0.0	0.0	0.0	0.2	0.1	N/A	-50.0	-0.1
Net earnings	96,160	97,354	152,007	149,441	161,132	161,626	148,859	137,087	-15.2	-7.9	-11,772
Average no. shares in issue (000s)	447,805	448,636	449,125	449,320	449,509	450,088	450,271	450,326	0.1	0.0	55
Adjusted basic EPS (US$)	0.215	0.217	0.338	0.333	0.358	0.359	0.331	0.304	-15.3	-8.2	-0.027
Adjusted diluted EPS (US$)	0.214	0.216	0.336	0.331	0.358	0.358	0.330	0.303	-15.4	-8.2	-0.027
DPS (US$)	0.10	0.10	0.10	0.12	0.13	0.14	0.15	0.15	7.1	0.0	0.00

Source: WPM, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Q321 versus Q221. ***Q321 actual versus Q321 estimate.

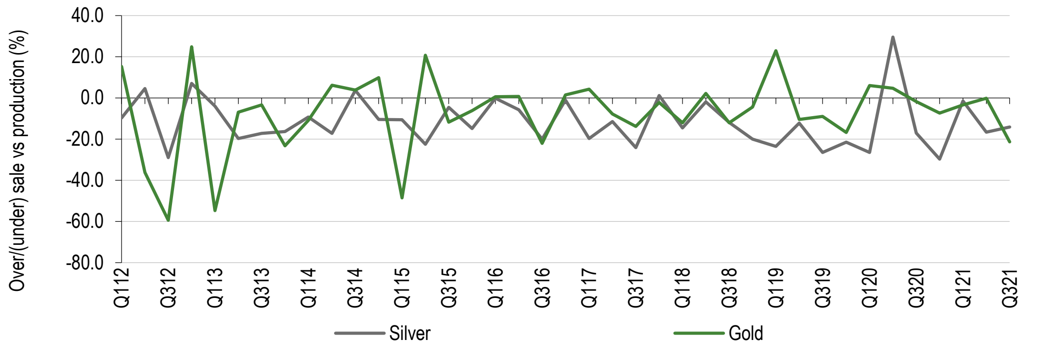
Operationally, Penasquito, Antamina and Constancia all benefited from some combination of improved grades and metallurgical recoveries, while San Dimas benefited from an increase in throughput coupled with the impact of changing the silver:gold conversion ratio from 90:1 in Q321 to 70:1 in Q321. In the event, Salobo's production was closely aligned with our prior forecast, which reflected lower grades and throughput after a slower ramp up of operations after a review in Q1 that limited mine movement. Output at Sudbury was affected by the strike that lasted from 1 June until 9 August, but has now been resolved (see our note Honing forecasts, published on 4 August). Stillwater was affected by lower grades, while Wheaton experienced an increase in both inventory held by Wheaton as well as pounds of cobalt produced but not yet delivered from operations at Voisey's Bay

In the meantime, according to Vale's most recent performance report, physical completion of the Salobo III mine expansion was 81% at end-Q321 (cf 77% at end-Q221, 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 remains on schedule for start-up in H222.

Ounces produced but not yet delivered, aka inventory

While the extent of Wheaton's under-sale of silver relative to production held close to its long-term average in Q321 (14.3% cf a long-term average of 11.9%), for gold it increased by 14.4 percentage points relative to its long-term average of 6.9% to 21.3% in Q321 – to all intents and purposes, exclusively attributable to Salobo (see our note Honing Q321 forecasts, published 8 October):

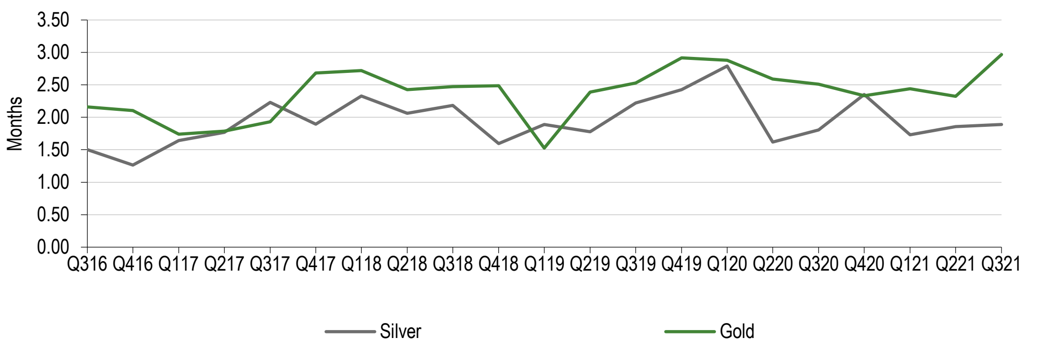
Exhibit 2: Over/(under) sale of silver and gold as a percentage of production, Q112–Q321



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

As at 30 September, payable ounces attributable to WPM produced but not yet delivered to WPM amounted to 4.1Moz silver and 81,246oz gold (cf 4.0Moz silver and 66,250oz gold as at end-June). This 'inventory' currently equates to 1.89 and 2.86 months of Edison's forecast FY21 silver and gold production, respectively (cf 1.89 and 2.25 months as at end-Q221) and compares with WPM's target 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–Q321 (months of production)



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

Note that, for these purposes, the use of the term 'inventory' reflects ounces of gold and silver 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 updated guidance for non-stock general and administrative (G&A) expenses of US$42–44m (or US$10.5–11.0m per quarter) in FY21, cf US$42-45m previously and 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 Q321 were below the pro-rata quarterly rate implied by WPM's full-year guidance for the third quarter in succession:

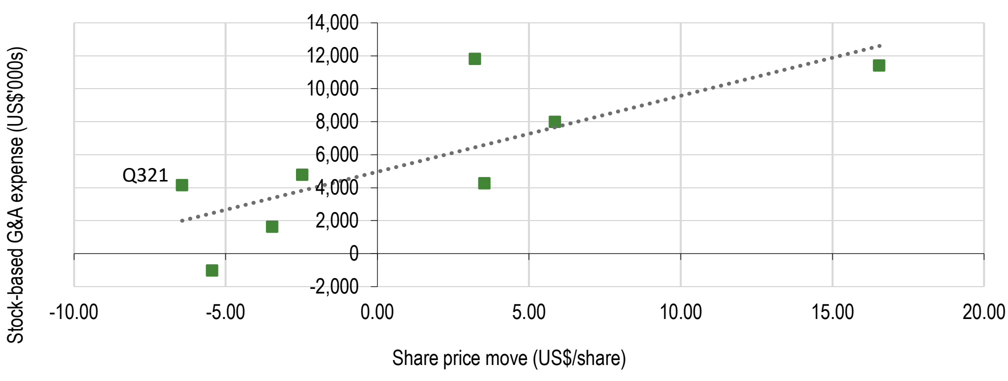
Exhibit 4: WPM FY19–FY21 general and administrative expense (US$000s)

Item	FY21e	Q321	Q221	Q121	FY20	Q420	Q320	Q220	Q120	FY19
G&A excluding PSU* and equity settled stock-based compensation		4,283	4,634	4,709	16,733	4,466	4,037	4,095	4,135	13,840
Other (inc. depreciation, donations and professional fees)		5,173	5,852	5,632	22,013	5,957	5,488	6,302	4,266	17,802
Sub-total		**9,466**	**10,486**	**10,341**	**38,746**	**10,423**	**9,525**	**10,397**	**8,401**	**31,642**
Guidance	**42,000–45,000**	10,500–11,000	10,500–11,000	10,500–11,000	**40,000–43,000**	10,000–10,750	10,000–10,750	10,000–10,750	10,000–10,750	**33,000–36,000**
PSU* accrual		2,824	6,672	305	21,520	(2,336)	10,482	10,097	3,277	17,174
Equity settled stock-based compensation		1,315	1,307	1,325	5,432	1,305	1,319	1,305	1,503	5,691
Total general & administrative		**13,595**	**18,465**	**11,971**	**65,698**	**9,392**	**21,326**	**21,799**	**13,181**	**54,507**
Total/sub-total (%)		**+43.6**	**+76.1**	**+15.8**	**+69.6**	**-9.9**	**+123.9**	**+109.7**	**+56.9**	**+72.3**

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 eight 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 0.78, which is 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 (and with the point relating to the most recent Q321 outcome also marked).

Exhibit 5: Graph of historical share price move (US$/share) versus quarterly stock-based G&A expense, Q419–Q321



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

To date, in Q421, Wheaton's share price has increased by US$2.66, or 7.1%, leading us to believe that, all other things being equal, WPM's stock-based G&A will be in the order of US$6.2m in Q421. That being the case, we would expect the full G&A expense for the quarter to amount to c US$17.8m, which we have incorporated into our updated financial forecasts, below (albeit with suitable caveats).

Recent developments

Relative to our last note (Honing Q321 forecasts, published 8 October), we have updated our financial forecasts for the remainder of the year for the following four 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 1979–80, see Edison's gold report of June 2020, A golden future). Such a situation has not pertained since before the year 2000 and we do not predict that the US economy will revert to such an environment in the foreseeable future. As such, we are maintaining our practice of basing our short-term financial forecasts on the metals prices at the time of writing (see Exhibit 6, below). In this case however, we have also now extended these prices to into FY22 (cf nominal prices of US$1,892/oz Au and US$30.78/oz Ag assumed previously). Note that there have been no other 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$/oz)	1,792	1,749	+2.5
Silver (US$/oz)	23.40	22.23	+5.3
Palladium (US$/oz)	2,009	1,811	+10.9
Cobalt (US$/lb)	26.40	24.21	+9.0
Simple average			

Source: Edison Investment Research

- **19½ days of lost production and sales at Salobo**: on 22 October, Salobo's operator Vale announced the resumption of conveyor belt operations at Salobo, which had previously been halted for 18 days owing to a fire. Other activities, including mine and maintenance operations, continued as usual during this period but concentrate production was reported to have been interrupted and only resumed on 22 October and ramped up over a three-day period.
- **A four-day stoppage at Antamina:** on 31 October, Antamina's operating company, Compañía Minera Antamina, announced that operations at Antamina had been temporarily suspended in the face of a spate of blockades against mines in Peru. However, on 2 November, Reuters reported that the blockades would be lifted on Wednesday 3 November upon the commencement of formal talks between the parties. Consequently, Edison has assumed a four-day loss of production and sales from Antamina in Q4.
- **Constancia**: gold and silver production at Constancia increased by 54.6% and 11.3% in Q3 relative to Q221, respectively. Silver production was primarily higher as a result of higher grades, while gold production was higher on account of the start of ore production from the Pampacancha satellite pit, which achieved commercial production in April 2021 and hosts significantly higher gold grades than those mined hitherto at Constancia. Gold production also benefited from the increase in the fixed recoveries attributable to WPM to 70% (cf 55% previously; see our note Solid Q221 results set up H221, published on 18 August 2021). The start of mining at Pampacancha was approximately nine quarters behind schedule; however, it was still approximately two quarters earlier than we had (rather conservatively) assumed previously. In the light of the fact that the benefits of mining at Pampacancha are now already being realised, we have therefore increased our gold production forecast from Constancia by 3,983oz (or 87.5%) to 8,533oz for the final quarter of the year.

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 (PMPA) 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, 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.

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 7, 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$000s (unless otherwise stated)	FY20	Q121	Q221	Q321	Q421e (prior)	Q421e (current)	FY21e (current)	FY21e (prior)
Silver production (koz)	22,892	6,754	6,720	6,394	5,773	5,921	25,789	25,004
Gold production (oz)	367,419	77,733	90,290	85,941	95,225	86,650	340,614	348,983
Palladium production (koz)	22,187	5,769	5,301	5,105	5,561	5,561	21,736	22,192
Cobalt production (klb)		1,161	380	370.5	400	400	2,311	2,331
Silver sales (koz)	19,232	6,657	5,600	5,487	5,773	5,921	23,598	23,771
Gold sales (oz)	369,553	75,104	90,090	67,649	95,192	86,617	319,460	338,598
Palladium sales (oz)	20,051	5,131	3,869	5,703	5,539	5,539	20,242	20,078
Cobalt sales (klb)		132.3	395	131.2	400	400	1,058	1,317
Avg realised Ag price (US$/oz)	20.78	26.12	26.69	23.80	22.23	23.42	23.40	24.87
Avg realised Au price (US$/oz)	1,767	1,798	1,801	1,795	1,749	1,787	1,795	1,783
Avg realised Pd price (US$/oz)	2,183	2,392	2,797	2,426	1,811	2,013	2,375	2,326
Avg realised Co price (US$/lb)		20.90	19.82	23.78	18.16	21.79	21.35	18.91
Avg Ag cash cost (US$/oz)	5.28	6.33	6.11	5.06	6.09	5.33	5.27	6.18
Avg Au cash cost (US$/oz)	426	450	450	464	428	430	447	440
Avg Pd cash cost (US$/oz)	389	427	503	468	326	362	435	418
Avg Co cash cost (US$/lb)		4.98	4.41	5.15	4.36	3.92	4.39	4.40
Sales	1,096,224	324,119	330,393	268,957	312,129	311,101	1,234,569	1,266,612
Cost of sales								
Cost of sales, excluding depletion	266,763	78,783	78,445	62,529	79,415	72,358	292,115	309,902
Depletion	243,889	70,173	70,308	54,976	75,422	70,790	266,248	279,502
Total cost of sales	510,652	148,956	148,753	117,505	154,837	143,148	558,363	589,404
Earnings from operations	585,572	175,164	181,640	151,452	157,292	167,953	676,206	677,207
Expenses and other income								
– General and administrative**	65,698	11,971	18,465	13,595	15,891	17,777	61,808	59,092
– Foreign exchange (gain)/loss							0	0
– Net interest paid/(received)	16,715	1,573	1,357	1,379	1,147	1,249	5,558	5,316
– Other (income)/expense	(387)	420	136	(684)			(128)	556
Total expenses and other income	82,026	13,964	19,958	14,290	17,038	19,025	67,237	64,964
Earnings before income taxes	503,546	161,199	161,682	137,162	140,254	148,927	608,968	612,243
Income tax expense/(recovery)	211	67	56	75	250	250	448	623
Marginal tax rate (%)	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.1
Net earnings	503,335	161,132	161,626	137,087	140,004	148,677	608,520	611,620
Average no. shares in issue (000s)	448,964	449,509	450,088	450,326	450,271	450,507	450,108	450,035
Basic EPS (US$)	1.12	0.358	0.359	0.304	0.311	0.330	1.35	1.36
Diluted EPS (US$)	1.12	0.358	0.358	0.303	0.310	0.329	1.35	1.36
DPS (US$)	0.42	0.13	0.14	0.15	0.14	0.15	0.57	0.56

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$1.35/share for FY21 is closely in line with the consensus forecast of US$1.40/share (source: Refinitiv, 5 November 2021) and towards the middle of the range of analysts' expectations of US$1.29–1.58 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	0.304	0.330	1.351	1.35
Mean consensus	0.358	0.359	0.304	0.360	1.381	1.40
High consensus	0.358	0.359	0.304	0.440	1.461	1.58
Low consensus	0.358	0.359	0.304	0.280	1.301	1.29

Source: Refinitiv, Edison Investment Research. Note: As at 5 November 2021.

In the meantime, we have reduced our basic EPS forecast of US$2.05/share (previously) for FY22 to US$1.53/share (see Exhibit 12), albeit this reduction reflects only currently prevailing metals prices and nothing else. Our new estimate compares with a consensus for FY22 of US$1.62/share within a range of US$1.30–2.08/share (source: Refinitiv, 5 November 2021).

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. At the same time as announcing its Q321 results however, Wheaton also took the opportunity to refine its guidance. WPM now estimates that attributable production in 2021 will be approximately 735–765koz AuE, which is in line with previous guidance, albeit achieved via a slightly different mix of metals, as shown in the table below (note that Wheaton's longer-term guidance remains unchanged). This compares with Edison's updated forecasts in the wake of Q321 results, 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)	25.0		
Gold production (koz)	349.0		
Cobalt production (klb)	2,331		
Palladium production (koz)	22.2		
Gold equivalent (koz)	748	819	804
Current Edison forecast			
Silver production (Moz)	25.8		
Gold production (koz)	340.6		
Cobalt production (klb)	2,311		
Palladium production (koz)	21.7		
Gold equivalent (koz)	749.4	819	804
WPM updated guidance			
Silver production (Moz)	25.5–26.0		
Gold production (koz)	330–345		
Cobalt & palladium production (koz AuE)	45–55		
Palladium production (koz)	N/A		
Gold equivalent (koz)	735–765	810	830
WPM original 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 and 10-year guidance are now based on standardised pricing assumptions of US$1,800/oz Au, US$25.00/oz 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 75.2x and a long-term average of 61.5x (since gold was demonetised in August 1971). Self-evidently, at the standardised prices indicated, our gold equivalent production forecast of 749.4koz AuE lies well within WPM's updated guidance range of 735–765koz AuE. Otherwise, readers will note that Edison's (unchanged) longer-term production forecasts remain within 3.1% 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 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, to 2024, following the suspension of growth capital activities due 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 for this expansion, which WPM estimates will be c US$550–650m in FY23, in return for which it will be entitled to its full 75% attributable share of expanded gold production. This compares to WPM's purchase of a 25% stream from Salobo 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 it paid for its original 25% stream in February 2013.

According to Vale's Q321 performance report, the Salobo III mine expansion is now 81% complete (cf 77% at the end of Q221, 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 remains on schedule for start-up in H222.

Once Salobo III has been completed, however, WPM believes 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 such an expansion could 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 for 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, 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 it believed the ruling to be without precedent and 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 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 the near future. 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.

In the meantime, Hudbay has continued to explore in and around the area of the mine and, on 22 September, announced the intersection of additional high grade copper sulphide and oxide mineralisation on its wholly owned patented mining claims (Copper World). To date, seven deposits have been identified at Copper World with a combined strike length of over 7km. As of 30 June approximately 166 holes have been completed at Copper World, totalling over 91,000 feet, on the back of which Hudbay expects to publish an initial inferred mineral resource estimate for Copper World before the end of 2021. These mineral resources will then form the basis for a preliminary economic assessment on the project, expected to be released H122. Note, the Copper World discovery is included in Wheaton's area of interest under its PMPA with Hudbay.

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) and this production is included in our financial forecasts from FY25.

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 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$372.5m in cash (at end-Q321) 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:

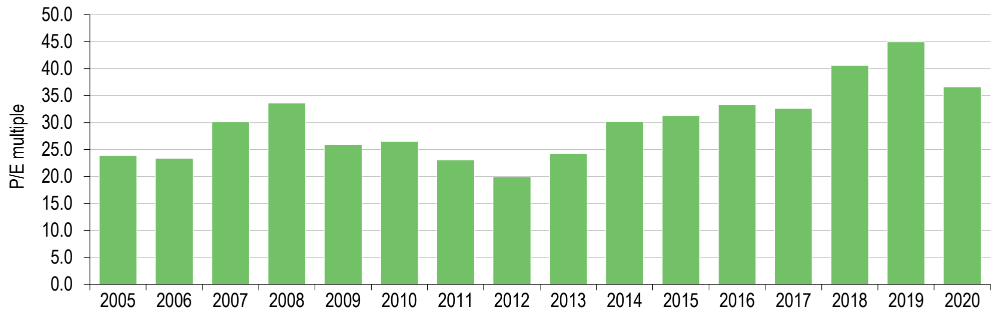
- the platinum group metal by-product stream at Sudbury (operated by Vale); and
- the 30% of the gold output at Constancia that is not subject to any streaming arrangement.

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 29.8x Edison or 28.7x Refinitiv consensus FY21e – 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$2.04 in FY23 (previously US$2.06) would ordinarily imply a potential value per share for WPM of US$61.222 or C$76.27 in that year. However, the graph above suggests 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$2.04 in FY23 implies a potential value per share for WPM in that year of US$83.03 or C$104.92 (note this analysis implicitly assumes metals prices in FY24 would be experiencing the same sort of increases relative to FY23 that they did in FY20 relative to FY19 and 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 seven out of nine valuation measures, regardless of whether Edison or consensus forecasts are used. On an individual basis, it is cheaper than its peers on 75% (27 out of 36) of the valuation measures observed in Exhibit 11 if our estimates are adopted or 72% (26 out of 36) of the same valuation measures if consensus forecasts are adopted.

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	40.3	38.9	37.9	0.8	0.9	0.9	27.4	26.4	25.9
Royal Gold	24.4	26.7	26.6	1.2	1.2	1.2	14.0	14.8	14.6
Sandstorm Gold	39.3	31.9	35.8	0.0	1.1	1.1	15.0	14.1	15.7
Osisko	32.6	28.9	26.3	1.4	1.4	1.4	17.5	15.5	13.2
Average	**34.1**	**31.6**	**31.7**	**0.8**	**1.1**	**1.1**	**18.5**	**17.7**	**17.3**
WPM (Edison forecasts)	**29.8**	**26.3**	**19.7**	**1.4**	**1.6**	**1.9**	**20.3**	**18.0**	**14.7**
WPM (consensus)	**28.7**	**24.9**	**24.7**	**1.4**	**1.6**	**1.7**	**20.2**	**18.2**	**17.3**
Implied WPM share price (US$)*	**46.16**	**48.38**	**64.58**	**68.41**	**58.80**	**70.32**	**36.71**	**39.54**	**47.52**

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 5 November 2021. *Derived using Edison forecasts and average consensus multiples.

Financials: US$372.5m in net cash and growing

At 30 September, WPM had US$372.5m in cash on its balance sheet (cf US$235.4m in Q221, 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$3.1m in leases) it had US$369.4m in net cash overall (cf US$232.1m in Q221, US$187.7m in Q121 and US$6.0m in Q420) after US$201.3m of cash generated by operating activities during the quarter (cf US$216.3m in Q221, US$232.2m in Q121 and US$208.0m in Q420).

Exhibit 12: Financial summary

US$'000s	2016	2017	2018	2019	2020	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	891,557	843,215	794,012	861,332	1,096,224	1,234,569	1,408,032	1,650,042
Cost of Sales	(254,434)	(243,801)	(245,794)	(258,559)	(266,763)	(292,115)	(326,130)	(343,504)
Gross Profit	637,123	599,414	548,218	602,773	829,461	942,454	1,081,902	1,306,537
EBITDA	602,684	564,741	496,568	548,266	763,763	880,646	1,008,586	1,233,221
Operating Profit (before amort. and except.)	293,982	302,361	244,281	291,440	519,874	614,398	694,697	918,030
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	(71,000)	(228,680)	245,715	(156,608)	4,469	3,934	0	0
Other	(4,982)	8,129	(5,826)	217	387	128	0	0
Operating Profit	218,000	81,810	484,170	135,049	524,730	618,460	694,697	918,030
Net Interest	(24,193)	(24,993)	(41,187)	(48,730)	(16,715)	(5,558)	(4,406)	1,895
Profit Before Tax (norm)	269,789	277,368	203,094	242,710	503,159	608,840	690,291	919,925
Profit Before Tax (FRS 3)	193,807	56,817	442,983	86,319	508,015	612,902	690,291	919,925
Tax	1,330	886	(15,868)	(181)	(211)	(448)	(1,000)	(1,000)
Profit After Tax (norm)	266,137	286,383	181,400	242,746	503,335	608,520	689,291	918,925
Profit After Tax (FRS 3)	195,137	57,703	427,115	86,138	507,804	612,454	689,291	918,925
Average Number of Shares Outstanding (m)	430.5	442.0	443.4	446.0	448.7	450.1	450.5	450.5
EPS - normalised (c)	62	63	48	54	112	135	153	204
EPS - normalised and fully diluted (c)	62	63	48	54	112	135	149	199
EPS - (IFRS) (c)	45	13	96	19	113	136	153	204
Dividend per share (c)	21	33	36	36	42	57	65	78
Gross Margin (%)	71.5	71.1	69.0	70.0	75.7	76.3	76.8	79.2
EBITDA Margin (%)	67.6	67.0	62.5	63.7	69.7	71.3	71.6	74.7
Operating Margin (before GW and except.) (%)	33.0	35.9	30.8	33.8	47.4	49.8	49.3	55.6
BALANCE SHEET								
Fixed Assets	6,025,227	5,579,898	6,390,342	6,123,255	5,755,441	5,612,220	5,466,331	5,936,140
Intangible Assets	5,948,443	5,454,106	6,196,187	5,768,883	5,521,632	5,370,267	5,224,378	5,694,187
Tangible Assets	12,163	30,060	29,402	44,615	33,931	34,622	34,622	34,622
Investments	64,621	95,732	164,753	309,757	199,878	207,331	207,331	207,331
Current Assets	128,092	103,415	79,704	154,752	201,831	517,787	1,062,970	1,160,555
Stocks	1,481	1,700	1,541	43,628	3,265	2,216	2,528	2,962
Debtors	2,316	3,194	2,396	7,138	5,883	3,382	3,858	4,521
Cash	124,295	98,521	75,767	103,986	192,683	512,188	1,056,585	1,153,072
Other	0	0	0	0	0	0	0	0
Current Liabilities	(19,057)	(12,143)	(28,841)	(64,700)	(31,169)	(46,957)	(50,312)	(52,026)
Creditors	(19,057)	(12,143)	(28,841)	(63,976)	(30,396)	(46,184)	(49,539)	(51,253)
Short term borrowings	0	0	0	(724)	(773)	(773)	(773)	(773)
Long Term Liabilities	(1,194,274)	(771,506)	(1,269,289)	(887,387)	(211,532)	(16,532)	(16,532)	(16,532)
Long term borrowings	(1,193,000)	(770,000)	(1,264,000)	(878,028)	(197,864)	(2,864)	(2,864)	(2,864)
Other long term liabilities	(1,274)	(1,506)	(5,289)	(9,359)	(13,668)	(13,668)	(13,668)	(13,668)
Net Assets	4,939,988	4,899,664	5,171,916	5,325,920	5,714,571	6,066,518	6,462,457	7,028,136
CASH FLOW								
Operating Cash Flow	608,503	564,187	518,680	548,301	784,843	900,112	1,011,154	1,233,838
Net Interest	(24,193)	(24,993)	(41,187)	(41,242)	(16,715)	(5,558)	(4,406)	1,895
Tax	28	(326)	0	(5,380)	(2,686)	(448)	(1,000)	(1,000)
Capex	(805,472)	(19,633)	(861,406)	10,571	149,648	(123,027)	(168,000)	(785,000)
Acquisitions/disposals	0	0	0	0	0	0	0	0
Financing	595,140	1,236	1,279	37,198	22,396	0	0	(0)
Dividends	(78,708)	(121,934)	(132,915)	(129,986)	(167,212)	(256,573)	(293,351)	(353,246)
Net Cash Flow	295,298	398,537	(515,549)	419,462	770,274	514,505	544,397	96,487
Opening net debt/(cash)	1,362,703	1,068,705	671,479	1,188,233	774,766	5,954	(508,551)	(1,052,948)
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	(1,300)	(1,311)	(1,205)	(5,995)	(1,462)	0	0	0
Closing net debt/(cash)	1,068,705	671,479	1,188,233	774,766	5,954	(508,551)	(1,052,948)	(1,149,435)

Source: Company sources, Edison Investment Research

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