Wheaton Precious Metals

Q120 results

Forging ahead

Metals & mining

After an exceptional Q419, WPM's operational performance moderated in Q120, but was nevertheless robust within the broader macro-environment with underlying net earnings during the quarter within 2.6% of our prior forecasts. They would have exceeded our forecasts (by 6.0%) had it not been for a rare (albeit non-cash) tax charge relating to a reversal of deferred income tax assets. In the wake of Q120 results, we have reduced our precious metals price expectations for the balance of FY20 fractionally and our production expectations by 5koz AuE (ie <1%). However, these changes are more than balanced by a lower anticipated interest charge for the remainder of the year, such that our adjusted EPS forecast for FY20 has increased by 1.9c, from 84c to 85.9c. Note that, on its current trajectory, there is a real possibility that WPM could become net debt free in a year's time, which could presage a change in its dividend policy.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	794.0	203.1	48	36	88.0	0.9
12/19	861.3	242.7	56	36	75.4	0.9
12/20e	974.3	392.2	86	42	49.2	1.0
12/21e	1,175.7	503.7	112	53	37.6	1.2

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

Swings and roundabouts

Of WPM's eight major mines, Penasquito recorded a notably exceptional production performance, with output increasing by 40.3% or 763koz Ag compared with Q419 – 28.9% above both our expectations and the operator's long-term guidance – largely as a result of mining higher grades. Higher grades also contributed to a better than expected production performance at Antamina, although this mine was subsequently furloughed by its operator, Glencore, in mid-April. As at the time of writing, six of WPM's partners' mines (accounting for c 36% of gold equivalent production) are in furlough. Edison's forecasts assume that they will remain so for the balance of Q2, before emerging from lockdown in Q320.

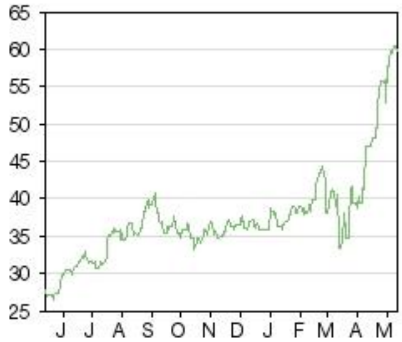
Valuation: Potentially C$66.32 per share in FY21

Under normal circumstances, and assuming no material purchases of additional streams in the foreseeable future (which we think unlikely), we would ordinarily forecast a value per share for WPM of US$33.08, or C$46.59, in FY21. However, we believe that WPM can support a premium valuation of US$47.10, or C$66.32 per share in the current environment of higher precious metals prices and simultaneously strong demand for their derivative assets as safe haven investments. Note that both of these valuations exclude the value of 20.2m shares in First Majestic held by WPM, with an immediate value of C$227.1m, or US$0.36 per WPM share. In the meantime, WPM's shares are trading on near-term financial ratios that are cheaper than those of its royalty/streaming 'peers' in at least 58% of financial measures considered in Exhibit 11, and the miners themselves in at least 23% of the same measures, regardless of whether Edison or consensus forecasts are used and despite being associated with materially less operating and cost risk.

12 May 2020

Price	**C$59.48**
Market cap	**C$27bn**
	C$1.4081/US$
Net debt (US$m) at 31 March 2020*	588.8
*Excluding US$3.9m lease liabilities	
Shares in issue	448.3m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance



%	1m	3m	12m
Abs	33.7	52.8	121.1
Rel (local)	25.4	79.9	138.6
52-week high/low		C$61.2	C$26.6

Business description

Wheaton Precious Metals is the world's pre-eminent ostensibly precious metals streaming company, with 29 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

Q220 results	August 2020
Q320 results	November 2020

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

Edison profile page

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

Q120 results

After a strong Q419, in which all but one of its major mines either met or exceeded Edison's production expectations, WPM's operational performance moderated in Q120, with seven assets (out of 15 currently producing operations) outperforming our production expectations (largely in its silver division) approximately balanced by six assets underperforming (largely in the gold division). While auguring well for the future – particularly with respect to the silver division – sales, in general, struggled to keep up with production (especially in the silver division), albeit with the notable exception of Salobo, which once again recorded a material (12,369oz, or 19.8%) Q1 over-sale of metal not dissimilar to the over-sales that it recorded in Q119 and Q218. From a financial perspective, total sales were US$10.0m less than our expectations, although this was more than offset by a US$12.6m variance to the good in the total cost of sales (see Exhibit 1). Unusually, this overall positive variance to our estimates until the PBT level was itself offset by a (rare) tax charge in the income statement relating to a reversal of deferred income tax assets (which therefore had no effect on cash flows). Underlying net earnings during the quarter were within US$2.6m (or 2.6%) of our prior forecasts. A full analysis of WPM's Q120 income statement relative to both Q419 and our prior expectations is as follows:

Exhibit 1: Wheaton Precious Metals underlying Q419 results vs Q319 and Q419e, by quarter*

US$000s (unless otherwise stated)	Q119	Q219	Q319	Q419	Q120e	Q120	Change ** (%)	Variance *** (%)	Variance *** (units)
Silver production (koz)	5,614	4,834	6,095	5,962	5,851	6,704	12.4	14.6	853
Gold production (oz)	93,585	100,577	104,175	107,225	96,410	94,707	-11.7	-1.8	-1,703
Palladium production (koz)	4,729	5,736	5,471	6,057	5,938	5,312	-12.3	-10.5	-626
Silver sales (koz)	4,294	4,241	4,484	4,684	5,851	4,928	5.2	-15.8	-923
Gold sales (oz)	115,020	90,077	94,766	89,223	96,373	100,405	12.5	4.2	4,032
Palladium sales (koz)	5,189	5,273	4,907	5,312	5,914	4,938	-7.0	-16.5	-976
Avg realised Ag price (US$/oz)	15.64	14.93	17.09	17.36	16.89	17.03	-1.9	0.8	0.14
Avg realised Au price (US$/oz)	1,308	1,320	1,471	1,483	1,581	1,589	7.1	0.5	8
Avg realised Pd price (US$/oz)	1,443	1,381	1,535	1,804	2,296	2,298	27.4	0.1	2
Avg Ag cash cost (US$/oz)	4.64	5.14	5.16	5.13	5.15	4.50	-12.3	-12.6	-0.65
Avg Au cash cost (US$/oz)	417	420	424	426	425	436	2.3	2.6	11
Avg Pd cash cost (US$/oz)	254	247	271	321	413	402	25.2	-2.7	-11
Sales	225,049	189,466	223,595	223,222	264,771	254,789	14.1	-3.8	-9,982
Cost of sales									
Cost of sales, excluding depletion	69,214	60,957	64,624	63,764	73,550	66,908	4.9	-9.0	-6,642
Depletion	68,381	61,404	63,396	63,645	70,808	64,841	1.9	-8.4	-5,967
Total cost of sales	137,595	122,361	128,020	127,408	144,358	131,748	3.4	-8.7	-12,610
Earnings from operations	87,454	67,105	95,575	95,814	120,412	123,040	28.4	2.2	2,628
Expenses and other income									
– General and administrative**	16,535	12,249	14,028	11,695	13,627	13,181	12.7	-3.3	-446
– Foreign exchange (gain)/loss	0			0					0
– Net interest paid/(received)	13,946	13,306	11,871	9,607	7,830	7,118	-25.9	-9.1	-712
– Other (income)/expense	(266)	(500)	(265)	814		-1,861	-328.6	N/A	-1,861
Total expenses and other income	30,215	25,055	25,634	22,116	21,457	18,438	-16.6	-14.1	-3,019
Earnings before income taxes	57,239	42,050	69,941	73,698	98,955	104,602	41.9	5.7	5,647
Income tax expense/(recovery)	(110)	(2,758)	(2,751)	(3,447)	250	8,442	-344.9	3,276.8	8,192
Marginal tax rate (%)	(0.2)	(6.6)	(3.9)	(4.7)	0.3	8.1	-272.3	2,600.0	7.8
Net earnings	57,349	44,808	72,692	77,145	98,705	96,160	24.6	-2.6	-2,545
Average no. shares in issue (000s)	444,389	445,769	446,802	446,802	447,500	447,805	0.2	0.1	305
Basic EPS (US$)	0.13	0.10	0.16	0.17	0.22	0.215	26.5	-2.3	-0.005
Diluted EPS (US$)	0.13	0.10	0.16	0.17	0.22	0.214	25.9	-2.7	-0.006
DPS (US$)	0.09	0.09	0.09	0.09	0.10	0.10	11.1	0.0	0.000

Source: Wheaton Precious Metals, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Q120 vs Q419. ***Q120 actual vs Q120 estimate.

Within the context of the above results, it was notable that our all-in forecast for general and administrative costs was within 3.3% of the actual outcome, suggesting both that central costs for the full year are trending towards the same level as FY19 (given that our quarterly forecasts are now based on the average level of quarterly costs in FY19) and that non-stock G&A expenses are trending below the company's guided range of US$40–43m (or US$10.0–10.75m per quarter) for the full year.

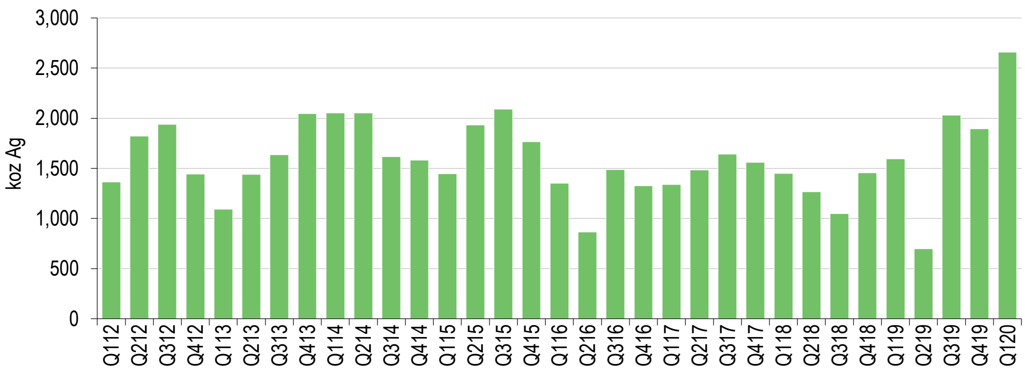
Exhibit 2: WPM FY19 general and administrative expense (US$000s)

Item	Q120	Q419	FY19
G&A excluding PSU* and equity settled stock-based compensation	4,135	7,434	31,642
Other (inc. depreciation, donations and professional fees)	4,266		
Sub-total	**8,401**	**7,434**	**31,642**
PSU* accrual	3,277	2,830	17,174
Equity settled stock-based compensation	1,503	1,432	5,691
Total general & administrative	**13,181**	**11,696**	**54,507**

Source: Wheaton Precious Metals, Edison Investment Research. Note: *Performance share units.

Of WPM's eight major mines, Penasquito recorded a notably exceptional production performance, with output increasing by 40.3% or 763koz Ag compared with Q419 – 28.9% above both our expectations and the operator's long-term guidance including the pyrite leach project – largely as a result of mining higher grades as the Chile Colorado pit contributes to mill feed and grades improve once again at the main Penasco pit with mine sequencing through until 2021. As noted previously, Salobo recorded a notably strong sales performance. In addition, higher grades contributed to a better than expected production performance (relative to our expectations) also at Antamina, although this mine was subsequently furloughed by its operator, Glencore, in mid-April and (as of 27 April) the date of its restart is still reported to be 'uncertain'. By contrast, lower grades were encountered at Sudbury, Constancia and San Dimas, although, in the case of the latter, these were more than offset by higher throughput to result in a positive production outcome.

Exhibit 3: Penasquito production attributable to WPM (koz Ag), Q112–Q419

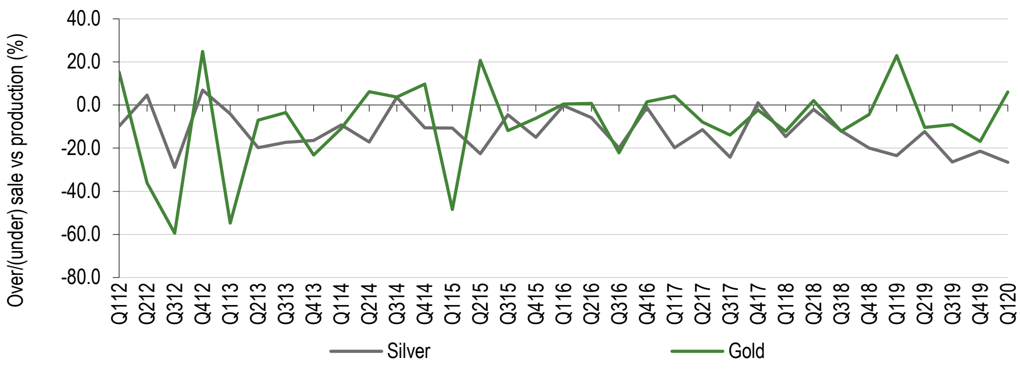


Source: Edison Investment Research, Wheaton Precious Metals.

Ounces produced but not yet delivered, aka inventory

Since Q112, the average level of silver under-sale relative to production has been 12.4%, although this is also accompanied by a degree of volatility, with the standard deviation of under-sales amounting to 9.5 percentage points around the mean. In Q120 therefore, the under-sale for WPM's silver division was more than one standard deviation beyond the mean, registering a 26.5% (or 1.8Moz) under-sale relative to production – the largest since Q312 – largely accounted for by WPM's 'other' silver assets. In contrast, WPM's gold division, which historically records a 7.7% average under-sale of metal relative to production (± a larger standard deviation of 19.6 percentage points about the mean) recorded a 6.0% over-sale in Q120, albeit this result was within the normal historical range:

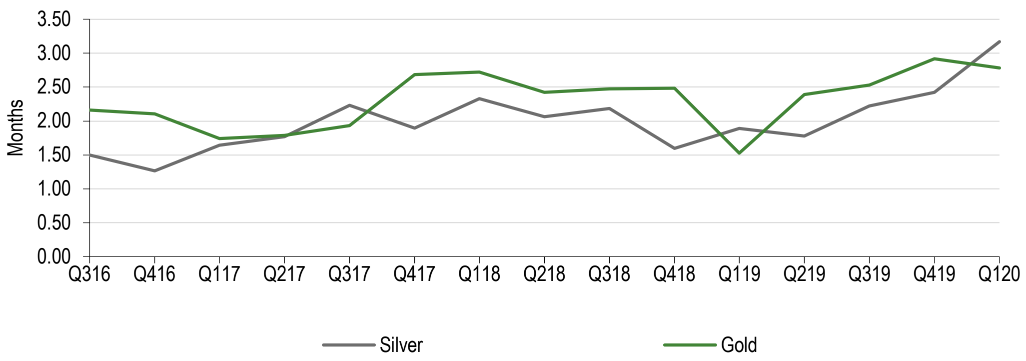
Exhibit 4: Over(/under) sale of silver and gold as a % of production, Q112–Q120



Source: Edison Investment Research, Wheaton Precious Metals. Note: As reported.

As at 31 March, payable ounces attributable to WPM produced but not yet delivered to WPM amounted to 5.3Moz silver and 88,431oz gold (vs 4.5Moz silver and a fractionally restated 98,475oz gold at end-December). This 'inventory' equates to 3.17 and 2.78 months of FY20 forecast silver and gold production, respectively, and compares to WPM's target level of two months of silver and two to three months of gold and palladium production, respectively.

Exhibit 5: WPM ounces produced but not yet delivered, Q316–Q120 (months of production)



Source: Edison Investment Research, Wheaton Precious Metals. Note: As reported.

All other things being equal therefore, we would expect the level of silver 'inventory' at WPM, in particular, to reduce to within WPM's target range in the near future, in all probability as a result of a near-term over-sale of silver relative to production. 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 itself, where it typically refers to metal in circuit (among other things) and would therefore be considered to be a consequence of metallurgical recoveries in the plant.

Medium-term outlook

Prior to the coronavirus pandemic, WPM provided production guidance for FY20 of 390–410koz gold, 22.0–23.5Moz silver and 23.0–24.5koz of palladium to result in gold equivalent production of c 685–725koz (based on an assumed gold price of US$1,500/oz, an assumed silver price of US$18.00/oz and an assumed palladium price of US$2,000/oz). In response to COVID-19 however, on 1 April, WPM suspended its production guidance. At the time, five operating partner mines had been (or were in the process of being) furloughed, namely Constancia, Yauliyacu, Penasquito, San Dimas and Los Filos (plus Voisey's Bay, although WPM is not scheduled to take delivery of any metal from Voisey's until FY21). Since then, operations at Antamina have also been suspended.

For the five-year period ending in FY24, the company's guidance was for average annual gold equivalent production of 750,000oz pa. These compare with WPM's and Edison's current and previous guidance/forecasts, as follows:

Exhibit 6: WPM precious metals production – Edison forecasts vs guidance

	FY19	FY20e	FY21e	FY22e	FY23e**	FY24e
Previous Edison forecast						
Silver production (Moz)	21.7	20.3	20.7	20.5	17.4	17.3
Gold production (koz)	394	381	400	389	380	325
Cobalt production (klb)	0	0	2,100	2,100	2,100	2,814
Palladium production (koz)	21	24	27	27	30	30
Gold equivalent (koz)		605	781	764	713	671
Current Edison forecast						
Silver production (Moz)		20.2	20.7	20.5	17.4	17.3
Gold production (koz)		381	400	389	380	325
Cobalt production (klb)		0	2,100	2,100	2,100	2,814
Palladium production (koz)		23.125	27	27	30	30
Gold equivalent (koz)		600	781	764	713	671
Withdrawn WPM guidance						
Silver production (Moz)	*22.6	22.0–23.5				
Gold production (koz)	*406.7	390–410				
Cobalt production (klb)	*0	0				
Palladium production (koz)	*22.0	23.0–24.5				
Gold equivalent (koz)		685–725	750	750	750	750

Source: Wheaton Precious Metals prior guidance, Edison Investment Research forecasts. Note: *Actual; **Edison forecast includes a contribution from Salobo III in FY23e.

With respect to Edison's forecasts, we believe that there is upside potential to our gold production forecast at Minto, in particular, and downside risk to the silver production forecast at Constancia owing to mine sequencing ahead of its (delayed) development of the high-grade Pampacancha satellite deposit (see below).

Otherwise, the major differences between Edison's gold equivalent production forecasts and Wheaton's can be attributed to the ratio of the gold price to the silver price. Whereas Wheaton assumes an 83.33x ratio (based on a gold price of US$1,500/oz and a silver price of US$18.00/oz), the current ratio is closer to 113x and Edison assumes that the ratio will revert to closer its long-term average of 61x from FY21. Note that, at WPM's prices, Edison's gold equivalent production forecast in FY20 is 654koz, rather than 600koz (which assumes a gold price of US$1,691/oz for the balance of the year and a silver price of US$15.03/oz). In addition, Edison is also expecting a production contribution from Salobo III from FY23 (albeit nothing from Rosemont).

In the medium 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 by the end of FY20. In addition, it intends to install a new 3,000tpd high-intensity grinding mill circuit and an autogenous grinding mill in H220 in order to further improve recoveries and reduce operating costs. Production of palladium and gold at Stillwater mine will similarly increase into FY21 under the influence of the Fill-the-Mill and Blitz projects.

By contrast, production is expected to remain at lower levels at Constancia, owing to delays in mining the Pampacancha satellite deposit (which hosts significantly higher gold grades than those mined hitherto). However, Hudbay reports that it has now secured the surface rights for the Pampacancha deposit and expects to begin mining ore from the satellite deposit in late FY20 (all other things being equal). Nevertheless, in lieu of the delay, WPM is entitled to receive an additional

2,005oz gold per quarter from Hudbay during FY20 relative to its precious metals purchase agreement.

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 scheduled for H122 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 in the range US$550–650m in FY23, in return for which it will be entitled to its full 75% attributable share of gold production. Note: this compares to its purchase of a 25% stream in August 2016 for a consideration of US$800m (see our note, Silver Wheaton: 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 Q120 performance report, the Salobo III mine expansion is now 47% complete (cf 40% at the end of Q419 and 27% at the end of Q319) and remains on schedule for start-up in H122.

Pascua-Lama

Wheaton's contract with Barrick provides for a completion test that, if unfulfilled by 30 June 2020, results 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 the current time it is, to all intents and purposes, impossible for Pascua-Lama to pass a completion test on 30 June 2020. As a result, Edison calculates that WPM has the right to an estimated US$273.4m repayment from Barrick in FY20. Given the long-term optionality provided by the Pascua-Lama project however, Wheaton has indicated that it is unlikely to enforce the repayment of its entitlement and that it prefers instead to maintain its streaming interest in the project.

Rosemont

Another major project with which WPM has a streaming agreement is Rosemont copper in Arizona.

The proposed Rosemont development is located 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 will be c 2.7Moz Ag pa and c 16,100oz Au pa.

Rosemont's operator Hudbay has received both a Section 404 Water Permit from the US Army Corps of Engineers and a Mine Plan of Operations (MPO) from the US Forest Service. The Section 404 permit regulates the discharge of fill material into waterways according to the Clean Water Act and was effectively the final material administrative step before the mine could be developed. Subsequently, Hudbay indicated it would seek board approval to commence construction work by the end of CY19, which would have enabled first production 'by the end of 2022'. In the meantime, it commenced early works to run concurrently with financing activities (including a potential joint venture partner).

On 31 July 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 Coronado Forest Service had 'no factual basis to determine that Rosemont had valid unpatented mining claims' on 2,447 acres and that the claims were invalid under the Mining Law of 1872.

In its reaction to the ruling, Hudbay said that it believed that the ruling was 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 ten 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. In conclusion, it said that it will appeal the ruling to the Ninth Circuit Court of Appeals.

Edison estimates that Rosemont could contribute an average c US$0.11 per share (15.1%) to WPM's basic EPS in its first nine years of its official 18 year life from FY22–30 for an upfront payment of US$230m (equivalent to US$0.513/share) in two instalments of US$50m and US$180m (of which neither has yet been paid). Nevertheless, in the light of the uncertainty about the timing and development of the project we have, for the moment at least, removed any contribution from Rosemont from all of our forecasts.

Other potential future growth

WPM is ostensibly a precious metals streaming company (plus one cobalt stream). Considering only the silver component of its investible universe, WPM estimates the size of the potential market open to it to be the lower half of the cost curve of the 70% of global silver production of c 856Moz in CY18 (down from 894Moz in CY15) that was produced as a by-product of either gold or base metal mines (ie approximately 300Moz pa silver vs WPM's attributable production of 22.6Moz Ag in FY19). Inevitably, WPM's investible universe may be further refined by the requirement for the operations to be located in good mining jurisdictions, with relatively low political risk. Nevertheless, such figures serve to illustrate the fact that WPM's marketplace is far from saturated or mature.

As a consequence, WPM reports that it is busy on the corporate development front, albeit with the caveat that COVID-19 has inevitably slowed the pace of progress. Whereas potential deals in FY19 were generally reported to be with development companies in the US$100–350m range, more recent overtures are reported to have been from producing companies looking to strengthen their balance sheets with mooted transactions in the >US$1bn range, which WPM would fund, in the first instance, via the US$1,282.5m available under its revolving credit facility, plus US$126.7m in cash and its ATM programme (see below).

While it is difficult, or impossible, to predict potential future stream acquisition targets with any degree of certainty, it is perhaps 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; and
- the 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

Otherwise, WPM has streaming agreements with other potential producing mines, including (but not limited to) Navidad, Keno Hill and Cotabambas.

Precious metals prices

Gold is a traditional beneficiary of negative real interest rates (and therefore falling nominal interest rates, assuming constant inflation) and central bank expansion of balance sheets in the form of either quantitative easing or otherwise. It has fallen back from a recent high of US$1,741/oz on 14 April 2020, but only by a relatively modest 2.9%. Its year-to-date performance of 11.7% (cf -2.7% in late March) so far during the coronavirus crisis nevertheless dwarfs the equivalent performances of its equity market rivals (eg Dow Jones -17% and FTSE100 Index -27% in US dollar terms) and it remains the only major financial and monetary asset that is not another counterparty's liability as well as being a credible store of value and, in extremis, medium of exchange.

Edison's nominal gold and silver price forecasts, set out in our report, Portents of economic weakness: Gold – doves in the ascendant, published in August 2019, are as follows:

Exhibit 7: Edison gold price forecasts

US$/oz	2020e**	2021e	2022e	2023e
Nominal gold price forecast (US$/oz)	1,635	1,509	1,560	1,421
Nominal silver price forecast (US$/oz)	26.74	24.76	25.56	23.38

Source: Edison Investment Research. Note: *See *Portents of economic weakness: Gold – doves in the ascendant*. **Gold price forecast as published in 2019. Current FY20 estimate of US$1,586/oz is year-to-date average plus spot for the rest of the year.

In common with Edison's stated practice however, we use prevailing prices (ie US$1,691/oz Au, US$15.03/oz Ag and US$1,814/oz Pd) to generate our forecasts for the remainder of the current year, followed by long-term forecasts (above) thereafter. Investors should note that our long-term forecasts (above) assume an eventual normalisation of the gold/silver ratio from an unprecedented 113x currently to something closer its long-term average of 61x from FY21.

General and administrative expenses

WPM has provided updated guidance for non-stock general & administrative expenses of US$40–43m (or US$10.0–10.75m per quarter) in FY20, compared to a range of US$33–36m in FY19 (reduced from an earlier estimate of US$36–38m), an actual FY19 outcome of US$31.6m and guidance of US$34–36m in FY18 cf an actual outcome of US$36.7m, including all employee-related expenses, charitable contributions, etc, but excluding PSUs and equity settled stock based compensation (see Exhibit 2). Investors should note that stock-based compensation costs and PSUs are now included in our financial forecasts in Exhibits 8 and 12 notwithstanding their somewhat unpredictable nature.

FY20e by quarter

Our updated forecasts for WPM for FY20 are as shown in Exhibit 8, below. As before, our forecasts assume that Yauliyacu, Constancia, Penasquito, San Dimas and Los Filos all remain closed for the entirety of Q220. However, these have now been joined by Antamina, from mid-April. Clearly, there exists risk associated with both the potential lifting of existing lockdowns in this respect (upside) and the imposition of new lockdown restrictions (downside). The other notable change compared with our previous assumptions relates to the terms of the San Dimas precious metals purchase agreement (PMPA). Under the terms of the San Dimas PMPA, Wheaton is entitled to an amount equal to 25% of the payable gold production plus an additional amount of gold equal to 25% of the payable silver production converted to gold at a fixed gold/silver exchange ratio of 70:1. If the gold/silver price ratio decreases to less than 50:1 or increases to more than 90:1 for a period of six months or more, however, then the 70 is revised to either 90 or 50, as appropriate. In this case, the ratio has been more than 90 for a period of six months. Consequently, from 1 April, the effective ratio has been adjusted to 90 for the purposes of the San Dimas PMPA, until such time as it reverts to between 50 and 90 for a period of six months once again, in which case the 70:1 ratio will be re-adopted.

Apart from precious metals prices, the principal remaining risk to our forecasts relates to the extent to which sales differ from production and therefore, by extension, the extent to which inventory (in the form of ounces produced but not yet delivered to Wheaton) either increases or decreases during the course of the year.

Exhibit 8: Wheaton Precious Metals FY20 forecast, by quarter*

US$000s (unless otherwise stated)	FY19	Q120	Q220e	Q320e	Q420e	FY20e (current)	FY20e (previous)
Silver production (koz)	22,562	6,704	1,593	5,926	5,926	20,150	20,282
Gold production (oz)	406,675	94,707	86,688	100,044	100,044	381,482	386,223
Palladium production (koz)	21,993	5,312	5,938	5,938	5,938	23,125	23,750
Silver sales (koz)	17,703	4,928	1,593	5,926	5,926	18,374	20,282
Gold sales (oz)	389,086	100,405	86,651	100,007	100,007	387,071	386,078
Palladium sales (oz)	20,681	4,938	5,914	5,914	5,914	22,679	23,655
Avg realised Ag price (US$/oz)	16.29	17.03	15.05	15.03	15.03	15.57	15.56
Avg realised Au price (US$/oz)	1,391	1,589	1,690	1,691	1,691	1,664	1,671
Avg realised Pd price (US$/oz)	1,542	2,298	1,906	1,814	1,814	1,943	2,032
Avg Ag cash cost (US$/oz)	5.02	4.50	5.51	4.75	4.75	4.75	5.12
Avg Au cash cost (US$/oz)	421	436	403	422	422	419	420
Avg Pd cash cost (US$/oz)	273	402	343	327	327	347	366
Sales	861,332	254,789	181,672	268,912	268,912	974,286	1,009,023
Cost of sales							
Cost of sales, excluding depletion	258,559	66,908	45,756	72,336	72,336	257,335	274,782
Depletion	256,826	64,841	44,512	70,827	70,827	251,007	272,844
Total cost of sales	515,385	131,748	90,268	143,163	143,163	508,342	547,626
Earnings from operations	345,947	123,040	91,403	125,750	125,750	465,944	461,397
Expenses and other income							
– General and administrative**	54,507	13,181	13,627	13,627	13,627	54,061	54,507
– Foreign exchange (gain)/loss	0					0	0
– Net interest paid/(received)	48,730	7,118	5,445	4,378	2,745	19,686	31,320
– Other (income)/expense	(217)	(1,861)				(1,861)	0
Total expenses and other income	103,020	18,438	19,072	18,005	16,372	71,887	85,827
Earnings before income taxes	242,927	104,602	72,332	107,744	109,378	394,057	375,570
Income tax expense/(recovery)	(9,066)	8,442	250	250	250	9,192	1,000
Marginal tax rate (%)	(3.7)	8.1	0.3	0.2	0.2	2.3	0.3
Net earnings	251,993	96,160	72,082	107,494	109,128	384,865	374,570
Ave. no. shares in issue (000s)	446,021	447,805	448,300	448,300	448,300	448,176	447,725
Basic EPS (US$)	0.56	0.215	0.161	0.240	0.243	0.859	0.84
Diluted EPS (US$)	0.56	0.214	0.160	0.239	0.243	0.857	0.84
DPS (US$)	0.36	0.10	0.10	0.10	0.12	0.42	0.43

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

Our basic EPS forecast of US$0.859/share for FY20 is 3.5% below the consensus forecast of US$0.89/share (source: Refinitiv, 7 May 2020) within a range of US$0.78–1.03per share:

Exhibit 9: WPM FY20 consensus EPS forecasts (US$/share)

	Q120	Q220e	Q320e	Q420e	Sum Q1-Q420	FY20
Mean	0.215	0.20	0.23	0.23	0.875	0.89
High	0.215	0.25	0.27	0.28	1.015	1.03
Low	0.215	0.14	0.19	0.18	0.725	0.78

Source: Refinitiv, Edison Investment Research. Note: As at 7 May 2020.

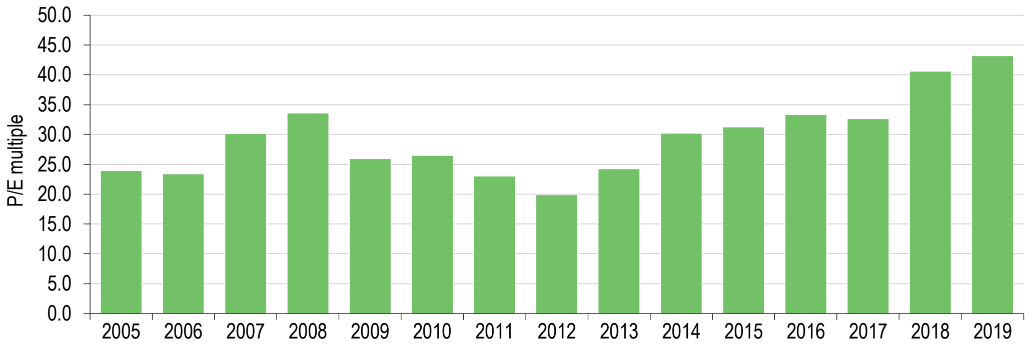
Our US$1.12 basic EPS forecast for FY21 (see Exhibit 12) compares with a consensus of US$1.02 (source: Refinitiv, 7 May 2020) within a range US$0.85-1.44 and is materially higher than the equivalent figures of US$0.88 within a range US$0.76-1.15 of mid-March (source: Refinitiv, 19

March 2020). This estimate is predicated on an average gold price during the year of US$1,509/oz and an average silver price of US$24.76/oz, which assumes, among other things, that the gold/silver price will revert to the long-term correlation that it has exhibited with gold since the latter was demonetised in 1971. In the event that both metals remain at current levels however (US$15.03/oz and US$1,691/oz at the time of writing), we forecast that WPM would instead earn US$0.87 per share in FY21.

Valuation

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 49.2x Edison or 47.4x Refinitiv consensus FY20e, currently – see Exhibit 11).

Exhibit 10: 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$1.12 in FY21 implies a potential value per share for WPM of US$33.08 or C$46.59 in that year (vs US$33.46, or C$47.27 previously). However, it is clearly apparent from the graph above that WPM's current year multiple has been trading higher for some time and the last two years would suggest that a multiple in excess of 40x earnings is sustainable – notwithstanding the fact that these years were not subject to the extraordinary trials and tribulations being experienced in FY20. Even at such elevated levels however, a multiple of over 40x would still leave WPM's shares at a discount to those of its obvious peers, as demonstrated in Exhibit 11. In this case, applying a 42.0x earnings multiple (the average of FY18 and FY19) to our updated EPS forecast of US$1.12 in FY21 implies a potential value per share for WPM of US$47.10 or C$66.32 in that year and/or for as long as the current coronavirus crisis lasts and precious metals prices (especially gold) remain elevated.

Note that neither of these valuations include the value of 20.2m shares in First Majestic currently held by WPM, with an immediate value (7 May) of C$227.1m, or US$0.36 per WPM share.

In the meantime, from a relative perspective, it is notable that WPM has a lower relative valuation than its royalty/streaming 'peers' on at least 58% (14 out of 24) of the valuation measures used in Exhibit 11 and based on multiples that are cheaper even than the miners themselves in at least 23% (18 out of 78) of the same valuation measures (regardless of whether Edison or consensus forecasts are used), despite being associated with materially less operational and cost risk (since WPM's costs are contractually predetermined).

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 1	Year 2	Year 1	Year 2
Royalty companies						
Franco-Nevada	64.1	57.2	0.7	0.7	37.7	34.0
Royal Gold	50.3	41.3	0.9	0.9	25.0	22.2
Sandstorm Gold	75.4	51.2	0.0	0.0	23.3	20.2
Osisko	42.8	29.5	1.5	1.5	18.8	14.9
Average	**58.1**	**44.8**	**0.8**	**0.8**	**26.2**	**22.8**
WPM (Edison forecasts)	**49.2**	**37.6**	**1.0**	**1.2**	**27.2**	**23.1**
WPM (consensus)	**47.4**	**40.8**	**1.0**	**1.1**	**28.6**	**25.1**
Gold producers						
Barrick	34.6	29.2	0.9	0.9	11.1	10.4
Newmont	28.9	20.6	1.4	1.6	13.0	10.5
Newcrest	21.5	18.3	1.2	1.3	11.7	9.2
Kinross	13.8	12.6	0.0	0.0	5.9	5.4
Agnico-Eagle	49.1	28.8	1.1	1.2	14.7	10.6
Eldorado	11.0	16.2	0.0	0.0	4.3	5.2
Yamana	27.9	19.6	1.2	1.2	7.4	6.4
Average	**26.7**	**20.7**	**0.8**	**0.9**	**9.7**	**8.3**
Silver producers						
Hecla	N/A	25.2	0.4	0.3	9.7	6.4
Pan American	30.8	15.5	0.7	1.0	11.9	7.8
Coeur Mining	N/A	19.9	0.0	0.0	6.9	4.6
First Majestic	51.4	34.2	0.0	0.0	19.8	9.8
Hochschild	20.7	10.5	1.7	2.3	4.7	3.0
Fresnillo	32.7	19.8	1.4	2.3	9.0	8.4
Average	**33.9**	**20.9**	**0.7**	**1.0**	**10.3**	**6.7**

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 6 May 2020.

Financials: Solid equity base

As at 31 March 2020, WPM had US$126.7m in cash cum-dividend (cf US$104.0m at the end of Q419) and US$715.5m of debt outstanding (cf US$874.5m at end-Q419 and US$1,017.1m at end-Q319) under its US$2bn revolving credit facility (which attracts an interest rate of Libor plus 120–220bp and now matures in February 2025), such that (including a modest US$3.9m in leases) it had net debt of US$592.7m (cf US$774.8 at end-Q4 and US$865.5m at end-Q3) overall, after US$177.6m of cash generated by operating activities during the quarter (cf US$131.9m in Q419). Relative to the company's balance sheet equity of US$5,238.2m, this level of net debt equates to a financial gearing (net debt/equity) ratio of 11.3% (cf 14.5% and end-Q4 and 16.6% at end-Q3) and a leverage (net debt/[net debt+equity]) ratio of 10.2% (cf 12.7% at end-Q4 and 14.2% at end-Q3). Self-evidently, such a level of debt is well within the tolerances required by its banking covenants that:

- net debt should be no more than 0.75x tangible net worth; and
- interest should be no less than 3x covered by EBITDA (we estimate that it was covered 11.3x in FY19 and that it will be covered 33.7x in FY20).

All other things being equal and subject to its making no further major acquisitions (which is unlikely in our view), on our current cash flow projections WPM will be net debt free late in H121 (even after including anticipated dividend payments).

At-the-market equity programme

WPM has initiated an at-the-market equity programme that allows it to issue up to US$300m of common shares from treasury to the public, from time to time, at the prevailing market price or other prices through the Toronto Stock Exchange, the New York Stock Exchange or any other marketplace on which its shares are traded. The volume and timing of distributions under the programme, if any, will be determined at the company's sole discretion, subject to applicable regulatory limitations. WPM intends that the proceeds from the programme, if any, will be available as one potential source of funding for stream acquisitions and/or other general corporate purposes, including the repayment of indebtedness. Owing to inherent uncertainties as to price and size, for the moment, at least, Edison has excluded from its forecasts the assumption of any such issues of shares under the programme.

Exhibit 12: Financial summary

US$'000s	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e
Year end 31 December	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	974,286	1,175,686
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(243,801)	(245,794)	(258,559)	(257,335)	(293,905)
Gross Profit	732,071	567,120	469,079	458,473	637,123	599,414	548,218	602,773	716,951	881,782
EBITDA	701,232	531,812	431,219	426,236	602,684	564,741	496,568	548,266	662,889	827,720
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	293,982	302,361	244,281	291,440	411,882	514,574
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)	(1,264)	0
Other	788	(11,202)	(1,830)	(4,076)	(4,982)	8,129	(5,826)	217	1,861	0
Operating Profit	600,791	376,457	201,058	(161,343)	218,000	81,810	484,170	125,802	412,479	514,574
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(48,730)	(19,686)	(10,870)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	269,789	277,368	203,094	242,710	392,196	503,704
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	193,807	56,817	442,983	77,072	392,793	503,704
Tax	(14,755)	5,121	1,045	3,391	1,330	886	(15,868)	9,066	(9,192)	(1,000)
Profit After Tax (norm)	586,036	375,495	267,977	222,880	266,137	286,383	181,400	251,993	384,865	502,705
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	195,137	57,703	427,115	86,138	383,601	502,704
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.5	442.0	443.4	446.0	448.2	447.8
EPS - normalised (c)	166	106	75	53	62	63	48	56.5	85.9	112.3
EPS - normalised and fully diluted (c)	165	105	74	53	62	63	48	56	86	112
EPS - (IFRS) (c)	166	106	56	(41)	45	13	96	19	86	112
Dividend per share (c)	35	45	26	20	21	33	36	36	42	53
Gross Margin (%)	86.2	80.3	75.6	70.7	71.5	71.1	69.0	70.0	73.6	75.0
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.6	67.0	62.5	63.7	68.0	70.4
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.0	35.9	30.8	33.8	42.3	43.8
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	5,874,248	5,563,102
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	5,519,876	5,208,730
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	614,274	1,195,373
Stocks	966	845	26,263	1,455	1,481	1,700	1,541	43,628	1,749	2,111
Debtors	6,197	4,619	4,132	1,124	2,316	3,194	2,396	7,138	2,669	3,221
Cash	778,216	95,823	308,098	103,297	124,295	98,521	75,767	103,986	609,856	1,190,041
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)	(78,287)	(81,894)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(12,143)	(28,841)	(63,976)	(77,563)	(81,170)
Short term borrowings	(28,560)	0	0	0	0	0	0	(724)	(724)	(724)
Long Term Liabilities	(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(771,506)	(1,269,289)	(887,387)	(887,387)	(887,387)
Long term borrowings	(21,500)	(998,136)	(998,518)	(1,466,000)	(1,193,000)	(770,000)	(1,264,000)	(878,028)	(878,028)	(878,028)
Other long term liabilities	(11,305)	(4,028)	(4,338)	(2,908)	(1,274)	(1,506)	(5,289)	(9,359)	(9,359)	(9,359)
Net Assets	3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	4,899,664	5,171,916	5,325,920	5,522,848	5,789,195
CASH FLOW										
Operating Cash Flow	720,209	540,597	434,582	435,783	608,503	564,187	518,680	548,301	724,685	830,414
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(41,242)	(19,686)	(10,870)
Tax	(725)	(154)	(204)	(208)	28	(326)	0	(5,380)	(9,192)	(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)	(187,937)	(236,358)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	295,298	398,537	(515,549)	419,462	505,870	580,186
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	268,896
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	268,896	(311,289)

Source: Company sources, Edison Investment Research

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States