

Wheaton Precious Metals

Exceeding guidance and expectations

Q418/FY18 results

Metals & mining

25 March 2019

Price **C\$30.28**

Market cap **C\$13.5bn**

C\$1.3300/US\$

Net debt (US\$m) at 31 December 2018 1,188.2

Shares in issue 444.0m

Free float 100.0%

Code WPM

Primary exchange TSX

Secondary exchange NYSE

Share price performance



% 1m 3m 12m

Abs 12.4 25.3 26.1

Rel (local) 10.7 7.5 21.7

52-week high/low C\$30.2 C\$20.1

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

Q119 dividend payment 18 April 2019

Q119 results 8 May 2019

Q219 results 8 August 2019

Q319 results 14 November 2019

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

Wheaton Precious Metals' (WPM's) FY18 production outcome exceeded guidance for all of its products (namely gold, silver and palladium) to the point at which gold production and sales also achieved new records. Not only was gold production during the quarter ahead of guidance (which was expected), but it was also materially ahead of our prior expectations, driven by a 12.2% increase in production attributable from Salobo, and accounted for 64.3% of WPM sales. Of note was the fact that unit cash costs for both gold and silver declined compared with Q318.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	843.2	277.4	63	33	36.4	1.4
12/18	794.0	203.1	48	36	47.8	1.6
12/19e	875.0	234.5	53	36	43.6	1.6
12/20e	1,140.3	530.6	119	49	19.2	2.2

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

Plenty of growth still in the pipeline

In the near term, WPM will benefit from production increases at Penasquito, Constanica and Stillwater. In the longer term, it will benefit from the Salobo III expansion and the (now distinctly likely) development of Hudbay's Rosemont mine in Arizona and perhaps even Pascua-Lama. Additional corporate opportunities include a number of development projects in the range US\$100–300m, for which the initial upfront capital commitment from WPM would be immaterial.

Current guidance excludes Rosemont

WPM has provided production guidance to the market to the effect that output of precious metals is 'forecast to be approximately 365,000 ounces of gold, 24.5 million ounces of silver and 22,000 ounces of palladium, resulting in gold equivalent production of approximately 690,000 ounces' vs 688,120oz in FY18. For the five-year period ending in FY23, the company estimates that average annual gold equivalent production will amount to 750,000 ounces a year, which aligns closely with both our current and prior expectations with the exception of the fact that we are also anticipating a production contribution from Rosemont from FY22 (see page 6), which WPM excludes from its guidance.

Valuation: C\$45.18 in FY20

Assuming no material purchases of additional streams (which we think unlikely), we now forecast a value per share for WPM of US\$33.97, or C\$45.18 in FY20 at (unchanged) average precious metals prices of US\$25.95/oz Ag and US\$1,482/oz Au (vs US\$31.95, or C\$42.77, previously). This valuation excludes the value of 20.9m shares in First Majestic held by WPM, with an immediate value of C\$144.4m, or US\$0.26 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 95% of financial measures considered in Exhibit 7, and the averages of the miners themselves in 50% of the same measures, despite being associated with materially less operating and cost risk.

Investment summary

Wheaton's FY18 production outcome exceeded guidance for all of its products (namely gold, silver and palladium) to the point at which gold production and sales also achieved new annual records. Not only was gold production ahead of guidance (which was expected), but it was also materially ahead of our prior expectation, driven by a 12.2% quarter-on-quarter increase in production attributable from Salobo, in contrast to our expectation of a moderation in output from already high levels. Sales of gold also amounted to 95.6% of gold production (relative to a prior long-term average of 91.0% of production), whereas silver sales fell to 80.0% of production (relative to a prior long-term average of 89.6%), with the result that sales of gold amounted to 64.3% of WPM sales, while sales of silver amounted to just 32.8% of the total (almost exactly the reverse of the situation as recently as Q415 when silver sales were dominant). With these two effects (effectively) offsetting one another, group sales for both the year and the quarter were within US\$1.2m of our prior expectations. General and administrative expenses were higher than our expectations owing to accruals relating to performance share units (which we decline to forecast); however, this was almost exactly offset by improvements in the total cost of sales, including depletion. Net interest and taxes were also modestly better than our prior expectations, such that net earnings for both the quarter and the full year were US\$2.5m ahead of our forecasts. A full analysis of both WPM's Q4 results and its FY18 results in relation to our prior forecasts, on both an underlying and a headline basis, are provided in the table below:

Exhibit 1: Wheaton Precious Metals Q418/FY18 results vs Q318 and Q418e, by quarter*

US\$000s (unless otherwise stated)	Q318	Q418e (underlying)	Q418e (headline)	Q418	Q418 (underlying)	FY18e (underlying)	FY18e (headline)	FY18	FY18 (underlying)
Silver production (koz)	5,701	5,623	5,623	5,499	5,499	24,843	24,843	24,474	24,474
Gold production (oz)	101,552	89,516	89,516	107,567	107,567	356,017	356,017	373,239	373,239
Palladium production (koz)	8,817	5,200	5,200	5,869	5,869	14,017	14,017	14,686	14,686
Silver sales (koz)	5,018	5,627	5,627	4,400	4,400	22,960	22,960	21,733	21,733
Gold sales (oz)	89,242	89,914	89,914	102,813	102,813	336,269	336,269	349,168	349,168
Palladium sales (koz)	3,668	5,179	5,179	5,049	5,049	8,847	8,847	8,717	8,717
Avg realised Ag price (US\$/oz)	14.80	14.32	14.32	14.66	14.66	15.66	15.66	15.81	15.81
Avg realised Au price (US\$/oz)	1,210	1,213	1,213	1,229	1,229	1,261	1,261	1,264	1,264
Avg realised Pd price (US\$/oz)	955	1,111	1,111	1,137	1,137	1,046	1,046	1,060	1,060
Avg Ag cash cost (US\$/oz)	5.04	4.88	4.88	4.66	4.66	4.72	4.72	4.67	4.67
Avg Au cash cost (US\$/oz)	418	415	415	409	409	410	410	409	409
Avg Pd cash cost (US\$/oz)	169	200	200	205	205	187	187	190	190
Sales	185,769	195,403	195,403	196,591	196,591	792,824	792,824	794,012	794,012
Cost of sales									
Cost of sales, excluding depletion	63,202	65,809	65,809	63,598	63,598	248,005	248,005	245,794	245,794
Depletion	64,684	71,579	71,579	67,844	67,844	256,022	256,022	252,287	252,287
Total cost of sales	127,886	137,388	137,388	131,442	131,442	504,027	504,027	498,081	498,081
Earnings from operations	57,883	58,015	58,015	65,149	65,149	288,797	288,797	295,931	295,931
Expenses and other income									
- General and administrative**	8,779	8,750	15,250	21,142	16,597	39,258	45,758	51,650	47,105
- Foreign exchange (gain)/loss	0			144	144	(144)	(144)		
- Net interest paid/(received)	12,877	14,970	18,470	17,060	12,743	39,097	42,597	41,187	36,870
- Other (income)/expense	1,301			1,302	581	4,524	4,524	5,826	2,640
Total expenses and other income	22,957	23,720	33,720	39,648	30,065	82,735	92,735	98,663	86,615
Earnings before income taxes	34,926	34,295	24,295	25,501	35,084	206,062	196,062	197,268	209,316
Income tax expense/(recovery)	905		20,000	18,672	(1,662)	-2,804	17,196	15,868	(4,466)
Marginal tax rate (%)	2.6	0.0	82.3	73.2	(4.7)	(1.4)	8.8	8.0	(2.1)
Net earnings	34,021	34,295	4,295	6,828	36,745	208,866	178,866	181,400	213,782
Avg no. shares in issue (000s)	443,634	443,634	443,634	444,057	444,057	443,297	443,297	443,407	443,407
Basic EPS (US\$)	0.08	0.08	0.01	0.02	0.08	0.47	0.40	0.41	0.48
Diluted EPS (US\$)	0.08	0.08	0.01	0.02	0.08	0.47	0.40	0.41	0.48
DPS (US\$)	0.09	0.07	0.07	0.09	0.09	0.34	0.34	0.36	0.36

Source: Wheaton Precious Metals, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Quarterly forecasts exclude stock-based compensation costs.

From an operational perspective, the star performer of the quarter was Salobo. Other assets that outperformed our expectations included Stillwater, Neves-Corvo and Aljustrel, while Penasquito and Sudbury underperformed, relatively speaking. Not only was Penasquito affected by the ongoing commissioning of the Pyrite Leach Project (PLP) during the quarter (which was expected), but also by higher than expected ore hardness, which endured beyond Q3 and adversely affected mill throughput. Nevertheless, it achieved commercial production as of 31 December 2018 and grades are anticipated to improve in FY19 (from the main Penasco pit) at the same time as the PLP adds c 1Moz gold and 44Moz silver to production over the life of the mine and c 1.0–1.5Moz silver per year, by recovering 40% of the gold and 48% of the silver that currently report to tailings.

Ounces produced but not yet delivered – aka inventory

After recording a quarter that reflected long-term averages in Q3, sales of gold and silver relative to production diverged in Q4. Sales of gold, in particular, were just 4.4% less than production (vs a long-term average of 9.0%), while sales of silver were 20.0% less (vs a long-term average of 10.4%), as shown in the Exhibit below:

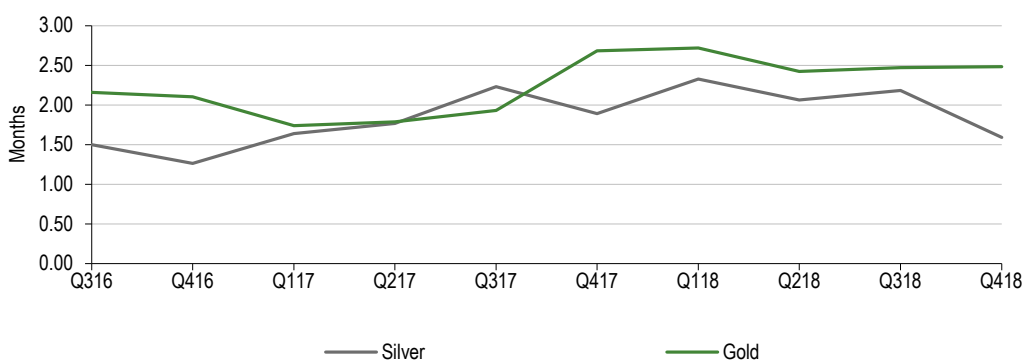
Exhibit 2: Over/(under) sale of silver and gold as a % of production, Q112–Q418



Source: Edison Investment Research, Wheaton Precious Metals

As at 31 December, payable ounces attributable to WPM produced but not yet delivered amounted to 3.3Moz silver and 77,500oz gold (vs 4.5Moz silver and 77,100oz gold in September, 4.3Moz silver and 75,600oz gold in June, and 4.8Moz silver and 84,400oz gold in March). This 'inventory' equates to 2.17 months and 2.60 months of forecast FY18 silver and gold production respectively (vs 2.17 months and 2.60 months in Q3, 2.12 months and 2.59 months in Q218, and 2.06 months and 2.72 months in Q1) and compares with WPM's target level of two months of annualised production for silver, and two to three months of annualised gold and palladium production.

Exhibit 3: WPM ounces produced but not yet delivered, Q316–Q418 (months of production)



Source: Edison Investment Research, Wheaton Precious Metals

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 may therefore be considered to be a consequence of metallurgical recoveries in the plant.

Medium-term outlook

WPM has provided production guidance to the market to the effect that output of precious metals is 'forecast to be approximately 365,000 ounces of gold, 24.5 million ounces of silver and 22,000 ounces of palladium, resulting in gold equivalent production of approximately 690,000 ounces.' For the five-year period ending in FY23, the company estimates that average annual gold equivalent production will amount to 750,000 ounces per year. This aligns closely with both our current and prior expectations with the exception of the fact that we are also anticipating a production contribution from Rosemont (see below) from FY22.

Exhibit 4: WPM precious metals production – Edison forecasts vs guidance

	FY19e	FY20e	FY21e	FY22e*	FY23e*
Previous Edison forecast					
Silver production (Moz)	22.5	23.0	21.3	23.0	
Gold production (koz)	372	348	335	344	
Cobalt production (klbs)	0	0	2,100	2,100	
Palladium production (koz)	27	27	27	27	
Current Edison forecast					
Silver production (Moz)	23.2	23.0	21.3	23.0	21.1
Gold production (koz)	372	347	325	344	356
Cobalt production (klbs)			2,100	2,100	2,100
Palladium production (koz)	22	27	27	27	30
Gold equivalent (koz)	680	770	755	812	793
Company guidance					
Silver production (Moz)	24.5				
Gold production (koz)	365				
Cobalt production (klbs)	0				
Palladium production (koz)	22				
Gold equivalent (koz)	690	765	765	765	765
Previous company guidance					
Silver production (Moz)	25.0	25.0	25.0	25.0	
Gold production (koz)	385	385	385	385	
Cobalt production (klbs)	0	0	2,100	2,100	
Palladium production (koz)	27	27	27	27	

Source: Company guidance, Edison Investment Research forecasts. Note: *Edison forecast includes a contribution from Rosemont in these years.

In the immediate future, silver output from Penasquito attributable to WPM is expected to recover back to its steady-state level of 7Moz as the Chile Colorado pit contributes to mill feed and grades improve once again with mine sequencing. It will also benefit from the development of the Pyrite Leach Project, which will add an additional 1.0–1.5Moz of silver attributable to WPM per year. At the same time, mining at Constancia will start at the Pampacancha pit in FY19, which hosts significantly higher gold grades than those mined hitherto and of which WPM will now be entitled to an increased portion. The company also expects palladium and gold production at Stillwater to increase as the Blitz project ramps up to full capacity in FY21.

Longer-term outlook

Salobo

On 24 October, 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, if throughput is expanded above 28Mtpa within a predetermined period and, depending on the grade of the material processed, WPM will be required to make an additional payment to Vale, which WPM estimates to be in the range US\$550–650m in FY23, in return for which it is entitled to its full 75% attributable share of gold production. As such, the expansion is equivalent to WPM buying a 37.5% stream for US\$603m (Edison estimate), which compares to its purchase of a 25% stream in August 2017 for an estimated consideration of US\$820.8m (including renegotiated warrants and cost inflation terms) and the US\$900m it paid in March 2015 (when the gold price averaged US\$1,179/oz) for another 25% gold stream from Salobo (see our note, [Silver Wheaton: Going for gold](#), published on 30 August 2016).

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 870Moz in FY17 that is produced as a by-product of either gold or base metal mines (ie approximately 305Moz pa silver vs WPM's production of 28.5Moz Ag in FY17). 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. It has the potential for up to six deals with a value in the range US\$100–300m, thus fully financeable via the c US\$0.81bn available to WPM under its revolving credit facility as at end-FY18.

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.

One further, major project rapidly moving closer to development is the Rosemont copper project in Arizona, after its operator, Hudbay, announced that it had received a Section 404 Water Permit from the US Army Corps of Engineers and that it expects to receive Rosemont's Mine Plan of Operations from the US Forest Service 'shortly'. The Section 404 permit regulates the discharge of fill material into waterways according to the Clean Water Act and is effectively the final material administrative step before the mine can be developed. The proposed mine is located near a number of large porphyry-type producing copper mines and is expected to be one of the largest 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 and we estimate it will contribute an average c US\$0.135 per share to WPM's basic EPS in its first nine years of operations from FY22–30 for an upfront payment of US\$230m (equivalent to US\$0.52/share) in two instalments (vs three previously) of US\$50m and US\$180m. Note that, for the purposes of our financial modelling, we have assumed that these instalments will be paid from WPM to Hudbay in FY20 and FY21, respectively.

Other matters

General and administrative expenses

WPM has forecast non-stock general and administrative expenses for FY19 in the range US\$36–38m, or US\$9.0–9.5m per quarter (vs a comparable forecast of US\$34–36m, or US\$8.5–9.0m per quarter, for FY18), including all employee-related expenses, charitable contributions etc. Investors should note that our financial forecasts in Exhibits 5 and 8 exclude stock-based compensation costs.

FY19 by quarter

Taking into account the aforementioned considerations, our updated forecasts for FY19 for WPM, by quarter, are now as shown below:

Exhibit 5: Wheaton Precious Metals FY18 forecast, by quarter*

US\$000s (unless otherwise stated)	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	FY19	FY19 (previous)
Silver production (koz)	7,428	6,091	5,701	5,499	5,807	5,807	5,807	5,807	23,228	22,525
Gold production (oz)	79,657	85,292	101,552	107,567	93,011	93,011	93,011	93,011	372,043	372,043
Palladium production (oz)	0	0	8,817	5,869	5,500	5,500	5,500	5,500	22,000	27,000
Silver sales (koz)	6,343	5,972	5,018	4,400	5,807	5,807	5,807	5,807	23,228	22,525
Gold sales (oz)	69,973	87,140	89,242	102,813	92,975	92,975	92,975	92,975	371,898	371,898
Palladium sales (oz)	0	0	3,668	5,049	5,478	5,478	5,478	5,478	21,912	27,000
Avg realised Ag price (US\$/oz)	16.73	16.52	14.80	14.66	15.59	15.59	15.59	15.59	15.59	15.30
Avg realised Au price (US\$/oz)	1,330	1,305	1,210	1,229	1,304	1,318	1,263	1,263	1,287	1,263
Avg realised Pd price (US\$/oz)	N/A	N/A	955	1,137	1,441	1,607	1,607	1,607	1,565	1,128
Avg Ag cash cost (US\$/oz)	4.49	4.54	5.04	4.66	4.76	4.76	4.76	4.76	4.76	4.43
Avg Au cash cost (US\$/oz)	399	407	418	409	420	420	420	420	420	424
Avg Pd cash cost (US\$/oz)	N/A	N/A	169	205	259	289	289	289	281	203
Sales	199,252	212,400	185,769	196,591	219,665	221,876	216,735	216,735	875,012	844,565
Cost of sales										
Cost of sales, excluding depletion	56,414	62,580	63,202	63,598	68,141	68,314	68,278	68,278	273,013	262,755
Depletion	57,265	62,494	64,684	67,844	70,615	70,615	70,615	70,615	282,458	276,713
Total cost of sales	113,679	125,074	127,886	131,442	138,756	138,929	138,893	138,893	555,471	539,467
Earnings from operations	85,573	87,326	57,883	65,149	80,909	82,948	77,842	77,842	319,541	305,098
Expenses and other income										
- General and administrative**	9,757	11,972	8,779	21,142	9,250	9,250	9,250	9,250	37,000	45,758
- Foreign exchange (gain)/loss	(170)	26	0	144					0	
- Net interest paid/(received)	5,591	5,659	12,877	17,060	12,009	12,009	12,009	12,009	48,034	50,522
- Other (income)/expense	2,757	466	1,301	1,302					0	
Total expenses and other income	17,935	18,123	22,957	39,648	21,259	21,259	21,259	21,259	85,034	96,280
Earnings before income taxes	67,638	69,203	34,926	25,501	59,651	61,689	56,583	56,583	234,507	208,818
Income tax expense/(recovery)	(485)	(3,224)	905	18,672	250	250	250	250	1,000	1,000
Marginal tax rate (%)	(0.7)	(4.7)	2.6	73.2	0.4	0.4	0.4	0.4	0.4	0.0
Net earnings	68,123	72,427	34,021	6,828	59,401	61,439	56,333	56,333	233,507	207,818
Ave. no. shares in issue (000s)	442,728	443,191	443,634	444,057	444,057	444,057	444,057	444,057	444,057	443,634
Basic EPS (US\$)	0.15	0.16	0.08	0.02	0.13	0.14	0.13	0.13	0.53	0.47
Diluted EPS (US\$)	0.15	0.16	0.08	0.02	0.13	0.14	0.13	0.13	0.53	0.47
DPS (US\$)	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.36	0.32

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

Our forecast basic EPS of US\$0.53/share for FY19 compares with a consensus forecast of US\$0.52/share (source: Refinitiv, 22 March 2019), within a range of US\$0.37–0.72 per share.

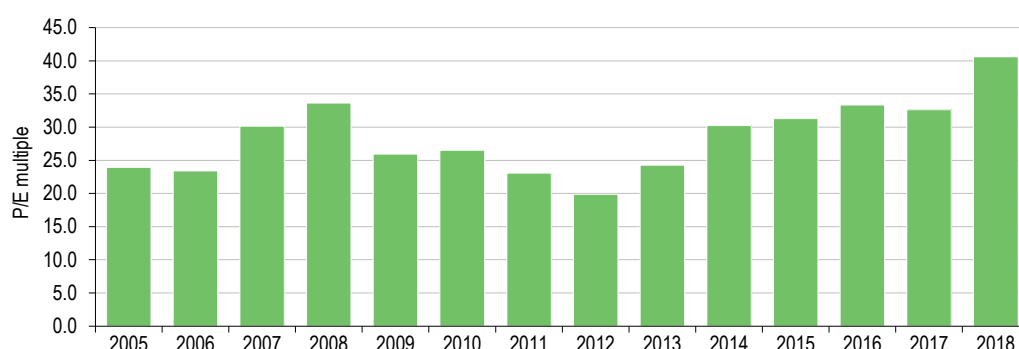
Our US\$1.19 basic EPS forecast for FY20 (see Exhibit 8) compares with a consensus of US\$0.63 (source: Refinitiv, 22 March), within a range of US\$0.37–0.81. However, our estimate is predicated

on an average gold price during the year of US\$1,482/oz and an average silver price of US\$25.95/oz. These are 12.4% and 66.5% above current spot prices, respectively, but are consistent with our historical practice and, in particular, assume that silver will, at some point, revert to the long-term correlation that it has exhibited with gold since the latter was demonetised in 1971. In the event that precious metals' prices remain at current levels (US\$1,318/oz Au and US\$15.59/oz Ag at the time of writing), we forecast that WPM instead earns US\$0.56 per share in FY20.

Valuation

Excluding FY04 (part-year), WPM's shares have historically traded on a contemporary average P/E multiple of 28.5x current year basic underlying EPS, ie excluding impairments (vs 43.6x Edison or 46.3x Refinitiv consensus FY19e, currently – see Exhibit 7).

Exhibit 6: WPM's historical current year P/E multiples



Source: Edison Investment Research

Applying this multiple to our updated EPS forecast of US\$1.19 in FY20 (vs US\$1.18 previously) implies a potential value per share for WPM of US\$33.97, or C\$45.18 in that year (vs US\$32.48, or C\$42.97 previously). Note that this valuation excludes the value of 20.9m shares in First Majestic currently held by WPM, with an immediate value of C\$144.4m, or US\$0.26 per WPM share (priced as at 15 November).

In the meantime, from a relative perspective, it is notable that WPM is cheaper than its royalty/streaming 'peers' in at least 95% (23 out of 24) of the valuation measures used in Exhibit 7 and on multiples that are cheaper even than the miners themselves in at least 35% (30 out of 84) of the same valuation measures (irrespective 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 7: WPM comparative valuation vs a sample of operating and royalty/streaming companies

	P/E (x)		Yield (%)		P/VS (x)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Royalty companies						
Franco-Nevada	57.6	49.7	1.3	1.3	25.5	22.8
Royal Gold	57.2	41.6	1.1	1.1	20.6	19.0
Sandstorm Gold	67.5	60.0	0.0	0.0	20.9	20.0
Osisko	85.5	61.2	1.3	1.3	24.3	21.8
Average	67.0	53.1	0.9	1.0	22.8	20.9
WPM (Edison forecasts)	43.6	19.2	1.6	2.2	19.5	12.7
WPM (consensus)	46.3	38.3	1.4	1.6	20.8	18.9
Gold producers						
Barrick	34.4	28.2	1.1	1.0	9.0	8.0
Newmont	28.7	27.1	1.6	1.6	8.7	8.9
Goldcorp	36.4	23.5	0.7	0.7	7.0	5.7
Newcrest	25.4	20.0	1.1	1.2	11.1	9.3
Kinross	31.9	25.0	0.0	0.0	4.4	4.2
Agnico-Eagle	71.0	37.8	1.0	1.0	13.5	10.4
Eldorado	37.3	8.5	0.1	0.4	4.1	2.5
Yamana	26.3	16.7	0.8	0.8	4.6	3.8
Average	36.4	23.4	0.8	0.8	7.8	6.6
Silver producers						
Hecla	N/A	41.6	0.4	0.4	9.2	6.4
Pan American	40.5	19.2	1.1	1.1	7.9	5.4
Coeur Mining	N/A	29.1	0.0	0.0	6.4	4.8
First Majestic	N/A	124.1	0.0	0.0	13.4	9.5
Hocschild	26.3	21.1	1.5	1.6	5.6	5.5
Fresnillo	21.9	17.8	2.4	2.8	10.4	9.8
Average	64.8	42.1	0.9	1.0	8.8	6.9

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 22 March 2019.

Financials: Solid equity base

As at 31 December 2018, WPM had US\$75.8m in cash and US\$1,264.0m of debt outstanding under its US\$2bn revolving credit facility (which attracts an interest rate of Libor plus 120–220bp and matures in February 2024 – now a year later than previously), such that it had net debt of US\$1,188.2m overall, after US\$108.5m (US\$0.24/share) of cash inflows from operating activities during the quarter. Relative to the company's Q4 balance sheet equity of US\$5,171.9m, this level of net debt equated to a financial gearing (net debt/equity) ratio of 23.0% and a leverage (net debt/[net debt+equity]) ratio of 18.7%. It also compares with a net debt position of US\$1,261.1m as at end-September, US\$863.8m as at end-June and US\$547.4m as at end-March 2018. 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 12.1x in FY18).

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 in early 2021.

Exhibit 8: Financial summary

	US\$'000s	2014	2015	2016	2017	2018	2019e	2020e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		620,176	648,687	891,557	843,215	794,012	875,012	1,140,345
Cost of Sales		(151,097)	(190,214)	(254,434)	(243,801)	(245,794)	(273,013)	(268,026)
Gross Profit		469,079	458,473	637,123	599,414	548,218	601,999	872,319
EBITDA		431,219	426,236	602,684	564,741	496,568	564,999	835,319
Operating Profit (before amort. and except.)		271,039	227,655	293,982	302,361	244,281	282,541	563,902
Intangible Amortisation		0	0	0	0	0	0	0
Exceptionals		(68,151)	(384,922)	(71,000)	(228,680)	245,715	0	0
Other		(1,830)	(4,076)	(4,982)	8,129	(5,826)	0	0
Operating Profit		201,058	(161,343)	218,000	81,810	484,170	282,541	563,902
Net Interest		(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(48,034)	(33,307)
Profit Before Tax (norm)		268,762	223,565	269,789	277,368	203,094	234,507	530,595
Profit Before Tax (FRS 3)		198,781	(165,433)	193,807	56,817	442,983	234,507	530,595
Tax		1,045	3,391	1,330	886	(15,868)	(1,000)	(1,000)
Profit After Tax (norm)		267,977	222,880	266,137	286,383	181,400	233,507	529,595
Profit After Tax (FRS 3)		199,826	(162,042)	195,137	57,703	427,115	233,507	529,595
Average Number of Shares Outstanding (m)		359.4	395.8	430.5	442.0	443.4	444.1	444.1
EPS - normalised (c)		75	53	62	63	48	52.6	119.3
EPS - normalised and fully diluted (c)		74	53	62	63	48	53	119
EPS - (IFRS) (c)		56	(41)	45	13	96	53	119
Dividend per share (c)		26	20	21	33	36	36	49
Gross Margin (%)		75.6	70.7	71.5	71.1	69.0	68.8	76.5
EBITDA Margin (%)		69.5	65.7	67.6	67.0	62.5	64.6	73.3
Operating Margin (before GW and except.) (%)		43.7	35.1	33.0	35.9	30.8	32.3	49.5
BALANCE SHEET								
Fixed Assets		4,309,270	5,526,335	6,025,227	5,579,898	6,390,342	6,109,884	5,617,108
Intangible Assets		4,270,971	5,494,244	5,948,443	5,454,106	6,196,187	5,915,729	5,422,953
Tangible Assets		5,427	12,315	12,163	30,060	29,402	29,402	29,402
Investments		32,872	19,776	64,621	95,732	164,753	164,753	164,753
Current Assets		338,493	105,876	128,092	103,415	79,704	444,043	1,246,852
Stocks		26,263	1,455	1,481	1,700	1,541	1,571	2,047
Debtors		4,132	1,124	2,316	3,194	2,396	2,397	3,124
Cash		308,098	103,297	124,295	98,521	75,767	440,075	1,241,680
Other		0	0	0	0	0	0	0
Current Liabilities		(16,171)	(12,568)	(19,057)	(12,143)	(28,841)	(35,885)	(35,393)
Creditors		(16,171)	(12,568)	(19,057)	(12,143)	(28,841)	(35,885)	(35,393)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		(1,002,856)	(1,468,908)	(1,194,274)	(771,506)	(1,269,289)	(1,269,289)	(1,269,289)
Long term borrowings		(998,518)	(1,466,000)	(1,193,000)	(770,000)	(1,264,000)	(1,264,000)	(1,264,000)
Other long term liabilities		(4,338)	(2,908)	(1,274)	(1,506)	(5,289)	(5,289)	(5,289)
Net Assets		3,628,736	4,150,735	4,939,988	4,899,664	5,171,916	5,248,752	5,559,278
CASH FLOW								
Operating Cash Flow		434,582	435,783	608,503	564,187	518,680	572,012	833,623
Net Interest		(2,277)	(4,090)	(24,193)	(24,993)	(41,187)	(48,034)	(33,307)
Tax		(204)	(208)	28	(326)	0	(1,000)	(1,000)
Capex		(146,249)	(1,791,275)	(805,472)	(19,633)	(861,406)	(2,000)	221,359
Acquisitions/disposals		0	0	0	0	0	0	0
Financing		6,819	761,824	595,140	1,236	1,279	0	0
Dividends		(79,775)	(68,593)	(78,708)	(121,934)	(132,915)	(156,670)	(219,070)
Net Cash Flow		212,896	(666,559)	295,298	398,537	(515,549)	364,308	801,605
Opening net debt/(cash)		902,313	690,420	1,362,703	1,068,705	671,479	1,188,233	823,925
HP finance leases initiated		0	0	0	0	0	0	0
Other		(1,003)	(5,724)	(1,300)	(1,311)	(1,205)	(0)	0
Closing net debt/(cash)		690,420	1,362,703	1,068,705	671,479	1,188,233	823,925	22,320

Source: Company sources, Edison Investment Research

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