Wheaton Precious Metals

Q121 results preview

Q420/FY20 results and Q121 preview

Metals & mining

In the context of known production and sales, Q420 financial results were closely in line with our expectations, while results for the full year were characterised by record annual revenues and operating cash flows. In conjunction with virtually extinguished net debt, these caused management to increase Wheaton Precious Metals' (WPM's) declared quarterly dividend by 30% to US$0.13/share per quarter. After the conclusion of a series of new precious metals purchase agreements in the past 12 months (eg Marmato, Cozamin, Santo Domingo), we estimate that gold equivalent production will rise 13.3% in FY21, driving continued increases in earnings and revenues, notwithstanding the recent relative weakness in precious metals prices.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	861.3	242.7	54	36	70.4	0.9
12/20	1,096.2	503.2	112	42	33.9	1.1
12/21e	1,312.0	680.0	151	59	25.2	1.6
12/22e	1,637.3	924.6	205	78	18.5	2.0

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

Almost total recovery from coronavirus disruptions

While future stoppages on account of COVID-19 cannot be entirely discounted, of the six of Wheaton's partners' mines that were directly affected by shutdowns and suspensions in FY20, five are now at, or close to, full capacity with only the relatively small Los Filos still producing below par (albeit for different reasons).

Longer-term exposure to major projects

In the medium to longer term, WPM has exposure to a number of large-scale projects, which will contribute to its production, earnings and cash flow, including Rosemont and Salobo III. As a consequence, WPM has recently increased its production guidance for FY21–25 from 750koz AuE pa to 810koz AuE pa and for FY21–30 to 830koz AuE per annum. Thereafter, it also has exposure to projects and assets such as Salobo IV and Pascua-Lama not yet included in its guidance.

Valuation: US$62.07/share

In normal circumstances and assuming no material purchases of additional streams in the foreseeable future (which we think unlikely given its business strategy), we forecast a value per share for WPM of US$62.07 or C$78.03 in FY23 (cf US$53.37 and C$67.44 previously). In the meantime, WPM's shares are trading on near-term financial ratios that are cheaper than the averages of its peers on 86% of nine common valuation measures using our forecasts and 69% using consensus forecasts. Alternatively, if WPM's shares were to trade at the same level as the average of its peers, then we estimate that its share price should be US$62.90 (C$79.07), based on Edison's forward earnings, dividend and cash flow estimates. If precious metals return to favour, however, we believe that WPM is capable of supporting a premium valuation up to US$84.17 (C$106.36) per share.

31 March 2021

Price	**C$47.76**
Market cap	**C$21,467m**
	C$1.2571/US$
Net debt* (US$m) at end-December	2.3
*Excludes US$3.6m in lease liabilities	
Shares in issue	449.5m
Free float	100%
Code	WPM
Primary exchange	TSX
Secondary exchange	LSE, NYSE

Share price performance

%	1m	3m	12m
Abs	4.6	(13.1)	20.6
Rel (local)	1.0	(18.5)	(15.9)
52-week high/low		C$75.14	C$38.73

Business description

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

Next events

Q121 results	6 May 2021
Q221 results	12 August 2021
Q321 results	4 November 2021
Q420/FY20 results	March 2022

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Edison profile page

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Q420/FY20 results

Wheaton's Q420/FY20 results were provided in the context of production and sales that were already known from the company's production update of 11 February (see Edison's note Looking to the long term, published on 17 February 2021). Among other things, the update indicated that the normal inventory cycle experienced by WPM, whereby sales are 'flushed through' and ounces produced but not delivered (PBND) decline in the fourth quarter of the year, had been (perhaps not surprisingly) disrupted by the COVID-19 pandemic. This followed a quarter (Q3) in which silver inventories, in particular, increased modestly after declining sharply in Q2. By contrast gold ounces produced but not yet delivered to Wheaton declined in each of the three quarters from Q2–Q420 (inclusive). Otherwise, financial results were closely in line with our prior expectations, the only material variances being general and administrative costs, which were materially below our expectations (even on an underlying basis – see Exhibit 6), and a net interest charge that was slightly above. A summary of Wheaton's financial and operating results in the context of both its results in the preceding quarters and Edison's prior forecasts is as follows:

Exhibit 1: Wheaton Precious Metals underlying Q420 results vs Q320 and Q420e, by quarter*

US$000s (unless otherwise stated)	Q419	Q120	Q220	Q320	Q420e	Q420a	Change **(%)	Variance ***(%)	Variance ***(units)	FY20e	FY20a
Silver production (koz)	5,962	6,704	3,650	6,028		6,509					22,892
Gold production (oz)	107,225	94,707	88,631	91,770		93,137					367,419
Palladium production (koz)	6,057	5,312	5,759	5,444		5,672					22,187
Silver sales (koz)	4,684	4,928	4,729	4,999	4,576	4,576	-8.5	0.0	0	19,232	19,232
Gold sales (oz)	89,223	100,405	92,804	90,101	86,243	86,243	-4.3	0.0	0	369,553	369,553
Palladium sales (koz)	5,312	4,938	4,976	5,546	4,591	4,591	-17.2	0.0	0	20,051	20,051
Avg realised Ag price (US$/oz)	17.36	17.03	16.73	24.69	24.44	24.72	0.1	1.1	0.28	20.71	20.78
Avg realised Au price (US$/oz)	1,483	1,589	1,716	1,906	1,875	1,882	-1.3	0.4	7	1,765	1,767
Avg realised Pd price (US$/oz)	1,804	2,298	1,917	2,182	2,349	2,348	7.6	0.0	-1	2,183	2,183
Avg Ag cash cost (US$/oz)	5.13	4.50	5.23	5.89	5.98	5.51	-6.5	-7.9	-0.47	5.39	5.28
Avg Au cash cost (US$/oz)	426	436	418	428	426	433	1.2	1.6	7	424	426
Avg Pd cash cost (US$/oz)	321	402	353	383	423	423	10.4	0.0	0	389	389
Sales	223,222	254,789	247,954	307,268	284,348	286,213	-6.9	0.7	1,865	1,094,359	1,096,224
Cost of sales											
Cost of sales, excluding depletion	63,764	66,908	65,211	70,119	66,035	64,524	-8.0	-2.3	-1,511	268,273	266,763
Depletion	63,645	64,841	58,661	60,601	57,862	59,786	-1.3	3.3	1,924	241,965	243,889
Total cost of sales	127,408	131,748	123,872	130,720	123,898	124,310	-4.9	0.3	412	510,238	510,652
Earnings from operations	95,814	123,040	124,082	176,548	160,450	161,902	-8.3	0.9	1,452	584,121	585,572
Expenses and other income											
– General and administrative	11,695	13,181	21,799	21,326	13,627	9,391	-56.0	-31.1	-4,236	69,933	65,698
– Foreign exchange (gain)/loss	0	0	0	0		0	N/A	N/A	0	0	
– Net interest paid/(received)	9,607	7,118	4,636	2,766	1,519	2,196	-20.6	44.6	677	16,039	16,715
– Other (income)/expense	814	-1,861	234	391		850	117.4	N/A	850	(1,236)	(387)
Total expenses and other income	22,116	18,438	26,669	24,483	15,145	12,437	-49.2	-17.9	-2,708	84,735	82,026
Earnings before income taxes	73,698	104,602	97,413	152,065	145,305	149,465	-1.7	2.9	4,160	499,386	503,546
Income tax expense/(recovery)	(3,447)	8,442	59	58	250	24	-58.6	-90.4	-226	8,809	211
Marginal tax rate (%)	(4.7)	8.1	0.1	0.0	0.2	0.0	N/A	-100.0	-0.2	1.8	0.0
Net earnings	77,145	96,160	97,354	152,007	145,055	149,441	-1.7	3.0	4,386	490,577	503,335
Average no. shares in issue (000s)	446,802	447,805	448,636	449,125	449,125	449,320	0.0	0.0	195	448,673	448,964
Basic EPS (US$)	0.17	0.215	0.217	0.338	0.323	0.333	-1.5	3.1	0.01	1.093	1.12
Diluted EPS (US$)	0.17	0.214	0.216	0.336	0.321	0.331	-1.5	3.1	0.01	1.091	1.12
DPS (US$)	0.09	0.10	0.10	0.10	0.12	0.12	20.0	0.0	0.00	0.42	0.42

Source: Wheaton Precious Metals, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Q420 vs Q320. ***Q420 actual vs Q420 estimate.

Readers will note that the tax expense for the full year does not equal the sum of the tax expenses for the individual quarters. In the case of Q120, in particular, a deferred income tax expense of US$8.4m was recognised (being primarily related to the reversal of deferred income tax assets on previously recognised non-capital and capital losses, which offset unrealised capital gains relating to the company's long-term equity investments) and it is likely that this was subsequently reversed later in the year.

From an operational perspective, production from Sudbury, Constancia, Los Filos and Zinkgruvan was slightly below our expectations, while that from San Dimas, Antamina and Stratoni, in particular, was above (for the second quarter in succession in the cases of Antamina and San Dimas). At the same time, notably positive sales performances (relative to production) were recorded at Minto and the 777 mine. Of the six of Wheaton's partners' mines that were directly affected by shutdowns and suspensions earlier in the year, almost all are now at or close to full capacity:

Exhibit 2: Mines affected by COVID-19 performance in Q220

Name	Approximate percentage of 'normal' production achieved			Comment
	Q220	Q320	Q420	
Penasquito	47%	97%	100%	Production halted in early April in line with Mexican government decree; restarted at the beginning of June and reached pre-coronavirus record throughput rates by mid-June.
San Dimas	67%	100%	100%	Production halted in early April in line with Mexican government decree; restarted again in late May. Delays in supply of parts and equipment for mill modernisation and optimisation programmes mean that installation of high intensity grinding mill will not occur until Q221.
Antamina	53%	100%	100%	Production suspended in mid-April; restarted in late May after Peruvian government decreed mining to be an 'essential' industry. Outperformance in Q3 and Q4 attributed to higher grades and throughput, partially offset by lower recovery.
Constancia*	34–38%	42–64%	100%	Production furloughed at the end of March; resumed at full capacity in mid-May after Peruvian government deemed mining an 'essential' industry. Ramp up to full production once again achieved in Q420, but lower grades generally cf FY19 and strict ongoing COVID-19 measures and controls.
Yauliyacu	48%	100%	79%	Shut 2 April; restarted mid-May after Peruvian government deemed the mining industry to be 'essential'.
Los Filos	19%	47%	16%	Production halted in early April in line with Mexican government decree; restarted 5 May.

Source: Edison Investment Research, Wheaton Precious Metals. Note: *Underlying excluding contractual delivery of 2,005oz gold in respect of delay in mining Pampacancha deposit.

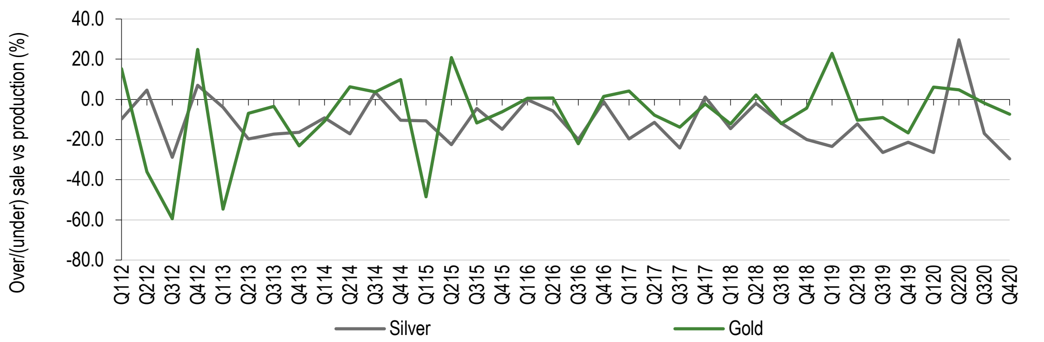
Readers should note however that, although Los Filos production figures in the fourth quarter remained below normal levels, the cause, in this case, was an illegal blockade which caused a temporary suspension of mining activities, rather than COVID-19, and that the mine was restarted on 23 December 2020.

In the meantime, according to Vale's most recent performance report, physical completion of the Salobo III mine expansion was at 68% at end-Q420 (cf 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 H122.

Ounces produced but not yet delivered, aka inventory

Production and sales figures were already known from Wheaton's earlier production update. As expected, the sales shortfall of 7.2% of gold ounces relative to production in Q420 was in line with the historical quarterly average since Q112. At 30% of production, the silver sales shortfall relative to production was larger than the historical average of 11.4%, although consistent with the period Q319–Q120.

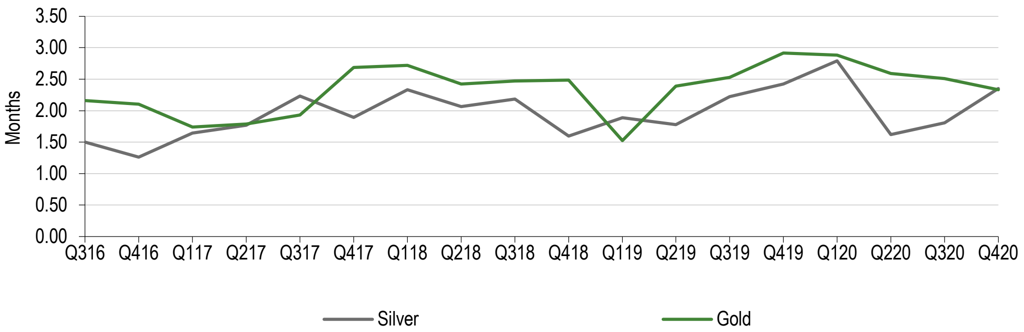
Exhibit 3: Over/(under) sale of silver and gold as a percentage of production, Q112–Q420



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

As at 31 December, payable ounces attributable to WPM produced but not yet delivered to WPM amounted to 4.5Moz silver and 71,590oz gold (cf 3.4Moz silver and 75,750oz gold as at end-September and 3.2Moz silver and 79,632oz gold as at end-June). This 'inventory' equated to 2.35 and 2.33 months of FY20 silver and gold production, respectively (cf 1.80 and 2.51 months as at end-Q320 and 1.62 and 2.59 months as at end-Q220) and compares with WPM's target level of two months of silver and two to three months of gold and palladium production, respectively.

Exhibit 4: WPM ounces produced but not yet delivered, Q316–Q320 (months of production)



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

Note that, for these purposes, the use of the term 'inventory' reflects ounces produced by WPM's operating counterparties at the mines over which it has streaming agreements, but which have not yet been delivered to WPM. It in no way reflects the other use of the term in the mining industry itself, where it typically refers to metal in circuit and ore on stockpiles etc.

FY21: Five-year and 10-year guidance

In the event, silver production in FY20 exceeded the top end of WPM's revised guidance range by 1.7% and was within the company's original (pre-coronavirus crisis) guidance range, while gold production was within WPM's revised guidance range and within 5.8% of its original (pre-coronavirus crisis) range. Towards the top end of the revised guidance range, gold equivalent production was therefore within 1.9% of achieving its original guidance range.

In addition to its results, WPM provided production guidance of 720–780koz AuE for FY21, updated five-year production guidance from its operations of 810,000oz AuE per annum and maiden 10-year guidance of 830,000oz AuE per annum. This compares with prior guidance of 750,000oz AuE per annum on average for the period FY20–24 (inclusive) and with Edison's (updated) forecasts as follows:

Exhibit 5: WPM precious metals production – Edison forecasts vs guidance

	FY20	FY21e	**FY22–25	FY26–30
Current Edison forecast				
Silver production (Moz)	*22.9	24.3		
Gold production (koz)	*367.4	374.6		
Cobalt production (klb)	*0	2,100		
Palladium production (koz)	*22.2	22.2		
Gold equivalent (koz)	*671.7	761	788	778
WPM guidance				
Silver production (Moz)	21.5–22.5	22.5–24.0		
Gold production (koz)	365–385	370–400		
Cobalt & palladium production (koz AuE)	0	40–45		
Palladium production (koz)	23.0–24.5	N/A		
Gold equivalent (koz)	655–685	720–780	810	830

Source: Wheaton Precious Metals, Edison Investment Research forecasts. Note: *Actual; **Edison forecasts include a contribution from Salobo III from FY23e and Rosemont from FY25e.

Wheaton's updated five-year guidance and its 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 Pd and US$17.75/lb Co, compared to US$1,500/oz Au, US$18.00/oz Ag, US$2,000/oz Pd and US$16.00/lb Co previously. Of note in this context is the reduction of the gold/silver ratio to 72.0x from 83.3x previously, and compared with a ratio of 69.8x currently and a long-term average of 61.5x (as implied by silver's correlation with gold since the latter was demonetised in 1971). Readers should note that Edison's (updated) production forecasts are 2.7% below WPM's guidance for FY22–25 and 6.2% below its guidance for FY26–30. However, this difference is largely negated in its translation into financial results by the fact that sales have historically been recorded at a level c 8.5% below production (at prevailing prices) whereas Edison's financial forecasts typically assume that the two are closely aligned. Moreover, our forecasts exclude (for the moment) any contribution from Santo Domingo (see below), which we expect to be in the order of 42,350oz Au per annum on average in the period FY24–25 and 25,520oz Au per annum on average in the period FY26–30.

Short-term outlook

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 Q221 to further improve recoveries and reduce operating costs. Production of palladium and gold at Stillwater (operated by Sibanye-Stillwater) will similarly increase into FY21 under the influence of the Fill-the-Mill project at East Boulder (although the Blitz project has now been delayed by two years, until 2024, following the suspension of growth capital activities owing to COVID-19).

Similarly, Hudbay expects gold production from its Constancia mine in Peru to increase by 263.0% in FY21 and silver production to increase by 22.3% (of which, WPM is entitled to 50% and 100%, respectively). Notwithstanding these increases, we expect production to remain at lower levels than would otherwise have been the case had the Pampacancha satellite deposit (which hosts significantly higher gold grades than those mined hitherto) been in operation for the entire 12-month period. Nevertheless, Hudbay reports that it has now received the final mining permit for Pampacancha and that it commenced pre-development activities in January with a view to pre-stripping once the one remaining individual land user agreement has been completed. Consequently, it expects to start mining at Pampacancha 'later in 2021.' Note that, until Pampacancha is in production, WPM continues to be entitled to receive an additional 2,005oz gold per quarter from Hudbay relative to its precious metals purchase agreement (PMPA).

Medium-term outlook

Santo Domingo

On 25 March, WPM announced that it had entered into a definitive PMPA with Capstone Mining regarding the Santo Domingo project in the Atacama region of Chile. Under the terms of the proposed PMPA, WPM will acquire 100% of the gold production of Santo Domingo until 285,000oz gold have been delivered, whereupon the stream will drop to 67% of gold production for the remainder of the life of the mine. WPM will pay Capstone a total cash consideration of US$290m for the stream, of which US$30m will be payable upon closing (subject to certain customary conditions) with the remainder payable during the construction of the project. In addition, WPM will make ongoing delivery payments equal to 18% of the spot price of gold until the market value of gold delivered to the company, net of the per ounce cash payment, exceeds the initial upfront cash deposit, at which point it will make payments equal to 22% of the spot price of gold.

The Santo Domingo project is forecast to be a bottom cost quartile copper mine with an 18-year mine life. Attributable gold production is forecast to be 35–40koz per annum for the first five full years of production and 25–30koz for the first 10 full years, with construction commencing in late 2021 and with the first full year of production expected to be 2024.

In crude terms therefore, we estimate that WPM is acquiring an average annual positive cash flow of c US$40.5m over the first 10 years of the mine's life for an upfront consideration of US$290m. Note that, pending final closing of the transaction, cash flows from Santo Domingo are not yet included in our WPM forecasts.

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 US$570–670m in FY23, in return for which it will be entitled to its full 75% attributable share of expanded gold production. This compares to its purchase of a 25% stream in August 2016 for a consideration of US$800m (see our note, Going for gold, published on 30 August 2016), the US$900m it paid for a similar stream in March 2015 (when the gold price averaged US$1,179/oz) and the US$1.33bn that it paid for its original 25% stream in February 2013.

According to Vale's Q420 performance report, the Salobo III mine expansion is now 68% complete (cf 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 H122.

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

Pascua-Lama

Wheaton's contract with Barrick provides for a completion test that, if unfulfilled by 30 June 2020, resulted in WPM being entitled to the return of its upfront cash consideration of US$625m less a credit for any silver delivered up to that date from three other Barrick mines (at which point it would have no further streaming interest in the mine). Given the test was unfulfilled, we calculate that WPM had the right to an estimated US$252.3m (the carrying value of Pascua-Lama in WPM's accounts) repayment from Barrick in FY20. Given the long-term optionality provided by the Pascua-Lama project, however, Wheaton 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 Section 404 Water Permit from the US Army Corps of Engineers and a Mine Plan of Operations 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 start construction work by the end of CY19, which would have enabled first production 'by the end of 2022'. In the meantime, it started early works to run concurrently with financing activities (including a potential joint venture partner).

On 31 July 2019, however, the US District Court for the District of Arizona issued a ruling relating to a number of lawsuits challenging the US Forest Service's issuance of the Final Record of Decision effectively halting construction, saying that:

- the US Forest Service 'abdicated its duty to protect the Coronado National Forest' when it failed to consider whether the mining company held valid unpatented mining claims; and
- the Forest Service had 'no factual basis to determine that Rosemont had valid unpatented mining claims' on 2,447 acres and the claims were invalid under the Mining Law of 1872.

In response, Hudbay said that it believed the ruling to be without precedent and that the court had misinterpreted federal mining laws and Forest Service regulations as they apply to Rosemont. It pointed out that the Forest Service issued its decision in 2017 after a 'thorough process of 10 years involving 17 co-operating agencies at various levels of government, 16 hearings, over 1,000 studies, and 245 days of public comment resulting in more than 36,000 comments' and with a long list of studies that have examined the potential effects of the proposed mine on the environment. Hudbay also pointed out that various agencies had accepted that the company could operate the mine in compliance with environmental laws. As a result, Hudbay is appealing 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 to its waste disposal plan. As an alternative, however, it is also able to adapt its plan to accommodate its waste dumps on privately owned, patented land alone, if necessary.

Once in production, we estimate Rosemont will contribute c 16,750oz gold and 2.7Moz silver to WPM's production profile in return for an upfront payment of US$230m in two instalments of US$50m and US$180m (of which neither has yet been paid). Note that, whereas before, we had not included Rosemont in our longer-term forecasts, we are now including it from FY25.

Other potential future growth

WPM reports that it is as busy as it has ever been on the corporate development front. 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, especially within the base metals sub-sector, looking to strengthen their balance sheets with mooted transactions in the >US$1bn range. In the first instance, WPM would fund any such transactions via the US$1,805m available under its revolving credit facility, plus US$192.7m in cash (as at end-FY20) and, potentially, its US$300m at-the-market equity programme.

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

- the platinum group metal (PGM) by-product stream at Sudbury (operated by Vale); and
- the 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

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

General and administrative expenses

WPM provided guidance for non-stock general and administrative (G&A) expenses of US$42–45m (or US$10.5–11.25m per quarter) in FY21, compared to a guided range of US$40–43m in FY20 and an actual outcome of US$38.7m (ie 3.1% below the bottom of the range), including all employee-related expenses, charitable contributions, etc, but excluding performance share units (PSUs) and equity settled stock-based compensation.

Exhibit 6: WPM Q419-FY21 general and administrative expense (US$000s)

Item	FY21	FY20	Q420	Q320	Q220	Q120	FY19	Q419
G&A excluding PSU* and equity settled stock-based compensation		16,733	4,466	4,037	4,095	4,135	13,840	7,434
Other (inc. depreciation, donations and professional fees)		22,013	5,957	5,488	6,302	4,266	17,802	
Sub-total		**38,746**	**10,423**	**9,525**	**10,397**	**8,401**	**31,642**	**7,434**
Guidance	**42,000–45,000**	**40,000–43,000**					**33,000–36,000**	
PSU* accrual		21,520	(2,336)	10,482	10,097	3,277	17,174	2,830
Equity settled stock-based compensation		5,432	1,305	1,319	1,305	1,503	5,691	1,432
Total general & administrative		**65,698**	**9,392**	**21,326**	**21,799**	**13,181**	**54,507**	**11,696**
Total/sub-total (%)		**+69.6**	**-9.9**	**+123.9**	**+109.7**	**+56.9**	**+72.3**	**+57.3**

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

Investors are reminded that stock-based compensation costs and PSUs are now included in our financial forecasts in Exhibits 7 and 11 notwithstanding their inherently unpredictable nature.

FY21 updated forecasts by quarter

Our 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 Wheaton) either increases or decreases during the year.

Exhibit 7: Wheaton Precious Metals FY20 forecast, by quarter*

US$000s (unless otherwise stated)	FY20	Q121e	Q221e	Q321e	Q421e	FY21e
Silver production (koz)	22,892	6,049	6,061	6,086	6,086	24,281
Gold production (oz)	367,419	92,925	93,925	91,830	95,930	374,610
Palladium production (koz)	22,187	5,561	5,561	5,561	5,561	22,244
Silver sales (koz)	19,232	6,049	6,061	6,086	6,086	24,281
Gold sales (oz)	369,553	92,892	93,892	91,797	95,897	374,478
Palladium sales (oz)	20,051	5,539	5,539	5,539	5,539	22,155
Avg realised Ag price (US$/oz)	20.78	26.29	24.61	24.61	24.61	25.03
Avg realised Au price (US$/oz)	1,767	1,799	1,718	1,718	1,718	1,738
Avg realised Pd price (US$/oz)	2,183	2,403	2,538	2,352	2,353	2,411
Avg Ag cash cost (US$/oz)	5.28	6.10	6.04	6.05	6.05	6.06
Avg Au cash cost (US$/oz)	426	429	427	429	428	428
Avg Pd cash cost (US$/oz)	389	432	457	423	424	434
Sales	1,096,224	339,453	324,515	320,513	327,562	1,312,043
Cost of sales						
Cost of sales, excluding depletion	266,763	79,116	79,218	78,480	80,162	316,976
Depletion	243,889	62,089	62,339	59,635	63,042	247,105
Total cost of sales	510,652	141,205	141,557	138,115	143,204	564,081
Earnings from operations	585,572	198,247	182,959	182,398	184,358	747,962
Expenses and other income						
– General and administrative**	65,698	18,329	18,329	18,329	18,329	73,316
– Foreign exchange (gain)/loss						0
– Net interest paid/(received)	16,715	187	(863)	(1,837)	(2,799)	(5,312)
– Other (income)/expense	(387)					0
Total expenses and other income	82,026	18,516	17,466	16,492	15,530	68,004
Earnings before income taxes	503,546	179,731	165,492	165,906	168,829	679,958
Income tax expense/(recovery)	211	250	250	250	250	1,000
Marginal tax rate (%)	0.0	0.1	0.2	0.2	0.1	0.1
Net earnings	503,335	179,481	165,242	165,656	168,579	678,958
Ave. no. shares in issue (000s)	448,964	449,466	449,466	449,466	449,466	449,466
Basic EPS (US$)	1.12	0.399	0.368	0.369	0.375	1.51
Diluted EPS (US$)	1.12	0.389	0.358	0.359	0.365	1.47
DPS (US$)	0.42	0.13	0.16	0.15	0.15	0.59

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.

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$1.51/share for FY21 is closely in line with the consensus forecast of US$1.58/share (source: Refinitiv, 26 March 2021) and towards the middle of the range of analysts' expectations, of US$1.25–1.85 per share for the period:

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

	Q121e	Q221e	Q321e	Q421e	Sum Q1–Q421e	FY21e
Edison forecasts	0.399	0.368	0.369	0.375	1.51	1.51
Mean consensus	0.37	0.39	0.41	0.41	1.58	1.58
High consensus	0.43	0.47	0.49	0.53	1.92	1.85
Low consensus	0.31	0.32	0.33	0.32	1.28	1.25

Source: Refinitiv, Edison Investment Research. Note: As at 26 March 2021.

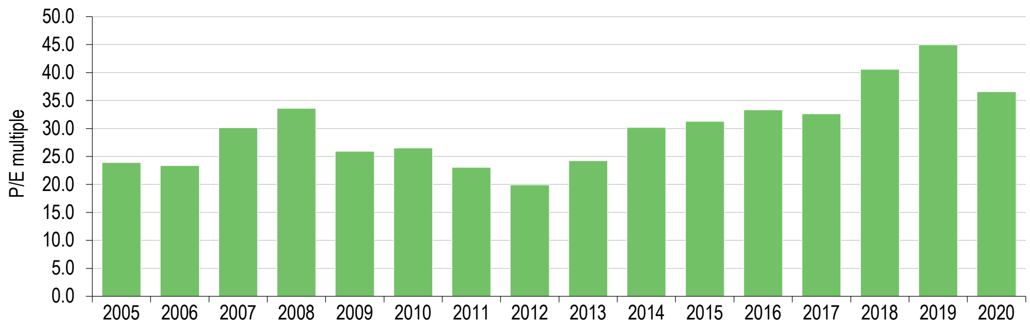
In the meantime, our basic EPS forecast of US$2.05/share for FY22 (see Exhibit 11) compares with a consensus of US$1.65/share within a range of US$1.19–2.25/share (source: Refinitiv, 29 March 2021). In this case, our estimate is, once again, predicated on an average gold price during the year of US$1,892/oz and an average silver price of US$30.78/oz, which assumes, among other things, the silver price will revert to the long-term correlation that it has exhibited with gold since the latter was demonetised in 1971. If both metals instead remain at current levels, however

(US$24.61/oz Ag and US$1,718/oz Au at the time of writing), our forecast for WPM's EPS in FY22 would moderate to US$1.58 per share and our forecast for its DPS to US$0.65/share.

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 (vs 25.2x Edison or 24.3x Refinitiv consensus FY21e, currently – see Exhibit 10).

Exhibit 9: 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$2.07 in FY23 (previously US$1.81 in FY21) would ordinarily imply a potential value per share for WPM of US$62.07 in FY21 or C$78.03 in that year. However, the graph above suggests that the current year multiple has been on a broadly upward trend between FY12 and FY19, on which basis we would argue that a multiple in excess of 40x (as evidenced by FY18 and FY19) could be supported, 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$2.07 in FY23 implies a potential value per share for WPM of US$84.17 in FY21 or C$106.36 in that year and/or for as long as precious metals prices remain at higher levels and/or the current coronavirus crisis persists. Even at such elevated levels, however, a multiple of over 40.7x would still leave WPM's shares at no more than on a par with Franco-Nevada (see Exhibit 10).

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 all of nine valuation measures if our forecasts are used or all but two if consensus forecasts are used. On an individual basis, it is cheaper than its peers on 86% (31 out of 36) of the valuation measures used in Exhibit 10 if our estimates are adopted or 69% (25 out of 36) of the same valuation measures if consensus forecasts are adopted. Among other things, this could possibly indicate the market has more conservative precious metal pricing expectations than we do (especially in FY22 and FY23).

Exhibit 10: 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	38.7	35.9	35.8	0.9	0.9	1.0	25.3	24.2	24.8
Royal Gold	30.7	28.1	28.4	1.1	1.1	1.1	16.3	15.4	15.7
Sandstorm Gold	40.3	33.6	36.6	0.0	0.0	0.0	16.2	15.1	17.5
Osisko	28.7	23.5	21.7	1.4	1.4	1.4	14.7	12.6	11.8
Average	**34.6**	**30.3**	**30.6**	**0.9**	**0.9**	**0.9**	**18.1**	**16.8**	**17.5**
WPM (Edison forecasts)	**25.2**	**18.5**	**18.4**	**1.6**	**2.0**	**2.2**	**18.0**	**13.8**	**13.6**
WPM (consensus)	**24.3**	**24.3**	**26.3**	**1.4**	**1.6**	**1.6**	**17.0**	**16.9**	**17.7**
Implied WPM share price (US$)*	52.22	62.18	63.29	69.62	90.15	95.47	38.17	46.37	48.60

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 30 March 2021. *Derived using Edison forecasts and average consensus multiples.

Financials: Solid equity base

As at 31 December 2020, WPM had US$192.7m in cash (cf US$209.8m in Q320) and US$195.0m of debt outstanding (cf US$487.5m in Q320) 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$3.6m in leases) it had net debt of US$6.0m overall (cf US$281.4m in Q320) after US$208.0m of cash generated by operating activities during the quarter (cf US$228.1m in Q320). Relative to the company's balance sheet equity of US$5,714.6m, this level of net debt equates to a financial gearing (net debt/equity) ratio of just 0.1% (cf 5.1% in Q320) and a leverage (net debt/[net debt+equity]) ratio similarly of just 0.1% (cf 4.8% in Q320). Self-evidently, such a level of debt is well within the tolerances required by WPM's 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 45.7x in FY20).

Exhibit 11: 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	1,312,043	1,637,339	1,659,960
Cost of Sales	(254,434)	(243,801)	(245,794)	(258,559)	(266,763)	(316,976)	(325,902)	(337,513)
Gross Profit	637,123	599,414	548,218	602,773	829,461	995,067	1,311,437	1,322,447
EBITDA	602,684	564,741	496,568	548,266	763,763	921,751	1,238,121	1,249,131
Operating Profit (before amort. and except.)	293,982	302,361	244,281	291,440	519,874	674,646	923,677	928,011
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	(71,000)	(228,680)	245,715	(156,608)	4,469	0	0	0
Other	(4,982)	8,129	(5,826)	217	387	0	0	0
Operating Profit	218,000	81,810	484,170	135,049	524,730	674,646	923,677	928,011
Net Interest	(24,193)	(24,993)	(41,187)	(48,730)	(16,715)	5,312	876	2,406
Profit Before Tax (norm)	269,789	277,368	203,094	242,710	503,159	679,958	924,553	930,417
Profit Before Tax (FRS 3)	193,807	56,817	442,983	86,319	508,015	679,958	924,553	930,417
Tax	1,330	886	(15,868)	(181)	(211)	(1,000)	(1,000)	(1,000)
Profit After Tax (norm)	266,137	286,383	181,400	242,746	503,335	678,958	923,553	929,417
Profit After Tax (FRS 3)	195,137	57,703	427,115	86,138	507,804	678,958	923,553	929,417
Average Number of Shares Outstanding (m)	430.5	442.0	443.4	446.0	448.7	449.5	449.5	449.5
EPS - normalised (c)	62	63	48	54	112	151	205	207
EPS - normalised and fully diluted (c)	62	63	48	54	112	147	200	201
EPS - (IFRS) (c)	45	13	96	19	113	151	205	207
Dividend per share (c)	21	33	36	36	42	59	78	83
Gross Margin (%)	71.5	71.1	69.0	70.0	75.7	75.8	80.1	79.7
EBITDA Margin (%)	67.6	67.0	62.5	63.7	69.7	70.3	75.6	75.3
Operating Margin (before GW and except.) (%)	33.0	35.9	30.8	33.8	47.4	51.4	56.4	55.9
BALANCE SHEET								
Fixed Assets	6,025,227	5,579,898	6,390,342	6,123,255	5,755,441	5,696,336	5,419,892	5,753,771
Intangible Assets	5,948,443	5,454,106	6,196,187	5,768,883	5,521,632	5,462,527	5,186,083	5,519,962
Tangible Assets	12,163	30,060	29,402	44,615	33,931	33,931	33,931	33,931
Investments	64,621	95,732	164,753	309,757	199,878	199,878	199,878	199,878
Current Assets	128,092	103,415	79,704	154,752	201,831	691,371	1,542,771	1,765,042
Stocks	1,481	1,700	1,541	43,628	3,265	2,356	2,940	2,980
Debtors	2,316	3,194	2,396	7,138	5,883	3,595	4,486	4,548
Cash	124,295	98,521	75,767	103,986	192,683	685,421	1,535,345	1,757,514
Other	0	0	0	0	0	0	0	0
Current Liabilities	(19,057)	(12,143)	(28,841)	(64,700)	(31,169)	(49,409)	(50,290)	(51,435)
Creditors	(19,057)	(12,143)	(28,841)	(63,976)	(30,396)	(48,636)	(49,517)	(50,662)
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)	(211,532)	(211,532)	(211,532)
Long term borrowings	(1,193,000)	(770,000)	(1,264,000)	(878,028)	(197,864)	(197,864)	(197,864)	(197,864)
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	6,126,766	6,700,840	7,255,847
CASH FLOW								
Operating Cash Flow	608,503	564,187	518,680	548,301	784,843	943,189	1,237,526	1,250,174
Net Interest	(24,193)	(24,993)	(41,187)	(41,242)	(16,715)	5,312	876	2,406
Tax	28	(326)	0	(5,380)	(2,686)	(1,000)	(1,000)	(1,000)
Capex	(805,472)	(19,633)	(861,406)	10,571	149,648	(188,000)	(38,000)	(655,000)
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)	(266,763)	(349,478)	(374,411)
Net Cash Flow	295,298	398,537	(515,549)	419,462	770,274	492,738	849,924	222,169
Opening net debt/(cash)	1,362,703	1,068,705	671,479	1,188,233	774,766	5,954	(486,784)	(1,336,708)
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	(486,784)	(1,336,708)	(1,558,877)

Source: company sources, Edison Investment Research

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