EDISON

Wheaton Precious Metals

Q121 results

A solid start

Metals & mining

Wheaton Precious Metals' (WPM's) Q121 results were characterised by record quarterly revenue, the repayment of the group's revolving credit facility and a third successive increase in the quarterly dividend (to US$0.14/share). In a departure from recent trends, it was the silver division that led the way in terms of increased production and sales as the gold division lagged, principally as a result of lingering coronavirus induced disruptions at Salobo. Adjusted EPS of US$0.358 was consistent with our prior forecast and well within the range of analysts' expectations of US$0.32–0.43/share. In the aftermath of the results, we have upgraded our adjusted EPS forecast for WPM for FY21 by 4.0%, albeit this largely reflects the recent strength in metals prices rather than expectations of production growth. Should our forecasts for the full year be borne out, we calculate that WPM will distribute more in dividends in FY21 than it earned in FY19.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	861.3	242.7	54	36	80.7	0.8
12/20	1,096.2	503.2	112	42	38.9	1.0
12/21e	1,405.4	705.3	157	62	27.9	1.4
12/22e	1,631.5	933.5	207	79	21.0	1.8

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

Operations returning to normal

Voisey's Bay successfully made a maiden contribution to WPM's production and earnings during the quarter (at a higher rate of output than initially expected by Edison). All of the six of WPM's partners' mines that were directly affected by shutdowns in 2020 (namely Penasquito, San Dimas, Antamina, Constancia, Yauliyacu and Los Filos) are now operating at, or close to, full capacity. In addition, production and sales at WPM were closely aligned during the quarter and ounces of gold and silver produced but not yet delivered reduced in both cases, providing evidence of a return to more normal operating conditions in the wake of the worst depredations of the COVID-19 pandemic in FY20.

Valuation: US$62.54 or C$76.20 per share

In normal circumstances and assuming no material purchases of additional streams in the foreseeable future (which we think unlikely given WPM's business strategy), we forecast a value per share for WPM of US$62.54 or C$76.20 in FY23 (cf US$62.07 and C$78.03 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 72% of the same measures using consensus forecasts. Similarly, 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$62.52 (C$76.17), based on Edison's forward earnings, dividend and cash flow estimates for FY21. If precious metals return to favour, however, we believe that WPM is capable of supporting a premium valuation up to US$84.81 (C$107.16) per share.

10 May 2021

Price	**C$53.15**
Market cap	**C$23,889m**
	C$1.2184/US$
Gross cash* (US$m) at end-March	191.2
*Excludes US$3.4m 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	3.7	2.5	(13.1)
Rel (local)	1.9	(4.6)	(33.8)
52-week high/low		C$75.14	C$45.11

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, the United States, Argentina, Sweden, Greece, Portugal and Colombia.

Next events

Q221 results	12 August 2021
Q321 results	4 November 2021
Q421/FY21 results	March 2022
Q122 results	May 2022

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Edison profile page

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Q121 results

WPM's Q121 results were characterised by record quarterly revenue, the repayment of the group's revolving credit facility in its entirety and a third successive increase in the quarterly dividend (to US$0.14/share). In a departure from recent trends, it was the silver division that led the way in terms of increased production and sales as the gold division lagged, principally as a result of scheduled and unscheduled maintenance at Salobo that took longer to undertake as COVID-19 limited Vale's ability to mobilise contractors and that also restricted mine movement. Adjusted EPS of US$0.35 was consistent with our prior expectations and well within the range of analysts' expectations of US$0.32–0.43/share. In addition, production and sales were closely aligned and ounces of gold and silver produced but not yet delivered to WPM reduced in both cases, providing evidence of a return to more normal operating conditions in the wake of the worst depredations of the COVID-19 pandemic in FY20. A summary of WPM'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: WPM underlying Q420 results vs Q320 and Q420e, by quarter*

US$000s (unless otherwise stated)	Q120	Q220	Q320	Q420	Q121e	Q121	Change **(%)	Variance ***(%)	Variance ***(units)
Silver production (koz)	6,704	3,650	6,028	6,509	6,049	6,754	3.8	11.7	705
Gold production (oz)	94,707	88,631	91,770	93,137	92,925	77,733	-16.5	-16.3	-15,192
Palladium production (koz)	5,312	5,759	5,444	5,672	5,561	5,769	1.7	3.7	208
Cobalt production (klbs)					525	1,161	N/A	+121.1	636
Silver sales (koz)	4,928	4,729	4,999	4,576	6,049	6,657	45.5	10.1	608
Gold sales (oz)	100,405	92,804	90,101	86,243	92,892	75,104	-12.9	-19.1	-17,788
Palladium sales (koz)	4,938	4,976	5,546	4,591	5,539	5,131	11.8	-7.4	-408
Cobalt sales (klbs)					0	132.3	N/A	N/A	132.3
Avg realised Ag price (US$/oz)	17.03	16.73	24.69	24.72	26.29	26.12	5.7	-0.6	-0.17
Avg realised Au price (US$/oz)	1,589	1,716	1,906	1,882	1,799	1,798	-4.5	-0.1	-1
Avg realised Pd price (US$/oz)	2,298	1,917	2,182	2,348	2,403	2,392	1.9	-0.5	-11
Avg realised Co price (US$/lb)						22.19	N/A	N/A	N/A
Avg Ag cash cost (US$/oz)	4.50	5.23	5.89	5.51	6.10	6.33	14.9	3.8	0.23
Avg Au cash cost (US$/oz)	436	418	428	433	429	450	3.9	4.9	21
Avg Pd cash cost (US$/oz)	402	353	383	423	432	427	0.9	-1.2	-5
Avg Co cash cost (US$/lb)						4.98	N/A	N/A	N/A
Sales	254,789	247,954	307,268	286,213	339,453	324,119	13.2	-4.5	-15,334
Cost of sales									
Cost of sales, excluding depletion	66,908	65,211	70,119	64,524	79,116	78,783	22.1	-0.4	-333
Depletion	64,841	58,661	60,601	59,786	62,089	70,173	17.4	13.0	8,084
Total cost of sales	131,748	123,872	130,720	124,310	141,205	148,956	19.8	5.5	7,751
Earnings from operations	123,040	124,082	176,548	161,902	198,247	175,164	8.2	-11.6	-23,083
Expenses and other income									
– General and administrative	13,181	21,799	21,326	9,391	18,329	11,971	27.5	-34.7	-6,358
– Foreign exchange (gain)/loss	0	0	0	0			N/A	N/A	0
– Net interest paid/(received)	7,118	4,636	2,766	2,196	187	1,573	-28.4	741.2	1,386
– Other (income)/expense	-1,861	234	391	850		420	-50.6	N/A	420
Total expenses and other income	18,438	26,669	24,483	12,437	18,516	13,964	12.3	-24.6	-4,552
Earnings before income taxes	104,602	97,413	152,065	149,465	179,731	161,199	7.9	-10.3	-18,532
Income tax expense/(recovery)	8,442	59	58	24	250	67	179.2	-73.2	-183
Marginal tax rate (%)	8.1	0.1	0.0	0.0	0.1	0.0	N/A	-100.0	0
Net earnings	96,160	97,354	152,007	149,441	179,481	161,132	7.8	-10.2	-18,349
Average no. shares in issue (000s)	447,805	448,636	449,125	449,320	449,466	449,509	0.0	0.0	43
Basic EPS (US$)	0.215	0.217	0.338	0.333	0.399	0.358	7.5	-10.3	-0.04
Diluted EPS (US$)	0.214	0.216	0.336	0.331	0.389	0.358	8.2	-8.0	-0.03
DPS (US$)	0.10	0.10	0.10	0.12	0.13	0.13	8.3	0.00	0.00

Source: WPM, Edison Investment Research. Note: *As reported by WPM, excluding exceptional items. **Q121 versus Q420. ***Q121 actual versus Q121 estimate.

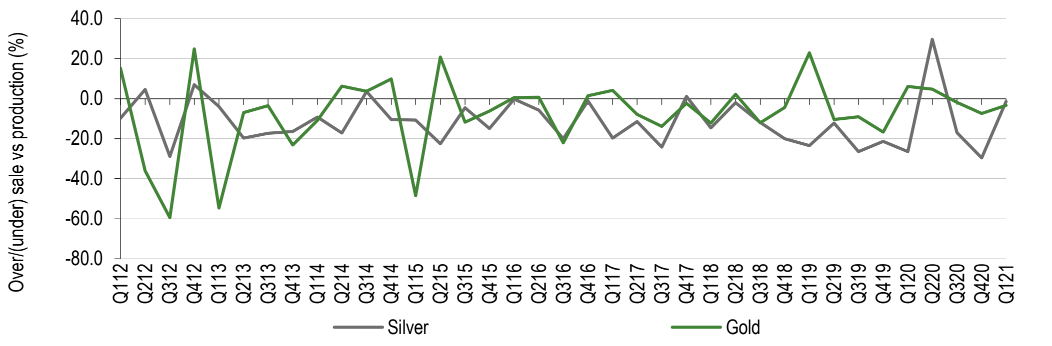
From an operational perspective, production from Penasquito and San Dimas was affected by lower grades (in the latter's case on account of increased ore development activities), while that at Salobo and Sudbury was affected by lower plant throughputs – at Salobo on account of scheduled and unscheduled maintenance that took longer to undertake as the lingering effects of COVID-19 limited Vale's ability to mobilise contractors and that also restricted mine movement. Antamina benefited from higher grades, while Voisey's Bay made its maiden contribution of cobalt delivered to WPM (albeit at a rather higher level than Edison had anticipated in Q1). Elsewhere, Constancia continued to be affected by the delay in accessing the high-grade Pampacancha pit. However, on 7 April, its operator Hudbay announced that the final land user agreement for Pampacancha has now been completed and that that it now has full access to the site and has begun pit development activities. The following mines outperformed our expectations during the quarter in terms of production: Penasquito, Antamina, Constancia (silver), Los Filos, Yauliyacu, Neves-Corvo, Aljustrel, Cozamin, Minto and 777. All of the six of WPM's partners' mines that were directly affected by shutdowns and suspensions in 2020 (namely Penasquito, San Dimas, Antamina, Constancia, Yauliyacu and Los Filos) are now operating at, or close to, full capacity. Operations at Los Filos also appear to have recovered from an illegal blockade, which caused a temporary suspension of mining activities in Q420, after operations were 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 73% at end-Q121 (cf 68% at end-Q420, 62% at end-Q3, 54% at end-Q2, 47% at end-Q1, 40% at end-Q419 and 27% at end-Q319) and remains on schedule for start-up in H122.

Ounces produced but not yet delivered, aka inventory

For the first time in more than a year, sales of both silver and gold closely approximated production. Gold sales were 3.4% less than production (cf a long-term historical average of 7.2%), while silver sales were 1.4% less (cf a long-term, historical average of 11.9%).

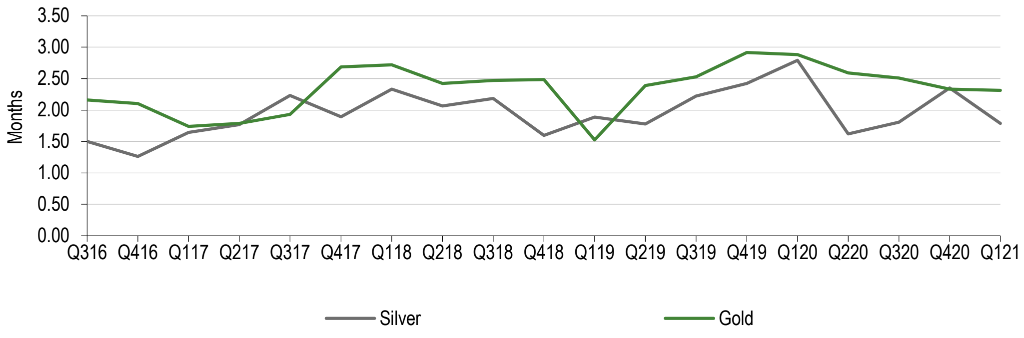
Exhibit 2: Over/(under) sale of silver and gold as a percentage of production, Q112–Q121



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

As at 31 March, payable ounces attributable to WPM produced but not yet delivered to WPM amounted to 3.7Moz silver and 69,328oz gold (cf 4.5Moz silver and 71,590oz gold as at end-December and 3.4Moz silver and 75,750oz gold as at end-September). This 'inventory' currently equates to 1.79 and 2.32 months of Edison's forecast FY21 silver and gold production, respectively (cf 2.35 and 2.33 months as at end-Q420 and 1.80 and 2.51 months as at end-Q320) and compares with WPM's target level of two months of silver and two to three months of gold and palladium production, respectively:

Exhibit 3: WPM ounces produced but not yet delivered, Q316–Q121 (months of production)



Source: Edison Investment Research, WPM. 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, where it typically refers to metal in circuit and ore on stockpiles, etc.

FY21 and five-year and 10-year guidance

At the time of its Q420/FY20 results, WPM provided production guidance of 720–780koz AuE for FY21 and well as five-year production guidance of 810,000oz AuE per annum and maiden 10-year guidance of 830,000oz AuE per annum. This compares with Edison's updated forecasts in the wake of Q121 results as follows:

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

	FY20	FY21e	**FY22–25	FY26–30
Previous Edison forecast				
Silver production (Moz)		24.3		
Gold production (koz)		374.6		
Cobalt production (klb)		2,100		
Palladium production (koz)		22.2		
Gold equivalent (koz)		761	788	778
Current Edison forecast				
Silver production (Moz)	*22.9	25.0		
Gold production (koz)	*367.4	359.4		
Cobalt production (klb)	*0	2,736		
Palladium production (koz)	*22.2	22.5		
Gold equivalent (koz)	*671.7	762	787	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: WPM, Edison Investment Research forecasts. Note: *Actual; **Edison forecasts include a contribution from Salobo III from FY23e and Rosemont from FY25e.

WPM's updated five-year guidance and its 10-year guidance are now based on standardised pricing assumptions of US$1,800/oz gold (Au), US$25.00/oz silver (Ag), US$2,300/oz palladium (Pd) and US$17.75/lb cobalt (Co). Of note in this context is an implied gold/silver ratio of 72.0x, which compares with its current ratio of 66.9x and a long-term average of 61.5x (as implied by silver's correlation with gold since the latter was demonetised in 1971).

Readers will note that Edison's FY21 silver production forecast is now above the top end of WPM's guidance range. After producing 6.8Moz Ag in Q121 however, WPM's mines will only be required to produce at a rate of 5.7Moz Ag per quarter for the remainder of the year in order to achieve the top end of WPM's guidance range of 22.5–24.0Moz Ag for FY21. This compares with a long-term average quarterly production rate of 6.6Moz per quarter since Q112. Conversely, Edison's gold production forecast is now below the bottom end of WPM's guidance range. After producing 77.7koz Au in Q121, WPM's mines would have to produce at a rate of 97.4koz Au per quarter for the remainder of the year in order to achieve the bottom end of WPM's guidance range of 370–400koz Au for FY21. While this is certainly possible (WPM's gold mines produced at an average rate of 102.4koz per quarter in the period Q318–Q419), we think that it may prove demanding, given the delays that Hudbay has experienced in accessing the high-grade Pampacancha pit at Constancia and in the event of any lingering coronavirus induced disruptions at Salobo in Brazil in particular. In this respect, Edison's financial forecasts for FY21 may prove conservative. Self-evidently, at the standardised prices indicated, Edison's gold equivalent production forecast of 762koz gold equivalent (AuE) remains little changed relative to our prior forecast of 761koz AuE and well within WPM's guidance of 720–780koz AuE.

Otherwise, readers will note that Edison's (updated) production forecasts are 2.8% 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 our note Q121 results preview, published on 31 March 2021), 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 organic growth opportunities

In the short term, First Majestic has announced plans to increase production at San Dimas by restarting mining operations at the past-producing Tayoltita mine and expects to ramp up production to add another 300tpd (12%) to throughput. In addition, it intends to install a new 3,000tpd high-intensity grinding mill circuit and an autogenous grinding mill in Q221 to further improve recoveries and reduce operating costs. Production of palladium and gold at Stillwater (operated by Sibanye-Stillwater) will similarly increase under the influence of the Fill-the-Mill project at East Boulder (although the Blitz project has now been delayed by two years, 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 the final land user agreement for Pampacancha has now been completed and that Hudbay now has full access to the site and has commenced pit development activities such as pre-stripping. 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). However, readers should note that Hudbay and WPM are reported to be in discussions about, among other things, 'alternatives to defer the additional gold deliveries over the Pampacancha mine life'.

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 Q121 performance report, the Salobo III mine expansion is now 73% complete (cf 68% at the end of Q420, 62% at the end of Q320, 54% at the end of Q220, 47% at the end of Q120, 40% at the end of Q419 and 27% at the end of Q319) and remains on schedule for start-up in H122.

Once Salobo III has been completed however, WPM now believes that reserves and resources could support a further 33% capacity increase at Salobo, from 90ktpd to 120ktpd (denoted Salobo IV). In addition to its long-term underground mining potential, WPM believes 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 WPM 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

WPM'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, WPM instead opted not to enforce the repayment of its entitlement and to instead maintain its streaming interest in the project (which was originally expected to deliver an attributable 1.7–12.0Moz silver pa, averaging 5.2Moz Ag pa, to WPM at a cost of US$3.90/oz (inflating at 1% per year).

Rosemont

Another major project with which WPM has a streaming agreement for attributable gold and silver production is Rosemont copper in Arizona.

The proposed Rosemont development is near a number of large porphyry-type producing copper mines and would be one of the largest three copper mines in the US, with output of c 112,000t copper in concentrate per year and accounting for c 10% of total US copper production. Total by-product production of silver and gold attributable to WPM is estimated to be c 2.7Moz Ag pa and c 16,100oz Au pa.

Rosemont's operator, Hudbay, has received both a Mine Plan of Operations from the US Forest Service and a Section 404 Water Permit from the US Army Corps of Engineers (in March 2019), which was effectively the final material administrative step before the mine could start development. Subsequently, Hudbay indicated it would seek board approval to start construction work by the end of CY19, which would have enabled first production ‘by the end of 2022’. In the meantime, it started early works to run concurrently with financing activities (including a potential joint venture partner).

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

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

In response, Hudbay said 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 for 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 (neither of which 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. In the meantime however, Hudbay has continued exploration at Rosemont and, on 29 March 2021, announced the intersection of high-grade copper sulphide and oxide mineralisation at shallow depth on its wholly-owned patented mining claims, located within 7km of the proposed Rosemont mine. As a result of the discovery, Hudbay has initiated a second phase of exploration drilling with a 70,000ft (21,336m) follow-up drill programme and has doubled the number of drill rigs operating at site from three to six. Note that the discovery is contained within WPM’s ‘area of interest’ as defined under the PMPA between it and Hudbay.

Other potential future growth opportunities

WPM reports that its corporate development team remains ‘exceptionally busy’. 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 include 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$2bn available under its revolving credit facility, plus US$191.2m in cash (as at end-Q121) 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 Navidad and Cotabambas, and a recently acquired 2.0% net smelter return royalty interest with the Brewery Creek mine in the Yukon in Canada.

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. In the event, G&A expenses in Q121 were below the pro-rata quarterly rate implied by WPM's full-year guidance, while total G&A costs were well below Edison's forecast for the quarter (see Exhibit 1) on account of relatively small PSU accrual and equity settled stock-based compensation expenses:

Exhibit 5: WPM Q419–FY21 general and administrative expense (US$000s)

Item	FY21e	Q121	FY20	Q420	Q320	Q220	Q120	FY19	Q419
G&A excluding PSU* and equity settled stock-based compensation		4,709	16,733	4,466	4,037	4,095	4,135	13,840	7,434
Other (inc. depreciation, donations and professional fees)		5,632	22,013	5,957	5,488	6,302	4,266	17,802	
Sub-total		**10,341**	**38,746**	**10,423**	**9,525**	**10,397**	**8,401**	**31,642**	**7,434**
Guidance	**42,000–45,000**	**10,500–11,250**	**40,000–43,000**					**33,000–36,000**	
PSU* accrual		305	21,520	(2,336)	10,482	10,097	3,277	17,174	2,830
Equity settled stock-based compensation		1,325	5,432	1,305	1,319	1,305	1,503	5,691	1,432
Total general & administrative		**11,971**	**65,698**	**9,392**	**21,326**	**21,799**	**13,181**	**54,507**	**11,696**
Total/sub-total (%)		**+15.8**	**+69.6**	**-9.9**	**+123.9**	**+109.7**	**+56.9**	**+72.3**	**+57.3**

Source: WPM, 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 6 and 10 notwithstanding their inherently unpredictable nature.

FY21 updated forecasts by quarter

Edison's updated forecasts for WPM for FY21 are as shown in Exhibit 6, below. The forecasts assume that operations will continue throughout the remainder of the year without major interruptions. Apart from precious metals prices, the principal remaining risk to our forecasts relates to the extent to which sales differ from production and therefore the extent to which inventory (in the form of ounces produced but not yet delivered to WPM – see Exhibits 2 and 3) either increases or decreases during the year.

Exhibit 6: WPM FY20 forecast, by quarter*

US$000s (unless otherwise stated)	FY20	Q121	Q221e	Q321e	Q421e	FY21e (current)	FY21e (prior)
Silver production (koz)	22,892	6,754	6,061	6,086	6,086	24,987	24,281
Gold production (oz)	367,419	77,733	93,925	91,830	95,930	359,418	374,610
Palladium production (koz)	22,187	5,769	5,561	5,561	5,561	22,452	22,244
Cobalt production (klb)		1,161	525	525	525	2,736	
Silver sales (koz)	19,232	6,657	6,061	6,086	6,086	24,890	24,281
Gold sales (oz)	369,553	75,104	93,892	91,797	95,897	356,690	374,478
Palladium sales (oz)	20,051	5,131	5,539	5,539	5,539	21,747	22,155
Cobalt sales (klb)		132.3	525	525	525	1,707	
Avg realised Ag price (US$/oz)	20.78	26.12	28.62	26.80	26.80	27.06	25.03
Avg realised Au price (US$/oz)	1,767	1,798	1,781	1,793	1,793	1,791	1,738
Avg realised Pd price (US$/oz)	2,183	2,392	2,884	2,931	2,353	2,645	2,411
Avg realised Co price (US$/lb)		20.90	21.08	20.49	20.49	20.80	
Avg Ag cash cost (US$/oz)	5.28	6.33	6.77	6.71	6.71	6.63	6.06
Avg Au cash cost (US$/oz)	426	450	427	429	428	433	428
Avg Pd cash cost (US$/oz)	389	427	519	528	424	475	434
Avg Co cash cost (US$/lb)		4.98	3.79	3.69	3.69	3.82	
Sales	1,096,224	324,119	367,761	354,692	358,842	1,405,415	1,312,043
Cost of sales							
Cost of sales, excluding depletion	266,763	78,783	86,027	85,085	86,189	336,085	316,976
Depletion	243,889	70,173	79,120	75,714	79,913	304,920	247,105
Total cost of sales	510,652	148,956	165,147	160,799	166,102	641,005	564,081
Earnings from operations	585,572	175,164	202,614	193,893	192,740	764,410	747,962
Expenses and other income							
– General and administrative**	65,698	11,971	18,329	18,329	18,329	66,958	73,316
– Foreign exchange (gain)/loss						0	0
– Net interest paid/(received)	16,715	1,573	-1,465	-3,163	-4,780	-7,836	(5,312)
– Other (income)/expense	(387)	420				420	0
Total expenses and other income	82,026	13,964	16,864	15,166	13,549	59,542	68,004
Earnings before income taxes	503,546	161,199	185,749	178,728	179,192	704,867	679,958
Income tax expense/(recovery)	211	67	250	250	250	817	1,000
Marginal tax rate (%)	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Net earnings	503,335	161,132	185,499	178,478	178,942	704,050	678,958
Average no. shares in issue (000s)	448,964	449,509	449,509	449,509	449,509	449,509	449,466
Basic EPS (US$)	1.12	0.358	0.413	0.397	0.398	1.57	1.51
Diluted EPS (US$)	1.12	0.358	0.413	0.397	0.398	1.53	1.47
DPS (US$)	0.42	0.13	0.14	0.18	0.17	0.62	0.59

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

Readers should note that, consistent with past practice, for the purposes of FY21 we are assuming production and sales are closely aligned and that there is little or no change in the level of ounces produced but not yet delivered. Within this context, our basic EPS forecast of US$1.57/share for FY21 is closely in line with the consensus forecast of US$1.52/share (source: Refinitiv, 6 May 2021) and towards the middle of the range of analysts' expectations of US$1.25–1.79 per share for the period:

Exhibit 7: WPM FY21e consensus EPS forecasts (US$/share), by quarter

	Q121	Q221e	Q321e	Q421e	Sum Q1–Q421e	FY21e
Edison forecasts	0.358	0.413	0.397	0.398	1.566	1.57
Mean consensus	0.358	0.38	0.40	0.41	1.56	1.52
High consensus	0.358	0.47	0.49	0.53	1.92	1.79
Low consensus	0.358	0.33	0.34	0.33	1.32	1.25

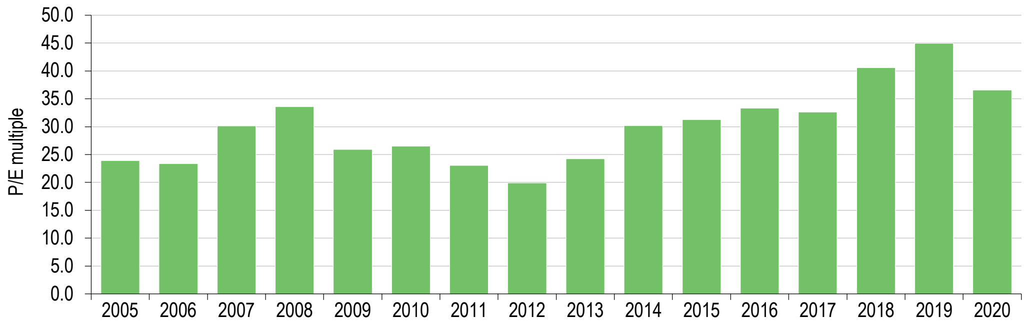
Source: Refinitiv, Edison Investment Research. Note: As at 6 May 2021.

In the meantime, our basic EPS forecast of US$2.07/share for FY22 (see Exhibit 10) compares with a consensus of US$1.60/share within a range of US$1.20–2.13/share (source: Refinitiv, 6 May 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$26.80/oz Ag and US$1,793/oz Au at the time of writing), our forecast for WPM's EPS in FY22 then moderates to US$1.78 per share and our forecast for its DPS to US$0.73/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 (cf 27.9x Edison or 27.9x Refinitiv consensus FY21e, currently – see Exhibit 9).

Exhibit 8: 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$2.05) would ordinarily imply a potential value per share for WPM of US$62.54 in FY21 or C$76.20 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$84.81 in FY21 or C$107.16 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 share price levels, however, a multiple of over 40.7x would still leave WPM's shares at a 4.7% valuation discount compared to Franco-Nevada (see Exhibit 9).

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 regardless of whether Edison or 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 9 if our estimates are adopted or 72% (26 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 9: 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	42.7	39.4	40.7	0.8	0.8	0.9	28.8	27.0	27.9
Royal Gold	34.3	31.7	30.8	1.0	1.1	1.0	18.0	17.0	17.1
Sandstorm Gold	45.3	40.8	39.6	0.0	0.0	0.0	18.7	18.2	20.9
Osisko	34.6	26.9	24.5	1.3	1.3	1.3	17.1	14.1	13.1
Average	**39.2**	**34.7**	**33.9**	**0.8**	**0.8**	**0.8**	**20.6**	**19.1**	**19.7**
WPM (Edison forecasts)	**27.9**	**21.0**	**20.9**	**1.4**	**1.8**	**1.9**	**19.0**	**15.8**	**15.6**
WPM (consensus)	**27.9**	**26.5**	**27.3**	**1.3**	**1.5**	**1.6**	**19.5**	**18.7**	**18.8**
Implied WPM share price (US$)*	61.41	71.97	70.57	78.75	99.27	104.56	47.39	52.47	55.05

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 6 May 2021. *Derived using Edison forecasts and average consensus multiples.

Financials: Solid

As at 31 March, WPM had US$191.2m in cash (cf US$192.7m in Q420) and no debt outstanding (cf US$195.0m in Q420) 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$3.5m in leases) it had US$187.7m in net cash overall (cf US$6.0m in Q420) after US$232.2m of cash generated by operating activities during the quarter (cf US$208.0m in Q420).

Exhibit 10: Financial summary

US$000s	2016	2017	2018	2019	2020	2021e	2022e	2023e
Dec	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	891,557	843,215	794,012	861,332	1,096,224	1,405,415	1,631,538	1,654,160
Cost of Sales	(254,434)	(243,801)	(245,794)	(258,559)	(266,763)	(336,085)	(324,858)	(336,469)
Gross Profit	637,123	599,414	548,218	602,773	829,461	1,069,330	1,306,680	1,317,691
EBITDA	602,684	564,741	496,568	548,266	763,763	1,002,372	1,239,722	1,250,733
Operating Profit (before amort. and except.)	293,982	302,361	244,281	291,440	519,874	697,452	932,496	934,964
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	(71,000)	(228,680)	245,715	(156,608)	4,469	870	0	0
Other	(4,982)	8,129	(5,826)	217	387	(420)	0	0
Operating Profit	218,000	81,810	484,170	135,049	524,730	697,902	932,496	934,964
Net Interest	(24,193)	(24,993)	(41,187)	(48,730)	(16,715)	7,836	1,010	2,528
Profit Before Tax (norm)	269,789	277,368	203,094	242,710	503,159	705,287	933,506	937,493
Profit Before Tax (FRS 3)	193,807	56,817	442,983	86,319	508,015	705,737	933,506	937,493
Tax	1,330	886	(15,868)	(181)	(211)	(817)	(1,000)	(1,000)
Profit After Tax (norm)	266,137	286,383	181,400	242,746	503,335	704,050	932,506	936,493
Profit After Tax (FRS 3)	195,137	57,703	427,115	86,138	507,804	704,920	932,506	936,493
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	157	207	208
EPS - normalised and fully diluted (c)	62	63	48	54	112	157	202	203
EPS - (IFRS) (c)	45	13	96	19	113	157	207	208
Dividend per share (c)	21	33	36	36	42	62	79	83
Gross Margin (%)	71.5	71.1	69.0	70.0	75.7	76.1	80.1	79.7
EBITDA Margin (%)	67.6	67.0	62.5	63.7	69.7	71.3	76.0	75.6
Operating Margin (before GW and except.) (%)	33.0	35.9	30.8	33.8	47.4	49.6	57.2	56.5
BALANCE SHEET								
Fixed Assets	6,025,227	5,579,898	6,390,342	6,123,255	5,755,441	5,638,521	5,369,295	5,708,526
Intangible Assets	5,948,443	5,454,106	6,196,187	5,768,883	5,521,632	5,404,712	5,135,486	5,474,717
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	570,916	1,415,690	1,639,283
Stocks	1,481	1,700	1,541	43,628	3,265	2,523	2,929	2,970
Debtors	2,316	3,194	2,396	7,138	5,883	3,850	4,470	4,532
Cash	124,295	98,521	75,767	103,986	192,683	564,542	1,408,291	1,631,782
Other	0	0	0	0	0	0	0	0
Current Liabilities	(19,057)	(12,143)	(28,841)	(64,700)	(31,169)	(51,294)	(50,187)	(51,332)
Creditors	(19,057)	(12,143)	(28,841)	(63,976)	(30,396)	(50,521)	(49,414)	(50,559)
Short term borrowings	0	0	0	(724)	(773)	(773)	(773)	(773)
Long Term Liabilities	(1,194,274)	(771,506)	(1,269,289)	(887,387)	(211,532)	(16,532)	(16,532)	(16,532)
Long term borrowings	(1,193,000)	(770,000)	(1,264,000)	(878,028)	(197,864)	(2,864)	(2,864)	(2,864)
Other long term liabilities	(1,274)	(1,506)	(5,289)	(9,359)	(13,668)	(13,668)	(13,668)	(13,668)
Net Assets	4,939,988	4,899,664	5,171,916	5,325,920	5,714,571	6,141,610	6,718,266	7,279,945
CASH FLOW								
Operating Cash Flow	608,503	564,187	518,680	548,301	784,843	1,024,851	1,237,590	1,251,775
Net Interest	(24,193)	(24,993)	(41,187)	(41,242)	(16,715)	7,836	1,010	2,528
Tax	28	(326)	0	(5,380)	(2,686)	(817)	(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)	(277,011)	(355,850)	(374,813)
Net Cash Flow	295,298	398,537	(515,549)	419,462	770,274	566,859	843,749	223,491
Opening net debt/(cash)	1,362,703	1,068,705	671,479	1,188,233	774,766	5,954	(560,905)	(1,404,654)
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	(560,905)	(1,404,654)	(1,628,145)

Source: Company sources, Edison Investment Research

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