

Wheaton Precious Metals

Q221 results preview

Honing forecasts

Ahead of its scheduled Q221 results after the market closes on Thursday 12 August, we have updated our quarterly forecasts for Wheaton Precious Metals (WPM) to reflect a number of recent developments, including 1) a strike at Sudbury since 1 June; 2) quarterly production and sales results from Vale (the operator of Salobo, Sudbury and Voisey's Bay); 3) quarterly results from Newmont (the operator of Penasquito); 4) an illegal blockade at Los Filos between 22 June and 26 July; and 5) actual compared to previously forecast 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	85.1	0.8
12/20	1,096.2	503.2	112	42	41.0	0.9
12/21e	1,347.9	670.7	149	59	30.9	1.3
12/22e	1,646.0	945.3	210	79	21.9	1.7

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

Coming off a strong start

WPM's Q121 results were characterised by record revenue, the repayment of all net debt and a third successive increase in the quarterly dividend (to US\$0.14 per share). In a departure from recent trends, the silver division led the way in terms of increased production and sales, principally as a result of ongoing, low level coronavirus-induced disruptions at Salobo. Otherwise, production and sales were closely aligned and ounces of both gold and silver produced but not yet delivered reduced, providing evidence of a return to more normal operating conditions.

Sudbury trials and tribulations

In the light of the strike at Sudbury, Edison has reduced its estimate of gold produced and delivered to Wheaton from Sudbury in Q221 by 53.7% to 4,635oz (cf 10,000oz previously). While we are hopeful of a near-term resolution of the strike, we note that a similar one in 2009–10 lasted for a full year and, as a result, we have also reduced our Q321 estimate of deliveries of gold from Sudbury to Wheaton to zero (cf 5,900oz previously), although we are maintaining our forecast of 10,000oz for Q421 (albeit these forecasts are under ongoing review).

Valuation: 37.7% premium to the share price

In normal circumstances and assuming no material purchases of additional streams in the foreseeable future (which we think unlikely), we forecast a value per share for WPM of US\$63.28 or C\$79.38 or £46.18 in FY23 (cf US\$62.54 or C\$76.20 previously). In the meantime, WPM's shares are trading on near-term financial ratios that are cheaper than the averages of its peers on at least 77% of nine common valuation measures regardless of whether Edison or consensus forecasts are used. Hence, if WPM's shares were to trade at the same level as the average of its peers, then we calculate that its current year 1 share price should be US\$63.85 (C\$80.10 or £45.88), based on Edison's forecasts for FY21. Alternatively, if precious metals return to favour and WPM to a premium rating, we believe that an US\$85.82 (C\$108.44 or £61.69) per share valuation is achievable (pages 9–10).

Metals & mining

4 August 2021

Price **C\$57.63**

Market cap **C\$25,922m**

C\$1.2544/US\$, US\$1.3916/£

Gross cash* (US\$m) at end-March 191.2

*Excludes US\$3.5m in lease liabilities

Shares in issue 449.8m

Free float 100%

Code WPM

Primary exchange TSX

Secondary exchange LSE, NYSE

Share price performance



% 1m 3m 12m

Abs 5.2 9.7 (20.1)

Rel (local) 4.5 3.5 (36.6)

52-week high/low C\$74.83 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

Q321 results 4 November 2021

Q421/FY21 results March 2022

Q122 results May 2022

Q222 results August 2022

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

Q221 results preview

Q121 results aide memoire

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. Otherwise, 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 deprecations of the COVID-19 pandemic in FY20.

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 the scheduled and unscheduled maintenance disruptions, as detailed above. Antamina benefited from higher grades, while Voisey's Bay made a maiden contribution of cobalt to WPM. Elsewhere, Constanca 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 had been completed and that consequently it had full access to the site and had begun pit development activities. The following mines outperformed our expectations during the quarter in terms of production: Penasquito, Antamina, Constanca (silver), Los Filos, Yauliyacu, Neves-Corvo, Aljustrel, Cozamin, Minto and 777. In addition, all six of WPM's partners' mines that were directly affected by shutdowns and suspensions in 2020 (namely Penasquito, San Dimas, Antamina, Constanca, Yauliyacu and Los Filos) were operating at, or close to, full capacity.

FY21 updated forecasts by quarter

Recent developments

Since our last quarterly results note on Wheaton (see [A solid start](#), published on 10 May 2021), there have been a number of developments pertaining to the mines with which it has streaming agreements. A summary of these is as follows:

- On 1 June 2021, workers at Sudbury went on strike.
- On 22 June, Equinox Gold (the operator of Los Filos) announced that mining activities at its Los Filos Mine in Mexico had been temporarily suspended as a result of illegal blockades by a group of unionised employees and members of the local community. Subsequently, on 26 July, it announced that the union blockade had been removed and that access to the mine and mining operations had been restored.
- On 19 July, Vale (the operator of Salobo, Sudbury and Voisey's Bay, among others) announced its Q221 production and sales results, followed by its Q221 financial results on 28 July.
- On 22 July, Newmont (the operator of Penasquito) announced its results for Q221.

Each of these developments and Edison's treatment of them is considered below, in order of priority. In addition, we have adjusted our Q221 forecasts for actual, rather than forecast, metals prices, as shown below:

Exhibit 1: Forecast Q221 metal price changes

Metal	Previous Q221 forecast	Actual Q221 average price	Change (%)
Gold (US\$/oz)	1,781	1,814	+1.9%
Silver (US\$/oz)	28.62	26.68	-6.8
Palladium (US\$/oz)	2,884	2,788	-3.3
Cobalt (US\$/lb)	21.08	20.76	-1.5
Simple average			-2.4

Source: Edison Investment Research, Bloomberg.

Sudbury

On 1 June, a union representing approximately 2,500 maintenance and production workers at Sudbury went on strike after rejecting a pay offer. Talks have resumed between the union and company after a second offer was also rejected later in June, with Vale saying that it needs changes to the contract to justify future investment at Sudbury. However, the union has responded by saying that Vale's contract offers contain concessions that are not needed since the Sudbury operation is so profitable.

On 19 July, Vale announced that production of nickel and copper at Sudbury were 9.0kt and 13.0kt respectively – consistent with an approximately one-third cut in output relative to prior quarters:

Exhibit 2: Sudbury output of nickel and copper, Q221 cf Q220 and Q121

Metal	Q220	Q121	Q221	Q221 cf Q220 (%)	Q221 cf Q121 (%)
Nickel (kt)	13.5	12.0	9.0	-33.3	-25.0
Copper (kt)	21.9	19.4	13.0	-40.6	-33.0

Source: Vale, Edison Investment Research.

The average of the four declines in Exhibit 2 is 33.0%, which is close to the pro rata decline expected for production over two, rather than three, months. While these comparative figures are not definitive proof of a similar decline in the output of gold, they are strongly indicative of it. Gold produced at Sudbury attributable to Wheaton has averaged 6,953oz per quarter over the past eight quarters (albeit within a wide range from 3,798–9,360oz per quarter). A one-third decline in Q221 would imply production of c 4,635oz in Q221. However, this may be tested against two further pieces of Vale information:

- In its Q221 results statement, Vale announced that it had sold 11,000oz of gold as a by-product of its nickel operations. While this aggregates all of the gold from all of its nickel mines, a comparison of gold delivered to Wheaton from Sudbury in recent quarters suggests that between 82.7% and 88.7% (average 85.7%) of the gold produced as a by-product from Vale's nickel division is produced at Sudbury. That being the case, it suggests that 9,427oz of the 11,000oz sold as a by-product of its nickel producing operations in Q221 could similarly be attributed to production at Sudbury, of which 6,599oz would be attributable to Wheaton under the terms of their streaming agreement. This compares with our prior forecast of 10,000oz attributable to Wheaton, but might prove to be an overestimate given that it is likely that there was a disproportionate decline in output at Sudbury relative to the total.
- An alternative method is to note Vale's observation that the cash effect of the US\$400/oz that Wheaton pays for 70% of Sudbury's gold is to increase the EBITDA break-even of its nickel operations by US\$207/t, from US\$8,070/t to US\$8,277/t. Given that Vale reported that it sold 47.4kt of nickel during the quarter and that the revenue foregone by it as a consequence of its gold streaming agreement with Wheaton will have been in the order of US\$1,414/oz, we may calculate that the number of ounces of gold delivered to Wheaton under the streaming agreement between the two was 6,939oz (ie within 5.2% of the 6,599oz calculated above).

In the light of the strike therefore, Edison has reduced its estimate of gold produced and delivered to Wheaton from Sudbury in Q221 to the most conservative of the above calculations, ie 4,635oz (cf 10,000oz previously). In addition, while we are hopeful of a near-term resolution of the dispute

between the Sudbury union and Vale, we note that a similar strike in Canada in 2009–10 lasted for a full year. As a result, we have reduced our Q321 estimate of deliveries of gold from Sudbury to Wheaton to zero (cf 5,900oz previously). For the moment however, we are retaining our forecast of 10,000oz gold for Q421, although we will keep this under review as the situation develops.

Salobo

Operations at Salobo were adversely affected by a backlog of maintenance and repairs in Q221. On 19 July, Vale announced that production of copper at Salobo in Q221 had been 38.7kt, or 13.5% higher than the 34.1kt produced in Q121. Pro rata with the amount of gold delivered to Wheaton in Q121, this increase would imply the delivery of 52,916oz from Salobo to Wheaton in Q221.

Alternatively, Vale announced that it had sold 84,000oz of gold as a by-product of its copper operations in Q221. While this aggregates the gold from both Salobo and Sossego, an analysis of gold delivered to Wheaton from Salobo in recent quarters suggests that between 84.7% and 94.2% (average 89.5%) of the gold sold from the two mines is produced at Salobo. That being the case, it suggests that 75,138oz of the 84,000oz sold from the two mines in Q221 could be attributed to production at Salobo, of which 75%, or 56,353oz, could be attributable to Wheaton under the terms of their streaming agreement. This is within 6.5% of the figure calculated in the paragraph above and compares with our prior forecast of 59,250oz attributable to Wheaton.

As a consequence, Edison has reduced its estimate of gold produced at Salobo attributable to Wheaton from 59,250oz to 52,916oz and its estimate of gold sold from 59,250oz to 56,353oz.

Penasquito

On 22 July, Newmont announced, among other things, that it had produced 7,428koz of silver at Penasquito in Q221 and that it had sold 7,615koz of silver. Pro rata with its 25% streaming interest, these figures imply production attributable to Wheaton of 1,857koz silver (Ag) and sales of 1,904koz Ag during the quarter, which were a modest 206koz and 159koz below our prior forecasts of 2,063koz Ag for production and sales, respectively.

Los Filos

On 22 June, Equinox Gold announced that mining activities at its Los Filos Mine in Mexico had been temporarily suspended as the result of illegal blockades by a group of unionised employees and members of the local community, both of which were demanding payments in excess of their contractual agreements. As such, the blockades appeared to be a carbon copy of the blockade that caused a temporary suspension of mining activities in Q420, but which was raised on 23 December, after which normal operations resumed. Subsequently, on 26 July, Equinox announced that the union blockade had been removed and that access to the mine and mining operations had been restored. However, it also noted that, 'Certain members of the Xochipala community remain illegally camped near the Guadalupe and Bermejil open pits, disrupting mining activities in this area of the operation only', and that, 'Los Filos representatives continue to engage with government and Xochipala representatives to achieve resolution.'

As a result of the blockades, we have reduced our production estimate for Los Filos by one week, or 2koz, in Q221, although we have left our sales forecast unchanged (on the basis that sales tend to lag production chronologically). By contrast, we have reduced our production estimate by one month (or 16koz) in Q321, as well as assuming that the over-sale of silver relative to production in Q221 will be redressed in Q321 (ie silver sales will be reduced by 18koz in Q321 as the inventory of ounces produced but not yet delivered is built back up).

Voisey's Bay

On 19 and 28 July, Vale announced, among other things, that it had produced 463kt of cobalt at Voisey's Bay in Q221 and that it had sold 568kt. Pro rata with its 42.4% streaming interest, these figures imply production attributable to Wheaton of 433klb cobalt and sales of 531klbs cobalt during the quarter (cf our prior forecast of 525klb cobalt each).

Other

As noted above, Constancia was adversely affected in Q121 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 this deposit had been completed and that it had full access to the site and had begun pit development activities. Hudbay is scheduled to release its Q221 results on 9 August. In the meantime, while we believe that production of gold and silver attributable to Wheaton from Constancia will increase in Q221, we expect that it will be another quarter before we see this increased production translate meaningfully into sales.

Updated forecasts

In the light of these recent developments, Edison's updated forecasts for WPM for FY21 are as shown in Exhibit 3, below. The forecasts assume that operations will continue throughout the remainder of the year without major COVID-19 induced 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) either increases or decreases during the course of the year.

Exhibit 3: WPM FY21 forecast, by quarter*

US\$000s (unless otherwise stated)	FY20	Q121	Q221e (prior)	Q221e (current)	Q321e (prior)	Q321e (current)	Q421e (prior)	Q421e (current)	FY21e (current)	FY21e (prior)
Silver production (koz)	22,892	6,754	6,061	5,853	6,086	5,939	6,086	5,955	24,502	24,987
Gold production (oz)	367,419	77,733	93,925	82,226	91,830	85,930	95,930	95,930	341,819	359,418
Palladium production (koz)	22,187	5,769	5,561	5,561	5,561	5,561	5,561	5,561	22,452	22,452
Cobalt production (klb)		1,161	525	433	525	525	525	525	2,644	2,736
Silver sales (koz)	19,232	6,657	6,061	5,902	6,086	5,937	6,086	5,955	24,451	24,890
Gold sales (oz)	369,553	75,104	93,892	84,056	91,797	85,897	95,897	95,897	340,954	356,690
Palladium sales (oz)	20,051	5,131	5,539	5,539	5,539	5,539	5,539	5,539	21,747	21,747
Cobalt sales (klb)		132.3	525	531	525	525	525	525	1,713	1,707
Avg realised Ag price (US\$/oz)	20.78	26.12	28.62	26.68	26.80	25.60	26.80	25.54	25.99	27.06
Avg realised Au price (US\$/oz)	1,767	1,798	1,781	1,814	1,793	1,808	1,793	1,810	1,808	1,791
Avg realised Pd price (US\$/oz)	2,183	2,392	2,884	2,788	2,931	2,678	2,353	2,652	2,632	2,645
Avg realised Co price (US\$/lb)		20.90	21.08	20.76	20.49	23.64	20.49	23.77	22.67	20.80
Avg Ag cash cost (US\$/oz)	5.28	6.33	6.77	6.76	6.71	6.71	6.71	6.72	6.62	6.63
Avg Au cash cost (US\$/oz)	426	450	427	430	429	431	428	428	434	433
Avg Pd cash cost (US\$/oz)	389	427	519	502	528	482	424	477	473	475
Avg Co cash cost (US\$/lb)		4.98	3.79	3.74	3.69	4.26	3.69	4.28	4.16	3.82
Sales	1,096,224	324,119	367,761	336,406	354,692	334,567	358,842	352,843	1,347,935	1,405,415
Cost of sales										
Cost of sales, excluding depletion	266,763	78,783	86,027	80,829	85,085	81,767	86,189	85,953	327,333	336,085
Depletion	243,889	70,173	79,120	71,533	75,714	69,093	79,913	79,449	290,249	304,920
Total cost of sales	510,652	148,956	165,147	152,363	160,799	150,861	166,102	165,402	617,582	641,005
Earnings from operations	585,572	175,164	202,614	184,044	193,893	183,706	192,740	187,440	730,353	764,410
Expenses and other income										
– General and administrative**	65,698	11,971	18,329	18,329	18,329	18,329	18,329	18,329	66,958	66,958
– Foreign exchange (gain)/loss									0	0
– Net interest paid/(received)	16,715	1,573	(1,465)	(1,465)	(3,163)	(2,959)	(4,780)	(4,443)	(7,294)	(7,836)
– Other (income)/expense	(387)	420							420	420
Total expenses and other income	82,026	13,964	16,864	16,864	15,166	15,370	13,549	13,886	60,084	59,542
Earnings before income taxes	503,546	161,199	185,749	167,180	178,728	168,337	179,192	173,555	670,270	704,867
Income tax expense/(recovery)	211	67	250	250	250	250	250	250	817	817
Marginal tax rate (%)	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net earnings	503,335	161,132	185,499	166,930	178,478	168,087	178,942	173,305	669,453	704,050
Average no. shares in issue (000s)	448,964	449,509	449,509	449,659	449,509	449,809	449,509	449,809	449,697	449,509
Basic EPS (US\$)	1.12	0.358	0.413	0.371	0.397	0.374	0.398	0.385	1.49	1.57
Diluted EPS (US\$)	1.12	0.358	0.413	0.371	0.397	0.374	0.398	0.385	1.49	1.53
DPS (US\$)	0.42	0.13	0.14	0.14	0.18	0.16	0.17	0.16	0.59	0.62

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\$1.49/share for FY21 is closely in line with the consensus forecast of US\$1.51/share (source: Refinitiv, 30 July 2021) and towards the middle of the range of analysts' expectations of US\$1.36–1.66 per share for the period:

Exhibit 4: WPM FY21e consensus EPS forecasts (US\$/share), by quarter

	Q121	Q221e	Q321e	Q421e	Sum Q1–Q421e	FY21e
Edison forecasts	0.358	0.371	0.374	0.385	1.488	1.49
Mean consensus	0.358	0.38	0.39	0.40	1.528	1.51
High consensus	0.358	0.41	0.45	0.45	1.668	1.66
Low consensus	0.358	0.33	0.34	0.34	1.368	1.36

Source: Refinitiv, Edison Investment Research. Note: As at 30 July 2021.

Our basic EPS forecast of US\$2.10/share for FY22 (see Exhibit 10) compares with a consensus of US\$1.62/share within a range of US\$1.17–2.10/share (source: Refinitiv, 30 July 2021). In this case, our estimate is, once again, predicated on an average (nominal) 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\$25.54/oz Ag and US\$1,810/oz gold (Au) at the time of writing), our forecast for WPM's EPS in FY22 would then moderate to US\$1.75 per share and our forecast for its DPS to US\$0.71/share.

FY21 and five-year and 10-year guidance

At the time of its Q420/FY20 results, WPM provided production guidance of 720–780koz gold equivalent (AuE) for FY21 as 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 as follows:

Exhibit 5: WPM precious metals production – Edison forecasts of guidance			
	FY21e	FY22–25*	FY26–30
Previous Edison forecast			
Silver production (Moz)	25.0		
Gold production (koz)	359.4		
Cobalt production (klb)	2,736		
Palladium production (koz)	22.5		
Gold equivalent (koz)	762	787	778
Current Edison forecast			
Silver production (Moz)	24.5		
Gold production (koz)	341.8		
Cobalt production (klb)	2,644		
Palladium production (koz)	22.5		
Gold equivalent (koz)	737	786	778
WPM guidance			
Silver production (Moz)	22.5–24.0		
Gold production (koz)	370–400		
Cobalt & palladium production (koz AuE)	40–45		
Palladium production (koz)	N/A		
Gold equivalent (koz)	720–780	810	830

Source: WPM, Edison Investment Research forecasts. Note: *Edison forecasts include a contribution from Salobo III from FY23e and Rosemont from FY25e.

WPM's updated five-year 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 palladium (Pd) and US\$17.75/lb cobalt (Co). Of note in this context is an implied gold/silver ratio of 72.0x, which is actually very close to the current ratio of 70.9x, but slightly at odds with the 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 remains just 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 remains slightly 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 recent developments at Salobo and Sudbury 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 737koz AuE remains within the range of Wheaton's guidance of 720–780koz, albeit fractionally towards the bottom end of the range.

Otherwise, readers will note that Edison's (updated) production forecasts for FY22–25 and for FY26–30 remain, to all intents and purposes, unchanged and slightly conservative when compared with Wheaton's guidance. However, this difference is largely negated in its translation into financial results by the fact that sales have historically been recorded at a level (on average) 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.

General and administrative expenses

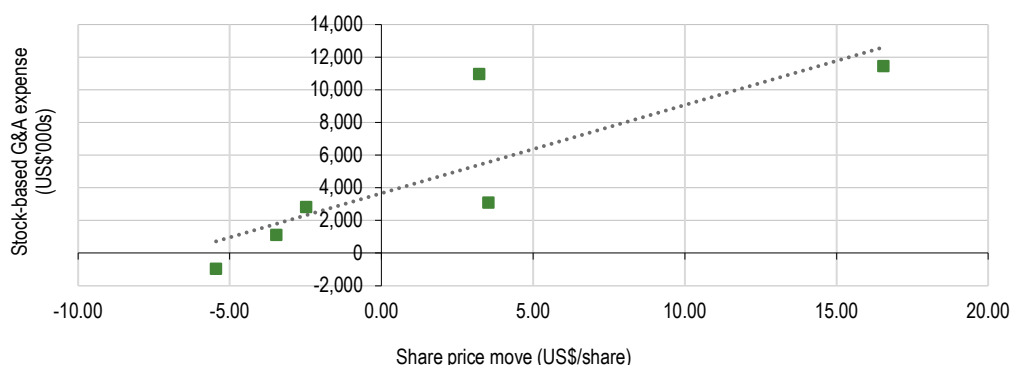
WPM provided guidance for non-stock general and administrative (G&A) expenses of US\$42–45m (or US\$10.5–11.25m per quarter) in FY21, compared to a guided range of US\$40–43m in FY20 and an actual outcome of US\$38.7m (ie 3.1% below the bottom of the range), including all employee-related expenses, charitable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

Exhibit 6: 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 & 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	10,000– 10,750	10,000– 10,750	10,000– 10,750	10,000– 10,750	33,000– 36,000	8,250–9,000
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.

Compared with non-stock G&A expenses, total G&A expenses are relatively difficult to forecast, given their dependence on the price of WPM's shares. However, a simple analysis of stock-based G&A expenses over the past six quarters against WPM's share price (also in US dollars) exhibits a relatively close Pearson product moment (correlation) coefficient between the two of 0.79, which is just statistically significant at the 5% level for a directional hypothesis (ie there is less than a 5% probability that this relationship occurred by random chance). The graph relating to the analysis is shown below, including its linear trendline:

Exhibit 7: Graph of historical share price move (US\$/share) vs quarterly stock-based G&A expense, Q419–Q121



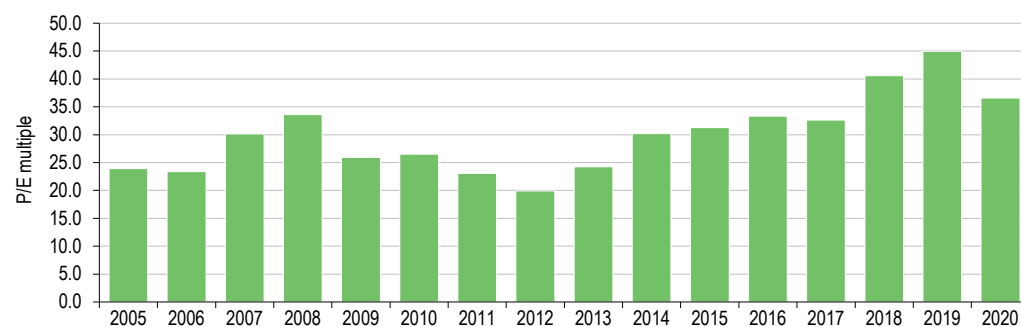
Source: Edison Investment Research (underlying data: Bloomberg and Wheaton Precious Metals)

From end-March to end-June 2021, WPM's share price has risen by US\$5.86/share. On the basis of the above analysis, we would predict that such a move would give rise to a stock-based G&A expense of US\$7,460k to add to guidance for non-stock G&A expenses of US\$10,875k to give a total of US\$18,335k for the quarter. This is almost exactly the same as our forecast figure of US\$18,329k in Exhibit 3, which we are thus leaving unchanged.

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 30.9x Edison or 30.5x 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\$2.11 in FY23 (previously US\$2.07) would ordinarily imply a potential value per share for WPM of US\$63.28 in FY23 or C\$79.38 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 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\$2.11 in FY23 implies a potential value per share for WPM of US\$85.82 in FY23 or C\$108.44 in that year and/or for as long as precious metals prices remain strongly supported 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 4.9% 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 in Exhibit 9 if Edison forecasts are used or seven out of nine measures if consensus forecasts are used. On an individual basis, it is cheaper than its peers on 83% (30 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	45.7	43.7	42.8	0.7	0.8	0.8	31.5	29.7	29.1
Royal Gold	34.6	30.6	32.0	1.0	1.0	1.0	18.7	17.2	18.1
Sandstorm Gold	45.2	37.8	41.9	0.0	0.0	0.0	18.0	16.1	18.9
Osisko	40.8	32.2	27.1	1.2	1.2	1.2	19.5	16.1	14.2
Average	41.6	36.1	36.0	0.7	0.7	0.7	21.9	19.8	20.1
WPM (Edison forecasts)	30.9	21.9	21.8	1.3	1.7	1.8	21.0	16.5	16.3
WPM (consensus)	30.5	28.5	29.6	1.2	1.3	1.5	21.4	20.1	20.7
Implied WPM share price (US\$)*	61.87	75.73	75.80	81.83	108.09	114.85	47.86	54.96	56.55

Source: Refinitiv, Edison Investment Research. Note: Peers priced on 30 July 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). All other things being equal, we estimate that WPM will have US\$257.8m on its balance sheet at the end of Q221 after net cash inflows of US\$191.5m during the quarter and after the payment of US\$121.4m in combined dividends for Q121 and Q221.

Exhibit 10: 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	1,347,935	1,645,990	1,668,612
Cost of Sales		(254,434)	(243,801)	(245,794)	(258,559)	(266,763)	(327,333)	(327,459)	(339,071)
Gross Profit		637,123	599,414	548,218	602,773	829,461	1,020,602	1,318,531	1,329,541
EBITDA		602,684	564,741	496,568	548,266	763,763	953,644	1,251,573	1,262,583
Operating Profit (before amort. and except.)		293,982	302,361	244,281	291,440	519,874	663,395	944,347	946,815
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	663,845	944,347	946,815
Net Interest		(24,193)	(24,993)	(41,187)	(48,730)	(16,715)	7,294	943	2,486
Profit Before Tax (norm)		269,789	277,368	203,094	242,710	503,159	670,690	945,290	949,301
Profit Before Tax (FRS 3)		193,807	56,817	442,983	86,319	508,015	671,140	945,290	949,301
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	669,453	944,290	948,301
Profit After Tax (FRS 3)		195,137	57,703	427,115	86,138	507,804	670,323	944,290	948,301
Average Number of Shares Outstanding (m)		430.5	442.0	443.4	446.0	448.7	449.7	449.8	449.8
EPS - normalised (c)		62	63	48	54	112	149	210	211
EPS - normalised and fully diluted (c)		62	63	48	54	112	149	204	205
EPS - (IFRS) (c)		45	13	96	19	113	149	210	211
Dividend per share (c)		21	33	36	36	42	59	79	84
Gross Margin (%)		71.5	71.1	69.0	70.0	75.7	75.7	80.1	79.7
EBITDA Margin (%)		67.6	67.0	62.5	63.7	69.7	70.7	76.0	75.7
Operating Margin (before GW and except.) (%)		33.0	35.9	30.8	33.8	47.4	49.2	57.4	56.7
BALANCE SHEET									
Fixed Assets		6,025,227	5,579,898	6,390,342	6,123,255	5,755,441	5,653,192	5,383,966	5,723,197
Intangible Assets		5,948,443	5,454,106	6,196,187	5,768,883	5,521,632	5,419,383	5,150,157	5,489,388
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	533,713	1,392,302	1,624,103
Stocks		1,481	1,700	1,541	43,628	3,265	2,420	2,955	2,996
Debtors		2,316	3,194	2,396	7,138	5,883	3,693	4,510	4,572
Cash		124,295	98,521	75,767	103,986	192,683	527,600	1,384,837	1,616,536
Other		0	0	0	0	0	0	0	0
Current Liabilities		(19,057)	(12,143)	(28,841)	(64,700)	(31,169)	(50,431)	(50,443)	(51,589)
Creditors		(19,057)	(12,143)	(28,841)	(63,976)	(30,396)	(49,658)	(49,670)	(50,816)
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	6,119,942	6,709,292	7,279,180
CASH FLOW									
Operating Cash Flow		608,503	564,187	518,680	548,301	784,843	975,521	1,250,234	1,263,626
Net Interest		(24,193)	(24,993)	(41,187)	(41,242)	(16,715)	7,294	943	2,486
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)	(264,081)	(354,940)	(378,413)
Net Cash Flow		295,298	398,537	(515,549)	419,462	770,274	529,917	857,237	231,699
Opening net debt/(cash)		1,362,703	1,068,705	671,479	1,188,233	774,766	5,954	(523,963)	(1,381,200)
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	(523,963)	(1,381,200)	(1,612,899)

Source: Company sources, Edison Investment Research

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