

# Wheaton Precious Metals Corp.

(WPM.TO)

## ACQUISITION

Rating	<b>OUTPERFORM</b>
Price (11-Jun-18, C\$)	28.73
Target price (C\$)	31.00
52-week price range (US\$)	22.25 - 18.03
Market cap(C\$ m)	12,732
Enterprise value (C\$ m)	13,341

Target price is for 12 months.

### Research Analysts

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## First Read: WPM acquires cobalt stream

- **WPM announces acquisition of cobalt stream from Vale S.A.:** On June 11<sup>th</sup>, WPM announced that it is acquiring ~42.4% of all cobalt produced at Vale's Voisey's Bay mine, for an advance amount of US\$390M. In addition, WPM will make ongoing payments of ~18% of metal bulletin market price per cobalt pound delivered.
- **Transaction Highlights:** Approximately 42.4% of annual cobalt production will be delivered to WPM and once an aggregate of ~31Mlbs has been delivered, the amount will be reduced to 21.2% of production. WPM is expected to pay ~18% of the cobalt reference price, which increases to ~22% once WPM has fully recovered the advance amount (US\$390M). Unlike the majority of WPM's streaming arrangements, this stream requires physical delivery of the cobalt. Wheaton will be entitled to delivery starting in 2021. Attributable production is expected to be ~2.6Mlbs per year for the first 10 years and 2.4Mlbs for the life of mine (~13 years). WPM stated that it expects operating cash flow at current spot to be ~US\$75M per year for the first 10 years.
- **Preliminary deal valuation looks attractive:** In our view, WPM is paying an implied price of US\$15.37/lb, a discount to the 10 year historical price of US\$16.50/lb and current spot price of US\$37.76/lb (52 week high of US\$43.32/lb, low of US\$22.91/lb). In deriving this undiscounted analysis, we are considering the 31Mlbs at 82% price realization (spot price less 18% ongoing payment of spot) and comparing it to a US\$390M upfront cash payment. For the 31Mlbs, we assume 100% conversion of WPM's 32.6Mlbs of attributable contained metal in reserves and 80% conversion of 8.6Mlbs of contained metal in inferred resources, assuming 84% recovery rates and 93.3% payability factor. The M&I resources is fairly low grade.
- **WPM to host a call on June 12<sup>th</sup>, 11:00AM EST (1-855-859-2056)**

### Share price performance



On 11-Jun-2018 the S&P/TSX Composite closed at 16263.29

Daily Jun09, 2017 - Jun11, 2018, 06/09/17 = C\$27.04

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.14	0.15	0.15	0.19
2018E	0.16	0.16	0.16	0.16
2019E	0.19	0.19	0.20	0.20

### Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (CS adj.) (US\$)	0.63	0.63	0.78	0.81
Prev. EPS (US\$)	-	-	-	-
P/E rel. (%)	201.6	224.3	200.7	215.0
Revenue (US\$ m)	843.2	829.1	968.1	972.4
EBITDA (US\$ m)	344.2	555.4	656.5	663.6
OCFPS (US\$)	1.22	1.20	1.43	1.44
P/OCF (x)	18.1	18.5	15.5	15.3
EV/EBITDA (current)	30.1	18.7	15.8	15.6
Net debt (US\$ m)	671	477	17	-397
ROIC (%)	1.49	5.34	6.86	7.52
Number of shares (m)	443.17	IC (current, US\$ m)		5,570.65
BV/share (Next Qtr., US\$)	11.2	EV/IC (x)		1.9
Net debt (Next Qtr., US\$ m)	446.3	Dividend (current, US\$)		0.31
Net debt/tot eq (Next Qtr., %)	9.0			

Source: Company data, Thomson Reuters, Credit Suisse estimates

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# Wheaton Precious Metals Corp. (WPM.TO)

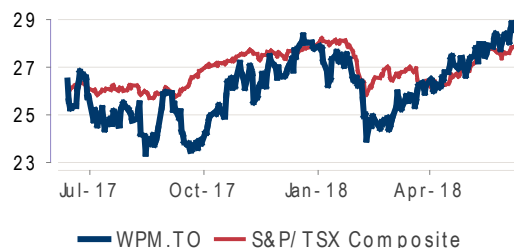
Price (11 Jun 2018): **C\$28.73**; Rating: **OUTPERFORM**; Target Price: **31.00**; Analyst: **Anita Soni**

Income Statement	12/17A	12/18E	12/19E	12/20E
<b>Revenue (US\$ m)</b>	<b>843.2</b>	<b>829.1</b>	<b>968.1</b>	<b>972.4</b>
<b>EBITDA</b>	<b>344</b>	<b>555</b>	<b>656</b>	<b>664</b>
Depr. & amort.	(262)	(252)	(285)	(280)
<b>EBIT (US\$)</b>	<b>82</b>	<b>303</b>	<b>372</b>	<b>384</b>
Net interest exp	(25)	(15)	(12)	(12)
Associates	-	-	-	-
Other adj.	0	0	0	0
<b>PBT (US\$)</b>	<b>57</b>	<b>289</b>	<b>360</b>	<b>372</b>
Income taxes	1	(9)	(12)	(11)
<b>Profit after tax</b>	<b>58</b>	<b>280</b>	<b>347</b>	<b>360</b>
Minorities	-0	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	220	0	0	0
<b>Net profit (US\$)</b>	<b>278</b>	<b>280</b>	<b>347</b>	<b>360</b>
Other NPAT adjustments	(220)	0	0	0
<b>Reported net income</b>	<b>58</b>	<b>280</b>	<b>347</b>	<b>360</b>
Cash Flow	12/17A	12/18E	12/19E	12/20E
EBIT	82	303	372	384
Net interest	(25)	(15)	(12)	(12)
Cash taxes paid	-	-	-	-
Change in working capital	(7)	(3)	0	0
Other cash & non-cash items	489	247	273	268
<b>Cash flow from operations</b>	<b>539</b>	<b>532</b>	<b>632</b>	<b>640</b>
CAPEX	0	(232)	(2)	(2)
<b>Free cashflow to the firm</b>	<b>539</b>	<b>300</b>	<b>631</b>	<b>639</b>
Aquisitions	-	-	-	-
Divestments	-	-	-	-
Other investment/(outflows)	(20)	(0)	0	0
<b>Cash flow from investments</b>	<b>(20)</b>	<b>(232)</b>	<b>(2)</b>	<b>(2)</b>
Net share issue/(repurchase)	1	0	0	0
Dividends paid	(122)	(104)	(171)	(225)
Issuance (retirement) of debt	(423)	(107)	0	0
Other	422	105	0	(0)
Cashflow from financing activities	(122)	(105)	(171)	(225)
Effect of exchange rates	1	0	0	0
<b>Changes in Net Cash/Debt</b>	<b>398</b>	<b>194</b>	<b>460</b>	<b>414</b>
Net debt at start	1,069	671	477	17
<b>Change in net debt</b>	<b>(398)</b>	<b>(194)</b>	<b>(460)</b>	<b>(414)</b>
Net debt at end	671	477	17	(397)
Balance Sheet (US\$)	12/17A	12/18E	12/19E	12/20E
<b>Assets</b>				
Cash & cash equivalents	99	186	646	1,060
Account receivables	3	2	2	2
Inventory	0	0	0	0
Other current assets	2	1	1	1
<b>Total current assets</b>	<b>104</b>	<b>190</b>	<b>650</b>	<b>1,064</b>
Total fixed assets	5,423	5,403	5,120	4,842
Intangible assets and goodwill	0	0	0	0
Investment securities	-	-	-	-
Other assets	156	152	152	152
<b>Total assets</b>	<b>5,683</b>	<b>5,746</b>	<b>5,922</b>	<b>6,058</b>
<b>Liabilities</b>				
Accounts payables	12	8	8	8
Short-term debt	0	0	0	0
Other short term liabilities	0	40	40	40
<b>Total current liabilities</b>	<b>12</b>	<b>48</b>	<b>48</b>	<b>48</b>
Long-term debt	770	663	663	663
Other liabilities	2	2	2	2
<b>Total liabilities</b>	<b>784</b>	<b>712</b>	<b>712</b>	<b>712</b>
Shareholder equity	4,900	5,034	5,210	5,346
Minority interests	-	-	-	-
<b>Total liabilities and equity</b>	<b>5,683</b>	<b>5,746</b>	<b>5,922</b>	<b>6,058</b>
Net debt	671	477	17	(397)

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	12/17A	12/18E	12/19E	12/20E
No. of shares (wtd avg)	442	443	443	443
CS adj. EPS	0.63	0.63	0.78	0.81
Prev. EPS (US\$)	-	-	-	-
Dividend (US\$)	0.26	0.31	0.39	0.51
Dividend payout ratio	41.48	49.12	49.25	62.31
Free cash flow per share	1.22	0.68	1.42	1.44
Earnings	12/17A	12/18E	12/19E	12/20E
Sales growth (%)	(5.4)	(1.7)	16.8	0.5
EBIT growth (%)	(62.5)	270.6	22.5	3.3
Net profit growth (%)	42.3	0.8	24.0	3.8
EPS growth (%)	38.8	0.6	24.0	3.8
EBITDA margin (%)	40.8	67.0	67.8	68.2
EBIT margin (%)	9.7	36.6	38.4	39.5
Pretax margin (%)	6.7	34.8	37.1	38.2
Net margin (%)	32.9	33.8	35.9	37.1
Valuation	12/17A	12/18E	12/19E	12/20E
EV/Sales (x)	12.44	12.42	10.16	9.69
EV/EBITDA (x)	30.1	18.7	15.8	15.6
EV/EBIT (x)	128.3	34.0	26.5	24.6
P/E (x)	35.3	35.1	28.3	27.2
Price to book (x)	2.0	1.9	1.9	1.8
Asset turnover	0.1	0.1	0.2	0.2
Returns	12/17A	12/18E	12/19E	12/20E
ROE stated-return on (%)	1.2	5.6	6.8	6.8
ROIC (%)	0.0	0.1	0.1	0.1
Interest burden (%)	0.69	0.95	0.97	0.97
Tax rate (%)	(1.6)	3.0	3.4	3.1
Financial leverage (%)	0.16	0.13	0.13	0.12
Gearing	12/17A	12/18E	12/19E	12/20E
Net debt/equity (%)	13.7	9.5	0.3	(7.4)
Net Debt to EBITDA (x)	1.9	0.9	0.0	Net
Interest coverage ratio (X)	3.3	20.8	31.1	32.2
Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.14	0.15	0.15	0.19
2018E	0.16	0.16	0.16	0.16
2019E	0.19	0.19	0.20	0.20

## Share price performance



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Daily Jun09, 2017 - Jun11, 2018, 06/09/17 = C\$27.04

- **Subject to completion test:** WPM stated that the stream is subject to a completion test on underground operations measured by the throughput rate.
- **Transaction financing:** Wheaton plans to draw from its existing US\$2B credit facility to finance the initial upfront cash payment of US\$390M. As of Q1/18, the Company had ~US\$116M of cash on hand and US\$663M outstanding under the revolving credit facility. The Company stated in its press release that with the last twelve months operating cash flow of just under US\$550M, the Company believes that it has the capacity to service the additional debt resulting from the transaction.
- **Overview of Voisey's Bay:** Located in Newfoundland, Canada; Voisey's Bay is an open pit mine which produces copper and nickel concentrate (with cobalt by-product). There will be a gradual transition from open pit to underground mining beginning in 2021. The Company estimates a 17 year mine life with 14 years underground estimated starting in 2021. The stream area includes a two km area of interest around Voisey's Bay, at which Vale is expected extract the cobalt using the same underground infrastructure as the planned Reid Brook and Eastern Deeps deposits. Vale total project capex is ~US\$1.7B. Vale has entered into a development agreement with the Government of Newfoundland in respect to the development of the underground mines, including commitments as to the timing of those underground mines. Voisey's Bay is located in an area subject to land claims by both the Innu Nation and the Nunatsiavut Government, of which Vale has also entered into agreements with both groups.

**Figure 1: Attributable Mineral Reserves and Resources**

Deposit	Category	Tonnage Mt	Grade Co %	Contained Co Mlbs
Main & Mini Ovoid	Proven	0.3	0.18	1.3
SE Extension	Proven	0.8	0.04	0.7
Reid Brook	Proven	1.7	0.15	5.6
	Probable	0.9	0.13	2.6
Eastern Deeps	Proven	1.8	0.16	6.3
	Probable	5.6	0.13	16.2
<b>Total Reserves</b>	<b>Proven</b>	<b>4.6</b>	<b>0.14</b>	<b>13.9</b>
	<b>Probable</b>	<b>6.5</b>	<b>0.13</b>	<b>18.7</b>
	<b>P&amp;P</b>	<b>11.1</b>	<b>0.13</b>	<b>32.6</b>
Discovery Hill	Indicated	1.4	0.05	1.5
	Inferred	1.4	0.05	1.6
SE Extension	Indicated	0.8	0.03	0.5
Reid Brook	Inferred	2.5	0.13	7.0
<b>Total Resources</b>	<b>Measured</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Indicated</b>	<b>2.2</b>	<b>0.04</b>	<b>2.0</b>
	<b>M&amp;I</b>	<b>2.2</b>	<b>0.04</b>	<b>2.0</b>
	<b>Inferred</b>	<b>3.9</b>	<b>0.10</b>	<b>8.6</b>

Source: Company data, Process recovery of cobalt to a nickel concentrate averages to ~84%.

In our view, the reserves and resources statement in Figure 1 is the reserves and resources statement attributable to Wheaton Precious at the beginning of the delivery period (January 1, 2021).

**Companies Mentioned** (Price as of 11-Jun-2018)

**Vale** (VALE.N, \$13.69)  
**Wheaton Precious Metals Corp.** (WPM.TO, C\$28.73, OUTPERFORM, TP C\$31.0)

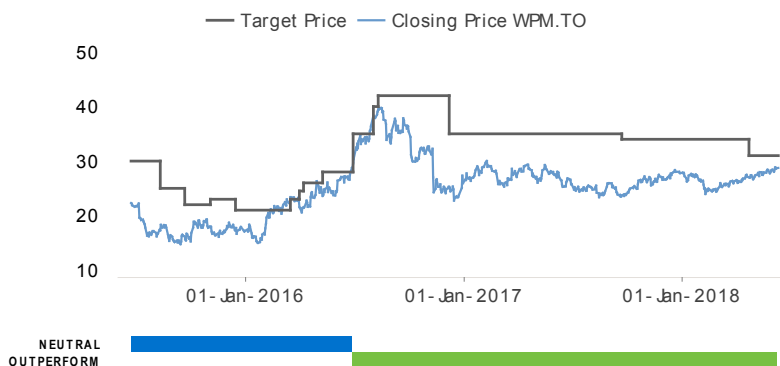
**Disclosure Appendix**

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**3-Year Price and Rating History for Wheaton Precious Metals Corp. (WPM.TO)**

WPM.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
23-Jun-15	22.30	30.00	N
11-Aug-15	17.28	25.00	
21-Sep-15	16.15	22.00	
03-Nov-15	17.85	23.00	
15-Dec-15	17.24	21.00	
16-Mar-16	23.38	23.00	
31-Mar-16	21.55	24.50	
07-Apr-16	21.51	26.00	
09-May-16	23.61	28.00	
29-Jun-16	29.59	35.00	O
02-Aug-16	38.31	40.00	
10-Aug-16	39.39	42.00	
07-Dec-16	25.27	35.00	
12-Apr-17	29.02	35.00	*
22-Sep-17	23.69	34.00	
23-Apr-18	27.01	31.00	



\* Asterisk signifies initiation or assumption of coverage.

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**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

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Restricted	2%	

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### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Wheaton Precious Metals Corp. (WPM.TO)

**Method:** Our C\$31.00 target price and Outperform rating for Wheaton Precious Metal Corp. are based on a 50-50 weighting of (1) 1.6x our cash-adjusted net asset value per share (NAVPS) adjusted for CRA tax case risk and (2) 21.6x the average of 2018 and 2019 operating cash flow. We rate Wheaton Precious Metal Corp. Outperform as we expect its total return to exceed its peers.

**Risk:** Risks to Wheaton Precious Metal Corp.'s C\$31.00 target price and Outperform rating are a decline in the price of silver and a change in the prevailing tax structure. In the event that the prevailing market price of silver is \$4/oz or less, WPM will not generate positive cash flows or earnings. WPM is completely unhedged from any fluctuation in silver or gold price.

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This research report is authored by:

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