

Wheaton Precious (WPM)

\$29.75 (As of 01/01/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/13/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

Summary

We initiate our coverage on Wheaton. Fourth-quarter earnings estimates for the company are stable over the past month. Wheaton expects to produce 390,000 ounces of gold in 2019, up from the previous guidance of 385,000 ounces due to higher production from the Salobo mine. The company has a diversified portfolio of high-quality, long-life assets. Wheaton expects higher production of silver grade at Penasquito mine during the fourth quarter due to resumption of its operation. Wheaton's cash position, strong operating cash flows combined with available credit capacity also provide scope for continued investments. They also provide flexibility to acquire additional accretive precious metals. However, Wheaton's results are likely to be affected by changes in the market price of the commodities. The company is also exposed to liquidity risks.

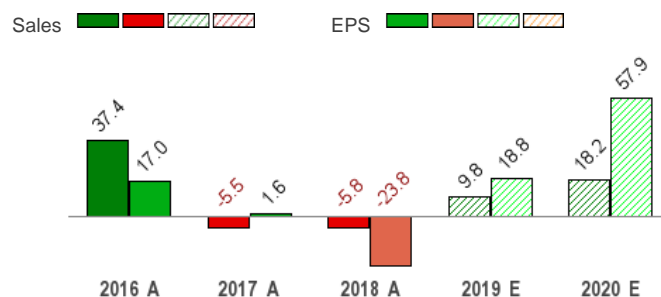
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.90 - \$18.54
20 Day Average Volume (sh)	1,696,836
Market Cap	\$13.3 B
YTD Price Change	52.3%
Beta	-0.10
Dividend / Div Yld	\$0.36 / 1.2%
Industry	Mining - Miscellaneous
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/18/2020
Earnings ESP	5.0%
P/E TTM	63.3
P/E F1	52.2
PEG F1	10.4
P/S TTM	15.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	237 E	247 E	246 E	249 E	1,031 E
2019	225 A	189 A	224 A	238 E	872 E
2018	199 A	212 A	186 A	197 A	794 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.20 E	\$0.21 E	\$0.22 E	\$0.22 E	\$0.90 E
2019	\$0.13 A	\$0.10 A	\$0.16 A	\$0.18 E	\$0.57 E
2018	\$0.16 A	\$0.16 A	\$0.08 A	\$0.08 A	\$0.48 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/01/2020. The reports text is as of 01/02/2020.

Overview

Wheaton Precious Metals is one of the largest precious metal streaming companies in the world that generates its revenues primarily from the sale of gold, silver and palladium.

Wheaton currently has streaming agreements that cover 19 operating mines and 9 development stage projects. The company's production profile is driven by a high-quality portfolio of low-cost, long-life assets that include a gold stream on Vale's Salobo mine, silver streams on Glencore's Antamina mine and Goldcorp's Peñasquito mine.

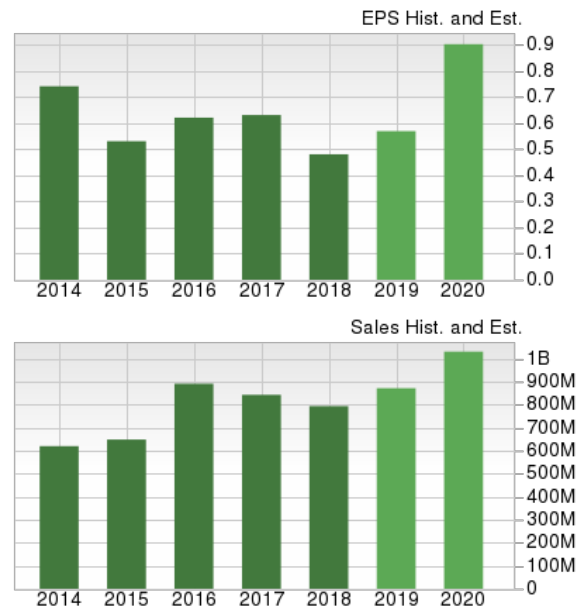
The company offers investors leverage to increasing precious metals prices, a sustainable dividend payout as well as organic and acquisition growth opportunities.

Wheaton's operating costs are contractually set at the time the stream is entered into, which enables investors to benefit from cost predictability and strong margin growth amid rising metal prices.

Wheaton was very active on the corporate development front in 2018. It has added two new low-cost, long-life assets to high-quality portfolio — the Voisey's Bay mine and the Stillwater mines.

The company has entered into 23 long-term purchase agreements with 17 different mining companies for the purchase of precious metals and cobalt (precious metal purchase agreements or "PMPA"). Following the PMPAs, Wheaton acquires metal production from the counterparties for an initial upfront payment plus an additional cash payment for each ounce or pound delivered that is fixed by contract, generally at or below the prevailing market price.

The primary drivers of the company's financial results are the volume of metal production at the various mines to which the PMPAs relate and the price realized by Wheaton upon the sale of the metals received.



Reasons To Buy:

- ▲ Wheaton strives to generate revenues from a diverse production profile of precious metals that includes gold, silver and palladium. In 2019, Wheaton expected to produce 390,000 ounces of gold, up from prior guidance of 385,000 ounces on higher production from the Salobo mine. Consistent strong results from gold operations is likely to offset the impact of the deferred silver production witnessed in the first nine months of 2019 owing to temporary shutdowns at Penasquito mine. Palladium production forecast for the ongoing year is unchanged at approximately 22,000 ounces. For the five-year period ending in 2023, the company estimates that average annual gold equivalent production will amount to 750,000 ounces.
- ▲ Wheaton receives benefit from mine exploration and expansion activities. The company expects higher production of silver grade at Penasquito mine during the fourth quarter due to resumption of its operation, which was interrupted in the first nine month of 2019. In October, Vale invested in the Salobo III mine expansion, wherein 27% expansion has been completed. Vale anticipates that the Salobo expansion is scheduled to commence in the first half of 2022. This will enhance the mine's throughput capacity to 36 million ton per annum (Mtpa) from current level of 24 Mtpa. Minto mine also resumed its operation in October after being placed into care and maintenance during fourth-quarter 2018.
- ▲ Wheaton has diversified portfolio of high-quality, long-life assets. The company is focused on adding additional production capacity from high-quality accretive metals. Moreover, its business model focuses on reducing risk while leveraging higher commodity prices. Wheaton has also been active on the corporate development front. In 2018, the company added two new low-cost, long-life assets to its high-quality portfolio, the Voisey's Bay mine and the Stillwater mines.
- ▲ Wheaton's cash position, strong operating cash flows combined with available credit capacity under the revolving facility of \$2 billion enable the company to invest as well as sustain dividend policy. They also provide flexibility to acquire additional accretive precious metals. Moreover, Wheaton focuses on reducing its net debt. In the reported quarter, the company's net debt position was reduced by \$146 million, with the balance of \$862 million as of Sep 30, 2019. The company uses excess cash to pay revolving credit facility. During third-quarter 2019, the company has repaid \$82 million under the revolving facility.

Wheaton is poised to gain from diversified portfolio of high-quality and long-life assets, mine expansions and acquisitions. Further, strong cash position will drive growth.

Reasons To Sell:

- ▼ For 2019, Wheaton has reduced attributable silver production to 21 million from 22.5 million ounces owing to production interruptions at the Penasquito mine. The company witnessed decline in gold and palladium production owing to lower reported production at the Stillwater mine in the September-end quarter.
- ▼ Wheaton's financials will likely be affected by changes in the market price of commodities underlying the royalties, streams, working interests and investments. The company's revenues are particularly sensitive to changes in the prices of precious metals and cobalt, as it derives all of its revenues from precious metals and cobalt streams. Thus, decline in the price of precious metals and cobalt is likely to affect the company's revenues. Sustained low prices are also expected to have a material adverse impact on the company's financial position and ability to raise capital.
- ▼ Wheaton is engaged in exploration, development and mining opportunities in the resource industry and acquisitions. Thus, the company will likely incur higher debt related to acquisitions. The company is also exposed to liquidity risks in meeting operating expenditures.

Wheaton's results likely be hurt by changes in the prices of precious metals and cobalt. Also, higher debt related to acquisitions remains a concerning factor.

Last Earnings Report

Wheaton's Earnings In Line, Sales Beat Estimates in Q3

Wheaton reported adjusted earnings per share of 16 cents per share in third-quarter 2019, which were in line with the Zacks Consensus Estimate. The bottom line surged 100% year over year owing to higher margins from increased realized prices for gold, silver and palladium sales.

The company generated revenues of \$223.5 million in the reported quarter, up 20.3% on a year-over-year basis. Further, the top line beat the Zacks Consensus Estimate of \$222 million. The upside was driven by increase in average realized prices of gold, silver and increase in the number of gold ounces sold, partly offset by decrease in the number of silver ounces sold.

Wheaton's attributable gold production was 104,175 ounces compared to 106,255 ounces in the prior year quarter. Attributable silver production increased 9.2% year over year to 6,095 ounces, mainly due to higher grades at Peñasquito mine. Palladium production dropped 37.9% year over year to 5,471 ounces owing to lower production at the Stillwater mines.

The company sold 155,049 Gold Equivalent Ounces (GEOs) in the quarter, up from 154,815 GEOs in the prior-year quarter.

Prices

In third-quarter 2019, average gold price was \$1,471 per ounce, 22% higher than the year-ago quarter's figure. Silver prices averaged \$17.09 per ounce in the quarter, up 15% year over year. Palladium prices jumped 60.7% year over year to \$1,535 per ounce.

Financial Position

The company ended the third quarter with \$152 million cash in hand, up from \$119.3 million in the prior-year quarter. It recorded operating cash flow of \$142 million for the three-month period ended Sep 30, 2019, compared with \$108.4 million prior-year quarter. The company had outstanding cash of \$1 billion under the company's \$2 billion revolving credit facility. During the three-month period ended Sep 30, 2019, Wheaton has repaid \$82 million under the Revolving Facility.

Wheaton's board of directors has announced a quarterly dividend of 9 cents per share. The dividend was paid on Dec 16, to shareholders of record as of the close of business on Dec 4, 2019.

Outlook

Wheaton has updated production guidance for the current year. Estimated attributable gold production has been increased to approximately 390,000 ounces, up from prior forecast of 385,000 ounces due to continued outperformance primarily from the Salobo mine. However, estimated attributable silver production has been reduced to 21 million ounces from 22.5 million ounces owing to production interruptions at the Peñasquito mine. Forecast production of palladium remains unchanged at approximately 22,000 ounces.

For the five-year period ending in 2023, the company estimates that average annual gold equivalent production will amount to 750,000 ounces.

Quarter Ending **09/2019**

Report Date	Nov 14, 2019
Sales Surprise	-0.47%
EPS Surprise	0.00%
Quarterly EPS	0.16
Annual EPS (TTM)	0.47

Valuation

Wheaton's shares are up 51.1% over the trailing 12-month period. Stocks in the Zacks Mining - Miscellaneous industry and the Zacks Basics Materials sector were up 14.5% and 9.8% over the past year, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 52.26X forward 12-month earnings, which compares to 9.15X for the Zacks sub-industry, 15.89X for the Zacks sector and 20.29X for the S&P 500 index.

Over the past five years, the stock has traded as high as 52.26X and as low as 16.53X, with a 5-year median of 29.64X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$32 price target reflects 56.21X forward 12-month earnings.

The table below shows summary valuation data for WPM:

Valuation Multiples - WPM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	52.26	9.15	15.89	20.29
	5-Year High	52.26	37.2	21.12	20.29
	5-Year Low	16.53	7.94	9.76	15.17
	5-Year Median	29.64	9.79	13.86	17.44
EV/EBITDA TTM	Current	19.79	21.25	9.7	12.01
	5-Year High	42.36	60.77	18.17	12.86
	5-Year Low	7.05	16.68	7.34	8.49
	5-Year Median	17.16	27.11	10.51	10.65
P/B TTM	Current	2.56	4.18	2.37	4.41
	5-Year High	2.81	4.67	3.54	4.42
	5-Year Low	1.01	0.44	1.34	2.85
	5-Year Median	1.81	2.17	2.17	3.6

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

Franco-Nevada Corporation (FNV)	Outperform
Pan American Silver Corp. (PAAS)	Outperform
Silvercorp Metals Inc. (SVM)	Outperform
First Majestic Silver Corp. (AG)	Neutral
Avino Silver (ASM)	Neutral
Fortuna Silver Mines Inc. (FSM)	Neutral
Great Panther Silver Limited (GPL)	Neutral
MAG Silver Corporation (MAG)	Neutral

Industry Comparison Industry: Mining - Miscellaneous				Industry Peers		
	WPM Neutral	X Industry	S&P 500	GPL Neutral	MAG Neutral	SVM Outperform
VGM Score	D	-	-	B	D	B
Market Cap	13.30 B	108.04 M	23.93 B	158.80 M	1.02 B	977.50 M
# of Analysts	12	2	13	3	2	1
Dividend Yield	1.21%	0.00%	1.78%	0.00%	0.00%	0.44%
Value Score	F	-	-	D	F	B
Cash/Price	0.01	0.11	0.04	0.18	0.09	0.14
EV/EBITDA	19.21	-0.67	13.95	-23.91	-186.38	8.91
PEG Ratio	10.52	3.09	2.12	NA	NA	NA
Price/Book (P/B)	2.56	1.16	3.33	0.95	4.76	2.28
Price/Cash Flow (P/CF)	28.30	5.17	13.67	NA	NA	18.00
P/E (F1)	52.61	15.33	19.66	NA	NA	22.68
Price/Sales (P/S)	15.94	1.15	2.69	1.08	NA	5.66
Earnings Yield	1.92%	-0.80%	5.08%	-19.61%	-0.51%	4.41%
Debt/Equity	0.20	0.03	0.72	0.05	0.00	0.00
Cash Flow (\$/share)	1.05	-0.00	6.94	-0.04	-0.07	0.31
Growth Score	B	-	-	A	F	B
Hist. EPS Growth (3-5 yrs)	-4.75%	0.24%	10.56%	NA	NA	40.12%
Proj. EPS Growth (F1/F0)	22.75%	0.00%	0.00%	-75.76%	-57.14%	31.58%
Curr. Cash Flow Growth	-13.51%	3.30%	14.83%	-223.76%	-10.65%	-12.29%
Hist. Cash Flow Growth (3-5 yrs)	-2.37%	8.71%	9.00%	NA	8.89%	20.40%
Current Ratio	4.67	2.02	1.23	1.15	218.65	4.70
Debt/Capital	16.36%	11.64%	42.92%	4.39%	0.22%	0.44%
Net Margin	1.85%	-16.22%	11.08%	-16.69%	NA	26.39%
Return on Equity	4.07%	-10.29%	17.10%	-14.32%	-3.37%	9.18%
Sales/Assets	0.13	0.35	0.55	0.56	NA	0.35
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.00%	0.00%	NA	7.55%
Momentum Score	C	-	-	D	A	B
Daily Price Chg	-0.93%	0.05%	0.33%	3.49%	-0.08%	-2.91%
1 Week Price Chg	8.46%	1.05%	0.13%	10.65%	11.65%	4.64%
4 Week Price Chg	5.27%	7.33%	3.67%	19.05%	10.55%	8.00%
12 Week Price Chg	8.02%	4.65%	10.64%	-29.29%	10.65%	36.96%
52 Week Price Chg	52.33%	-9.71%	27.46%	-28.17%	62.19%	170.00%
20 Day Average Volume	1,696,836	98,373	1,693,267	1,182,442	397,790	2,503,025
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-3.57%	8.33%	0.00%
(F1) EPS Est 12 week change	4.54%	-2.28%	0.14%	-680.00%	8.33%	13.64%
(Q1) EPS Est Mthly Chg	0.51%	0.00%	0.00%	-50.00%	20.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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