

Wheaton Precious (WPM)

\$36.85 (As of 04/22/20)

Price Target (6-12 Months): **\$39.00**

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: C

Momentum: A

Summary

Wheaton has withdrawn the production guidance for the current year due to temporary ramp down of operations at some of its partner mines amid coronavirus pandemic. The company's partner operations are currently running with the exception of Voisey's Bay, Constancia, Yauliyacu, and Peñasquito mines. Moreover, the company's revenues are particularly sensitive to changes in the prices of precious metals and cobalt, thus, decline in commodity prices due to coronavirus outbreak is likely to erode Wheaton's revenues. Nonetheless, the company's strong cash position, strong operating cash flows combined with available credit capacity provide scope for continued investments. They also provide flexibility to acquire additional accretive precious metals. Furthermore, higher gold prices bodes well for the company.

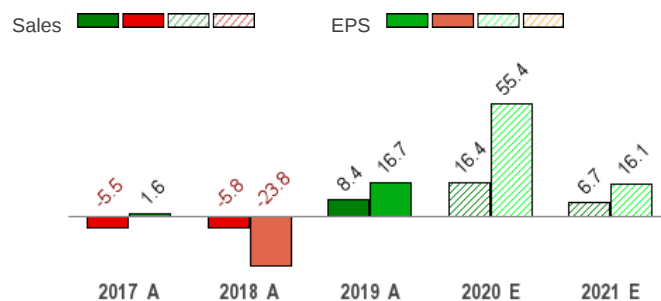
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.39 - \$18.66
20 Day Average Volume (sh)	3,068,900
Market Cap	\$16.5 B
YTD Price Change	23.9%
Beta	0.09
Dividend / Div Yld	\$0.40 / 1.1%
Industry	Mining - Miscellaneous
Zacks Industry Rank	Top 25% (62 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-4.6%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	05/06/2020
Earnings ESP	4.2%
P/E TTM	65.8
P/E F1	42.4
PEG F1	8.5
P/S TTM	19.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	258 E	258 E	262 E	262 E	1,069 E
2020	248 E	239 E	253 E	253 E	1,002 E
2019	225 A	189 A	224 A	223 A	861 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.22 E	\$0.22 E	\$0.23 E	\$0.23 E	\$1.01 E
2020	\$0.21 E	\$0.20 E	\$0.22 E	\$0.21 E	\$0.87 E
2019	\$0.13 A	\$0.10 A	\$0.16 A	\$0.17 A	\$0.56 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 04/22/2020. The reports text is as of 04/23/2020.

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.

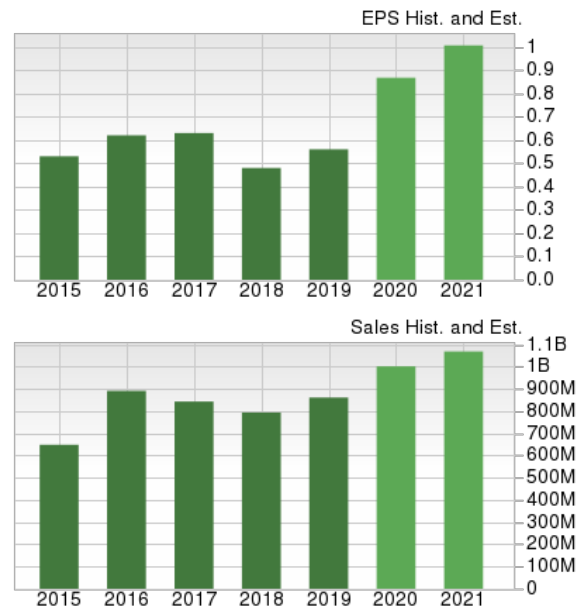
The company offers investors leverage to increasing precious metals prices, a sustainable dividend payout as well as organic and acquisition growth opportunities.

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 receives benefit from mine exploration and expansion activities. The company expects higher production of silver grade at Penasquito mine in 2020 as Newmont initiates improvement program to drive productivity and grade. At Constancia, Hudbay has secured the surface rights for the Pampacancha deposit and expects to begin mining the satellite deposit in late 2020. At the Stillwater mine, palladium and gold production is expected to increase with the continued ramp-up of the mill projects. These projects are expected to be growth drivers in the coming years. In October, Vale invested in the Salobo III mine expansion, wherein 40% 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.
- ▲ 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 of more than \$1.1 billion, 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. The company uses excess cash to pay revolving credit facility. During fourth-quarter 2019, the company repaid \$139 million under the revolving facility and made dividend payments of \$34 million. For 2020, Wheaton's board of directors hiked the quarterly dividend by 11% year over year to 10 cents per share. Additionally, the company is taking precautionary measures for health and safety of its employees on account of the coronavirus outbreak and implementing measures to minimize any possible impact on the business.
- ▲ Gold prices have been up 13.8% so far this year fueled by the slowdown in manufacturing activity, rate cuts, geopolitical tensions, and apprehensions regarding the coronavirus outbreak. Going forward, the combination of lower mined gold supply and higher demand, and geopolitical tensions are likely to drive prices north. This bodes well for Wheaton.

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:

- ▼ Metal producers worldwide are suspending production, slowing project construction as governments are imposing restrictions to contain the spread of coronavirus. These companies are also cutting non-essential travel of office employees to protect them against getting infected. Consequently, Wheaton has withdrawn the production guidance for the current year due to temporary ramp down of operations at some of its partner mines. The company's partner operations are currently running with the exception of Voisey's Bay, Constancia, Yauliyacu, and Peñasquito mines. Hence, suspension of mining operations is likely to hurt Wheaton's business in the near term.
- ▼ Wheaton's financials will likely be affected by changes in the market price of commodities underlying the royalties, streams, working interests and investments. Silver prices have slumped 12.7% so far this year, primarily be attributed to the coronavirus pandemic, which has disrupted global economic activity consequently weakening consumption of industrial raw materials. The situation has only been aggravated by the fact that silver is already in oversupply. Palladium prices have also dipped on worries of a further supply shortage in 2020 amid rapidly rising demand from automakers. 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 commodity prices 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 Q4 Earnings in Line, Sales Miss Estimates

Wheaton reported adjusted earnings of 17 cents per share in fourth-quarter 2019, which were in line with the Zacks Consensus Estimate. The bottom line surged 112.5% year over year.

The company generated revenues of \$223.2 million in the reported quarter, up 13.5% on a year-over-year basis. The top line, however, missed the Zacks Consensus Estimate of \$234 million. The upside was driven by increased average realized prices of gold, silver and palladium and a higher number of silver ounces sold, partly offset by a decrease in the number of gold ounces sold.

Wheaton's attributable gold production was 107,225 ounces compared to 107,160 ounces in the prior-year quarter. Attributable silver production increased 8.4% year over year to 5,962 ounces, while palladium production grew 3.2% year over year to 6,057 ounces.

The company sold 152,389 Gold Equivalent Ounces (GEOs) in the quarter, down from 162,205 GEOs in the prior-year quarter.

Prices

In fourth-quarter 2019, average gold price was \$1,483 per ounce, 20.7% higher than the year-ago quarter's figure. Silver prices averaged \$17.36 per ounce in the quarter, up 18.4% year over year. Palladium prices jumped 58.7% year over year to \$1,804 per ounce.

Financial Position

The company had \$104 million of cash in hand in 2019, up from \$76 million at the end of 2018. It recorded operating cash flow of \$502 million in 2019 compared with \$477 million in 2018. The company had outstanding liability of \$875 million under the company's \$2 billion revolving credit facility. During the fourth quarter, Wheaton repaid \$139 million under the revolving facility.

For the current year, Wheaton's board of directors hiked the quarterly dividend by 11% year over year to 10 cents per share. The dividend will be paid on Apr 9 to shareholders of record as of the close of business on Mar 26, 2020.

2019 Results

Wheaton reported adjusted earnings per share of 56 cents in 2019, up 16.7% from the prior year's 48 cents. The reported figure came in line with the Zacks Consensus Estimate.

Sales increased 8.5% year over year to \$861.3 million in 2019. However, the top-line figure lagged the Zacks Consensus Estimate of \$878.8 million. In 2019, the company produced a record 406,675 ounces of gold.

Outlook

Wheaton has updated production guidance for the current year. Estimated attributable production is forecasted between 685,000 GEOs and 725,000 GEOs. Gold production is expected at 390,000-410,000 ounces, silver production between 22 million ounces and 23.5 million ounces and palladium production in a band of 23,000-24,500 ounces. For the five-year period ending 2024, the company anticipates average annual gold equivalent production to be 750,000 ounces.

Quarter Ending **12/2019**

Report Date	Mar 11, 2020
Sales Surprise	-4.63%
EPS Surprise	0.00%
Quarterly EPS	0.17
Annual EPS (TTM)	0.56

Recent News

Wheaton Withdraws '20 Production Guidance on Coronavirus Scare - Apr 2, 2020

Wheaton has withdrawn the production guidance for the current year due to temporary ramp down of operations at some of its partner mines amid coronavirus pandemic.

The outbreak has dealt a severe blow to both commodity and stock markets. Given the current market conditions, commodity-price uncertainty underscores Wheaton's low-risk, high-margin nature of business. The company's 88% of production comes from lower cost mines with higher margins, and hence, at the current lower base metal prices, the company's partner operations are well poised to run with low commodity-price cycles.

However, 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 these metals. Thus, decline in commodity prices is likely to erode Wheaton's revenues.

Wheaton continues to generate strong free cash flow with current debt levels. The company has \$104 million cash in hand, with available credit capacity of more than \$1.1 billion, under the revolving facility of \$2 billion as of Dec 31, 2019. This bodes well for the company to fund outstanding commitments and known contingencies, including dividends, while also providing flexibility to acquire additional accretive precious metal stream interests. For 2020, Wheaton's board of directors has hiked the quarterly dividend by 11% year over year to 10 cents per share.

Wheaton has precious metal (gold, silver and palladium) purchase agreement with several other mining companies. These companies have halted their mining operations in an attempt to contain spread of the coronavirus outbreak. Wheaton's partner operations are currently running with the exception of Voisey's Bay, Constancia, Yauliyacu, and Peñasquito mines.

Vale announced that it is placing its Voisey's Bay mining operation in Canada on care and maintenance for a period of four weeks to ensure safety of its employees and local communities. Wheaton expects to receive cobalt deliveries from Voisey's Bay mine from Jan 1, 2021. Consequently, the company does not expect any material impact on future deliveries from the temporary shutdown.

Hudbay Minerals also temporarily ramped down its operations at the Constancia mine due to limited availability of certain critical mining supplies as the Peruvian government imposed restrictions on account of the coronavirus outbreak. The Yauliyacu mine has also temporarily halted mining operations due to supply-chain disruptions in Peru.

Apart from this, the Mexican government has instructed all non-essential businesses to temporarily shut down their operations until Apr 30. As a result, Newmont intends to ramp down operations at the Peñasquito mine. Wheaton has precious metal purchase agreements with other Mexican mining operations, like San Dimas and Los Filos mines.

Additionally, the company is taking precautionary measures for health and safety of its employees on account of the coronavirus outbreak and implementing measures to minimize any possible impact on the business.

Valuation

Wheaton's shares are up 70.5% over the trailing 12-month period. Stocks in the Zacks Mining - Miscellaneous industry and the Zacks Basics Materials sector were down 23.1% and 23.1% over the past year, respectively.

The S&P 500 index is down 7.2% in the past year.

The stock is currently trading at 41.30X forward 12-month earnings, which compares to 8.81X for the Zacks sub-industry, 12.38X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 52.35X and as low as 16.53X, with a 5-year median of 30.27X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$39 price target reflects 43.71X 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	41.3	8.81	12.38	18.71
	5-Year High	52.35	33.26	21.06	19.34
	5-Year Low	16.53	7.9	9.79	15.19
	5-Year Median	30.27	10.23	13.43	17.45
EV/EBITDA TTM	Current	24.12	16.91	7.84	9.98
	5-Year High	43.31	43.63	18.31	12.87
	5-Year Low	7.01	14.01	6.5	8.28
	5-Year Median	17.26	21.95	10.55	10.78
P/B TTM	Current	3.1	1.02	1.52	3.62
	5-Year High	3.1	4.23	3.57	4.55
	5-Year Low	1.01	0.46	1.22	2.84
	5-Year Median	1.82	1.36	2.17	3.64

As of 04/22/2020

Industry Analysis Zacks Industry Rank: Top 25% (62 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Franco-Nevada Corporation (FNV)	Outperform	2
First Majestic Silver Corp. (AG)	Neutral	3
Fortuna Silver Mines Inc. (FSM)	Neutral	2
Great Panther Silver Limited (GPL)	Neutral	2
MAG Silver Corporation (MAG)	Neutral	3
Pan American Silver Corp. (PAAS)	Neutral	2
Silvercorp Metals Inc. (SVM)	Neutral	3
Avino Silver (ASM)	Underperform	4

Industry Comparison Industry: Mining - Miscellaneous				Industry Peers		
	WPM	X Industry	S&P 500	GPL	MAG	SVM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	C	D	B
Market Cap	16.52 B	76.76 M	18.94 B	156.31 M	854.21 M	602.87 M
# of Analysts	11	2	14	2	2	1
Dividend Yield	1.09%	0.00%	2.23%	0.00%	0.00%	0.72%
Value Score	F	-	-	C	F	B
Cash/Price	0.01	0.12	0.05	0.28	0.09	0.27
EV/EBITDA	44.97	-2.82	11.56	-11.30	-175.76	4.74
PEG Ratio	8.94	2.33	2.20	NA	NA	NA
Price/Book (P/B)	3.10	0.91	2.58	1.56	3.97	1.34
Price/Cash Flow (P/CF)	32.31	2.80	10.22	7.26	NA	11.05
P/E (F1)	44.69	10.55	17.79	33.41	73.11	10.55
Price/Sales (P/S)	19.18	0.89	1.99	0.79	NA	3.45
Earnings Yield	2.36%	2.36%	5.49%	2.00%	1.42%	9.48%
Debt/Equity	0.16	0.02	0.72	0.05	0.00	0.00
Cash Flow (\$/share)	1.14	-0.01	7.01	0.07	-0.05	0.31
Growth Score	C	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	-3.21%	2.23%	10.92%	NA	NA	41.45%
Proj. EPS Growth (F1/F0)	54.87%	2.30%	-4.22%	107.89%	370.00%	57.14%
Curr. Cash Flow Growth	9.33%	-4.57%	5.93%	-431.69%	-25.35%	-12.29%
Hist. Cash Flow Growth (3-5 yrs)	3.57%	7.67%	8.55%	44.51%	9.22%	20.40%
Current Ratio	2.39	1.83	1.24	1.14	85.14	4.53
Debt/Capital	14.15%	13.02%	43.79%	4.40%	0.22%	0.39%
Net Margin	10.00%	-21.82%	11.55%	-24.65%	NA	24.71%
Return on Equity	4.83%	-8.55%	16.74%	-3.96%	-2.06%	8.32%
Sales/Assets	0.14	0.35	0.54	0.65	NA	0.34
Proj. Sales Growth (F1/F0)	16.31%	0.00%	-0.39%	17.12%	NA	32.44%
Momentum Score	A	-	-	F	B	A
Daily Price Chg	5.26%	2.95%	1.83%	6.96%	1.65%	3.57%
1 Week Price Chg	7.35%	2.54%	0.42%	22.45%	-0.73%	-13.21%
4 Week Price Chg	26.85%	12.15%	10.68%	38.81%	0.41%	-16.75%
12 Week Price Chg	28.00%	-27.51%	-20.87%	-17.49%	-9.62%	-36.26%
52 Week Price Chg	71.00%	-32.99%	-15.29%	-42.78%	6.82%	55.36%
20 Day Average Volume	3,068,900	106,717	2,886,084	1,801,477	619,759	2,203,618
(F1) EPS Est 1 week change	0.85%	0.00%	-0.10%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.55%	-1.52%	-6.36%	-81.25%	-10.00%	0.00%
(F1) EPS Est 12 week change	-3.34%	-15.48%	-11.38%	-81.25%	-82.47%	NA
(Q1) EPS Est Mthly Chg	-4.19%	-23.87%	-9.71%	-100.00%	0.00%	NA

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	C
Momentum Score	A
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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