



Wheaton Precious Metals (WPM)

Updated November 28th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	-2.3%	Market Cap:	\$19 B
Fair Value Price:	\$38	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	02/19/22 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	03/06/22
Dividend Yield:	1.4%	5 Year Price Target	\$34	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	7.1%

Overview & Current Events

Wheaton Precious Metals was formed in 1994 and was previously known as Wheaton Silver. It is the world's largest metal streaming company, meaning it does not own the mines but rather purchases the right to buy silver and gold at a low fixed cost. It has agreements with 24 mines, should produce about \$1.2 billion in revenue this year, and trades with a market capitalization of \$19 billion.

Wheaton reported third quarter earnings on November 4th, 2021, and results were very weak, missing expectations on both revenue and adjusted profit. Total revenue was \$269 million, representing a -12% decline from the comparable period a year ago, which was primarily attributable to a -9% decline in the number of gold equivalent ounces sold. The decline in volume was due to a large build up of payable ounces produced but not yet delivered at the company's Salobo facility. That implies the production will be delivered in subsequent quarters, and we should see the revenue figure normalize. In addition to the decline in volume, Wheaton saw average realized gold equivalent pricing decline -4% year-over-year, exacerbating the volume issue.

Average cash costs were \$410 per gold equivalent ounce, which was down slightly from \$421 in the third quarter of last year. This resulted in operating margin of \$1,354 per gold equivalent ounce on a cash basis, which was down -5% year-over-year despite the high absolute number.

We've updated our estimate of earnings-per-share to \$1.35 for this year, removing 15 cents on the weaker volume and pricing combination seen in Q3.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.56	\$1.65	\$1.05	\$0.55	\$0.53	\$0.62	\$0.63	\$0.48	\$0.56	\$1.12	\$1.35	\$1.22
DPS	\$0.18	\$0.35	\$0.45	\$0.26	\$0.20	\$0.21	\$0.33	\$0.36	\$0.36	\$0.42	\$0.60	\$0.66
Shares²	353	354	357	365	404	442	443	444	447	450	450	460

Wheaton's earnings-per-share history has been extremely volatile as it is bound to several factors largely outside of its control, including how much gold and silver are produced and ultimately purchased, as well as market prices for both metals. When metal prices were high from 2010 to 2013, Wheaton performed very well but since that time, earnings were stagnant until 2019.

We expect very strong earnings this year as Wheaton is producing more gold, and as metals pricing is still very high. With operating costs still very low, operating margins are extremely high. However, we see growth from 2021 levels of earnings as difficult, and we're estimating an earnings contraction of 2% annually in the coming years. Wheaton's current level of earnings depends upon very high metals pricing and very low costs, a combination we don't see as sustainable at current levels. With volume issues now creeping in, that's even more so the case.

¹ Estimated date

² Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Wheaton Precious Metals (WPM)

Updated November 28th, 2021, by Josh Arnold

Wheaton's dividend has been erratic as its policy is to pay out 30% of the past four quarters' cash generated by operating activities. We expect a small increase in the dividend over the coming years as Wheaton is seeing very strong cash flows, but again, we don't necessarily believe that to be sustainable.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	23.1	19.9	24.4	41.2	31.3	33.1	32.4	40.8	43.7	36.6	31.1	28.0
Avg. Yld.	0.5%	1.1%	1.8%	1.1%	1.2%	1.0%	1.6%	1.8%	1.5%	1.0%	1.4%	1.9%

Wheaton's price-to-earnings multiple has moved wildly in the past decade as investors try to value a company with a unique business model. Shares are trading for 31.1 times this year's earnings after the stock has traded largely sideways since our last update, which is still above our fair value estimate of 28 times earnings. We forecast a small headwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12%	21%	43%	41%	33%	30%	52%	75%	64%	38%	44%	54%

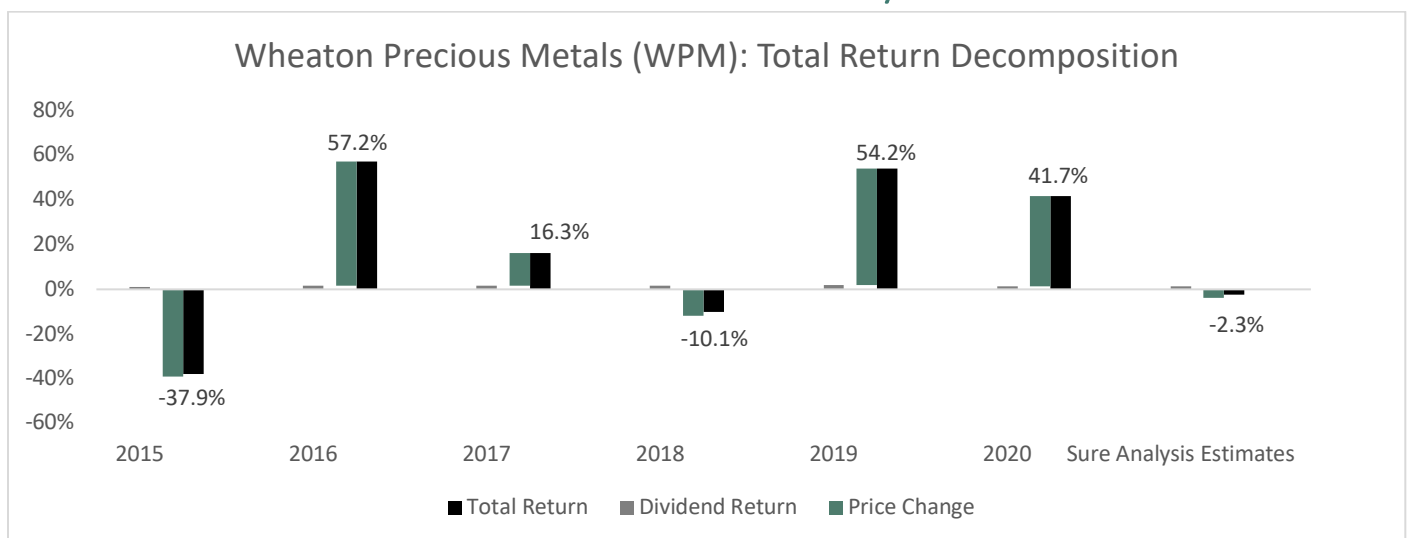
We see the payout ratio at 44% of earnings this year. The payout greatly depends upon pricing and volume in the coming years, as well as Wheaton's unique dividend policy, but 2021 marks two consecutive annual increases.

Wheaton's competitive advantage is in its enormous scale, being the largest company of its kind. It also has relatively favorable contracts in place with low fixed costs for metals. Wheaton is not so much beholden to economic conditions as it is to metal prices, so a recession should not necessarily sink its earnings potential.

Final Thoughts & Recommendation

Wheaton's valuation and earnings outlook have improved for 2021. However, we see total annual returns of -2.3% per annum going forward, consisting of the current 1.4% yield, -2% earnings growth, and a headwind from the valuation. The valuation has increased and is now even further above our estimate of fair value, earnings may not offer growth from this point, and the yield is unattractive. We rate the stock as a sell as the yield, valuation, and total return outlook remain too weak, and the stock looks to be pricing in far too much growth.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Wheaton Precious Metals (WPM)

Updated November 28th, 2021, by Josh Arnold

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	730	850	706	620	649	892	843	794	861	1,096
Gross Profit	586	631	423	309	260	328	337	296	346	586
Gross Margin	80.3%	74.3%	59.9%	49.8%	40.1%	36.8%	40.0%	37.3%	40.2%	53.4%
SG&A Exp.	25	31	35	38	32	33	34	51	53	66
Operating Profit	561	600	388	271	228	294	302	244	291	520
Operating Margin	76.9%	70.6%	54.9%	43.7%	35.1%	33.0%	35.9%	30.8%	33.8%	47.4%
Net Profit	550	586	375	200	-162	195	58	427	86	508
Net Margin	75.3%	69.0%	53.2%	32.2%	-25%	21.9%	6.8%	53.8%	10.0%	46.3%
Free Cash Flow	486	79	-1505	297	-1371	-220	537	-648	498	764
Income Tax	8	15	-5	-1	-3	-1	-1	16	-9	-2

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2872	3189	4390	4648	5632	6153	5683	6470	6278	5957
Cash & Equivalents	840	778	96	308	103	124	99	76	104	193
Accounts Receivable	3	6	2	2	1	1	1	1	4	5
Total Liabilities	218	82	1023	1019	1481	1213	784	1298	952	243
Accounts Payable	8	21	20	15	11	18	12	20	12	---
Long-Term Debt	79	50	998	999	1466	1193	770	1270	875	195
Shareholder's Equity	2654	3107	3367	3629	4151	4940	4900	5172	5326	5715
D/E Ratio	0.03	0.02	0.30	0.28	0.35	0.24	0.16	0.24	0.16	0.03

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	20.0%	19.3%	9.9%	4.4%	-3.2%	3.3%	1.0%	7.0%	1.4%	8.3%
Return on Equity	22.4%	20.3%	11.6%	5.7%	-4.2%	4.3%	1.2%	8.5%	1.6%	9.2%
ROIC	21.6%	19.9%	10.0%	4.4%	-3.2%	3.3%	1.0%	7.1%	1.4%	8.4%
Shares Out.	353	354	357	365	404	442	443	444	447	450
Revenue/Share	2.05	2.39	1.98	1.72	1.64	2.07	1.91	1.79	1.93	2.44
FCF/Share	1.37	0.22	-4.22	0.83	-3.46	-0.51	1.21	-1.46	1.12	1.70

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.