



Wheaton Precious Metals (WPM)

Updated August 27th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	4.5%	Market Cap:	\$14 B
Fair Value Price:	\$35	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	11/25/22 ¹
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	12/08/22
Dividend Yield:	1.9%	5 Year Price Target	\$37	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Hold

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 23 mines, should produce about \$1.15 billion in revenue this year, and trades with a market capitalization of \$14 billion.

Wheaton reported second quarter earnings on August 11th, 2022, and results were better than expected on both the top and bottom lines. The company reported adjusted earnings-per-share of 33 cents, which was a penny better than expected. Revenue came to \$303 million, which was down 8.3% year-over-year, but beat estimates by \$6.4 million.

The revenue decline was due to a 5% decline in the average realized gold equivalent price, and a 3% decline in the number of gold equivalent units sold.

Average cash costs were \$440 per GEO, compared to \$444 in the second quarter a year ago. Cash operating margin was \$1,338 per GEO sold, a decline of 6% year-over-year.

The company ended the quarter with \$449 million in cash on hand. The company also extended its undrawn \$2 billion revolving term loan out to 2027, so liquidity is outstanding.

We now see \$1.25 in earnings-per-share for this year, as precious metals pricing remains somewhat weak, and that will continue to negatively impact operating margins.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.65	\$1.05	\$0.55	\$0.53	\$0.62	\$0.63	\$0.48	\$0.56	\$1.12	\$1.31	\$1.25	\$1.31
DPS	\$0.35	\$0.45	\$0.26	\$0.20	\$0.21	\$0.33	\$0.36	\$0.36	\$0.42	\$0.57	\$0.60	\$0.66
Shares²	354	357	365	404	442	443	444	447	450	451	452	455

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 good earnings this year as Wheaton is producing high levels of gold, and as metals pricing is reasonably high. With operating costs still very low, operating margins are high. However, we see growth from 2022 levels of earnings as difficult, and we're estimating earnings growth of 1% 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.



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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.9	24.4	41.2	31.3	33.1	32.4	40.8	43.7	36.6	32.3	25.6	28.0
Avg. Yld.	1.1%	1.8%	1.1%	1.2%	1.0%	1.6%	1.8%	1.5%	1.0%	1.3%	1.9%	1.8%

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 25.6 times this year's earnings after the stock has pulled back since our last update and is below our fair value estimate of 28 times earnings. We forecast a tailwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	21%	43%	41%	33%	30%	52%	75%	64%	38%	44%	48%	50%

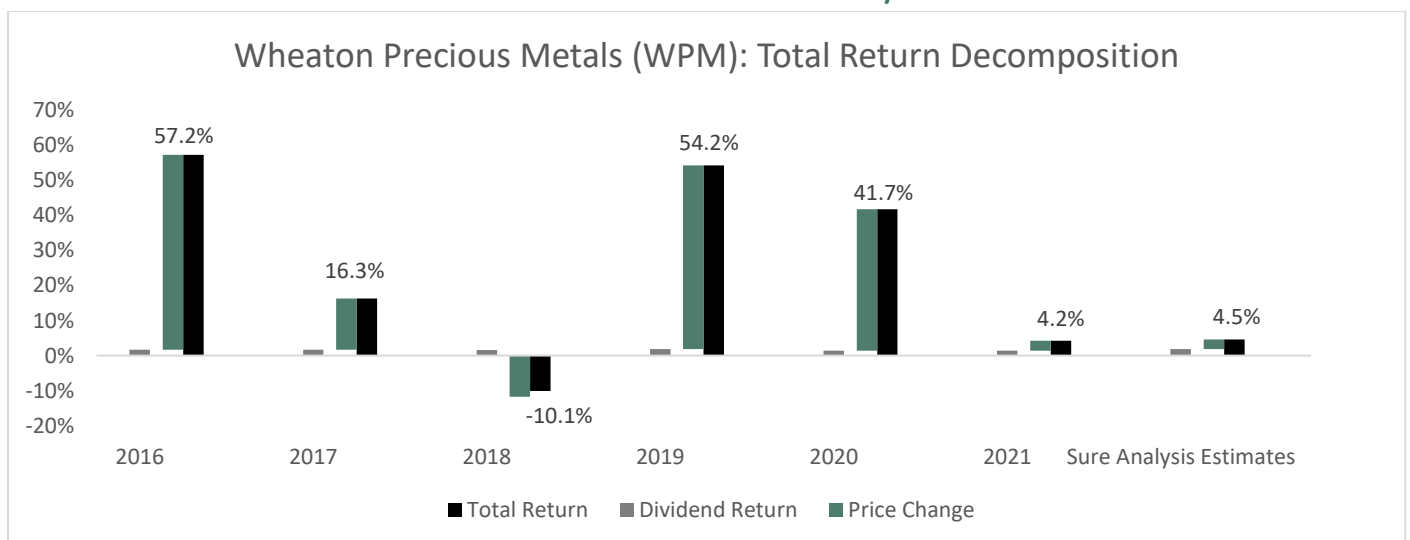
We see the payout ratio at 48% of earnings this year. The payout greatly depends upon pricing and volume in the coming years, as well as Wheaton's unique dividend policy, but 2021 marked two consecutive annual increases.

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 2022. However, we forecast total annual returns of 4.5% per annum going forward, consisting of the current 1.9% yield, 1% earnings growth, and a 1.8% tailwind from the valuation. The valuation has declined and is now closer to our estimate of fair value, earnings may not offer growth from this point, and the yield is unattractive. We rate the stock as a hold as the yield, valuation, and total return outlook remain too weak, and the stock looks to be pricing in too much growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	850	706	620	649	892	843	794	861	1,096	1,202
Gross Profit	631	423	309	260	328	337	296	346	586	659
Gross Margin	74.3%	59.9%	49.8%	40.1%	36.8%	40.0%	37.3%	40.2%	53.4%	54.8%
SG&A Exp.	29	32	34	30	32	32	48	50	58	53
Operating Profit	602	390	274	230	296	305	247	294	526	604
Operating Margin	70.8%	55.3%	44.2%	35.4%	33.2%	36.1%	31.1%	34.2%	48.0%	50.3%
Net Profit	586	375	200	(162)	195	58	427	86	508	755
Net Margin	69.0%	53.2%	32.2%	-25.0%	21.9%	6.8%	53.8%	10.0%	46.3%	62.8%
Free Cash Flow	79	(1,505)	297	(1,371)	(220)	537	(648)	500	764	319
Income Tax	15	(5)	(1)	(3)	(1)	(1)	16	(9)	(2)	(0)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,189	4,390	4,648	5,632	6,153	5,683	6,470	6,278	5,957	6,296
Cash & Equivalents	778	96	308	103	124	99	76	104	193	226
Accounts Receivable	6	2	2	1	1	1	1	4	5	11
Total Liabilities	82	1,023	1,019	1,481	1,213	784	1,298	952	243	46
Accounts Payable	21	20	15	11	18	12	20	---	---	---
Long-Term Debt	50	998	999	1,466	1,193	770	1,264	875	195	---
Shareholder's Equity	3,107	3,367	3,629	4,151	4,940	4,900	5,172	5,326	5,715	6,250
LTD/E Ratio	0.02	0.30	0.28	0.35	0.24	0.16	0.24	0.16	0.03	---

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	19.3%	9.9%	4.4%	-3.2%	3.3%	1.0%	7.0%	1.4%	8.3%	12.3%
Return on Equity	20.3%	11.6%	5.7%	-4.2%	4.3%	1.2%	8.5%	1.6%	9.2%	12.6%
ROIC	19.9%	10.0%	4.4%	-3.2%	3.3%	1.0%	7.1%	1.4%	8.4%	12.4%
Shares Out.	354	357	365	404	442	443	444	447	450	451
Revenue/Share	2.39	1.98	1.72	1.64	2.07	1.91	1.79	1.93	2.44	2.66
FCF/Share	0.22	(4.22)	0.83	(3.46)	(0.51)	1.21	(1.46)	1.12	1.70	0.71

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

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