



Wheaton Precious Metals (WPM)

Updated August 13th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	-3.1%	Market Cap:	\$21 B
Fair Value Price:	\$34	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	08/24/23
% Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.7%	Dividend Payment Date:	09/07/23
Dividend Yield:	1.3%	5 Year Price Target	\$35	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Sell

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 32 mines, should produce about \$1.1 billion in revenue this year, and trades with a market capitalization of \$21 billion.

Wheaton posted second quarter earnings on August 10th, 2023, and results were somewhat weak. The company posted adjusted earnings-per-share of 31.5 cents, while revenue fell 12.5% year-over-year to \$265 million. That did, however, beat estimates by almost \$13 million.

Revenue was 56% gold, 41% silver, 2% palladium, and 1% cobalt during the quarter. The decline in revenue was due primarily to the decrease in gold equivalent units produced but not delivered, partially offset by a 4% increase in realized commodity prices.

Average cash costs in the second quarter were \$422 per gold equivalent unit, compared to \$452 in the second quarter of 2022. This resulted in cash operating margin of \$1,487 per gold equivalent ounce, a gain of 8% year-over-year, which was due to the result of higher realized gold prices.

Operating cash flow was \$202 million, essentially flat from the year-ago period. The decline was due primarily to lower sales volumes, partially offset by higher amounts of interest received.

We see \$1.20 in earnings-per-share for this year down two cents from prior estimates, as production totals are slightly lower than expected.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.05	\$0.55	\$0.53	\$0.62	\$0.63	\$0.48	\$0.56	\$1.12	\$1.31	\$1.12	\$1.20	\$1.26
DPS	\$0.45	\$0.26	\$0.20	\$0.21	\$0.33	\$0.36	\$0.36	\$0.42	\$0.57	\$0.60	\$0.60	\$0.66
Shares¹	357	365	404	442	443	444	447	450	451	452	453	458

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 2023 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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.4	41.2	31.3	33.1	32.4	40.8	43.7	36.6	32.3	34.9	37.5	28.0
Avg. Yld.	1.8%	1.1%	1.2%	1.0%	1.6%	1.8%	1.5%	1.0%	1.3%	1.5%	1.3%	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 37.5 times this year's earnings after the stock has been largely flat since our last update, and is well ahead of our fair value estimate of 28 times earnings. We forecast a sizable headwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	43%	41%	33%	30%	52%	75%	64%	38%	44%	54%	50%	53%

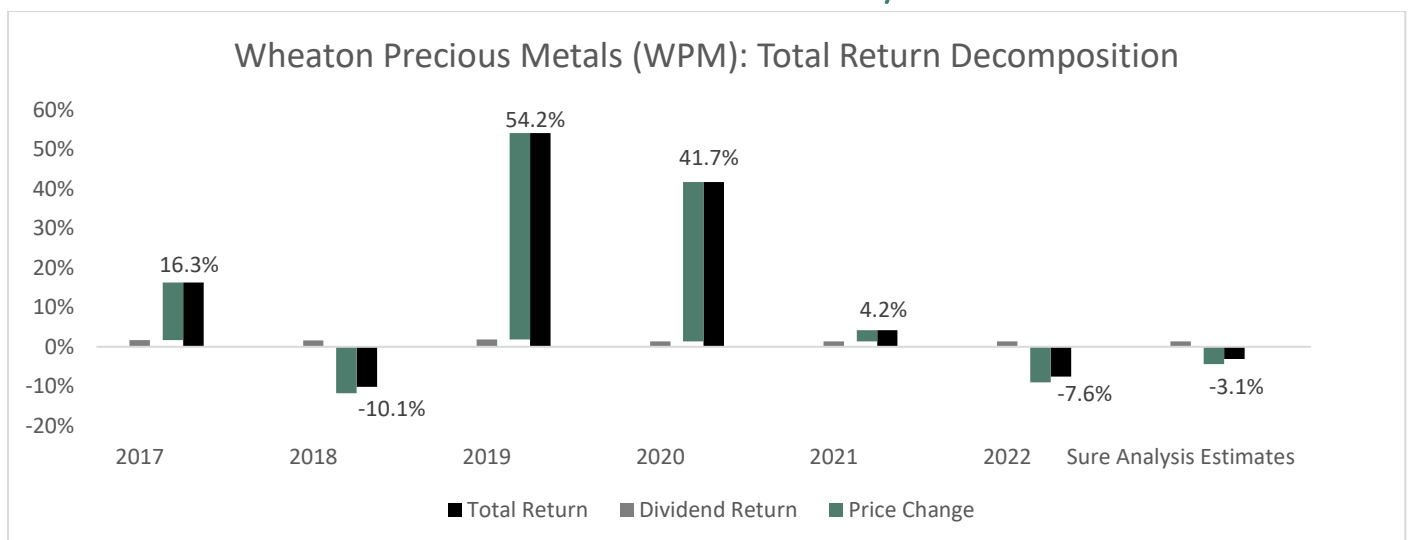
We see the payout ratio at 50% of earnings this year. The payout greatly depends upon pricing and volume in the coming years, as well as Wheaton's unique dividend policy, but 2022 marked three consecutive annual increases.

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 are murky for 2023. Given this, we forecast total annual returns of -3.1% per annum going forward, consisting of the current 1.3% yield, 1% earnings growth, and a 5.7% headwind from the valuation. The valuation has increased and is now much further from our estimate of fair value, earnings may not offer much 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 too much growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	706	620	649	892	843	794	861	1,096	1,202	1,065
Gross Profit	423	309	260	328	337	296	346	586	659	565
Gross Margin	59.9%	49.8%	40.1%	36.8%	40.0%	37.3%	40.2%	53.4%	54.8%	53.1%
SG&A Exp.	32	34	30	32	32	48	50	58	53	53
Operating Profit	390	274	230	296	305	247	294	526	604	510
Operating Margin	55.3%	44.2%	35.4%	33.2%	36.1%	31.1%	34.2%	48.0%	50.3%	47.9%
Net Profit	375	200	(162)	195	58	427	86	508	755	669
Net Margin	53.2%	32.2%	-25.0%	21.9%	6.8%	53.8%	10.0%	46.3%	62.8%	62.8%
Free Cash Flow	(1,505)	297	(1,371)	(220)	537	(648)	500	764	319	722
Income Tax	(5)	(1)	(3)	(1)	(1)	16	(9)	(2)	(0)	1

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,390	4,648	5,632	6,153	5,683	6,470	6,278	5,957	6,296	6,760
Cash & Equivalents	96	308	103	124	99	76	104	193	226	696
Accounts Receivable	2	2	1	1	1	1	4	5	11	9
Total Liabilities	1,023	1,019	1,481	1,213	784	1,298	952	243	46	42
Accounts Payable	20	15	11	18	12	20	---	---	---	13
Long-Term Debt	998	999	1,466	1,193	770	1,264	875	195	---	---
Shareholder's Equity	3,367	3,629	4,151	4,940	4,900	5,172	5,326	5,715	6,250	6,718
LTD/E Ratio	0.30	0.28	0.35	0.24	0.16	0.24	0.16	0.03	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.9%	4.4%	-3.2%	3.3%	1.0%	7.0%	1.4%	8.3%	12.3%	10.3%
Return on Equity	11.6%	5.7%	-4.2%	4.3%	1.2%	8.5%	1.6%	9.2%	12.6%	10.3%
ROIC	10.0%	4.4%	-3.2%	3.3%	1.0%	7.1%	1.4%	8.4%	12.4%	10.3%
Shares Out.	357	365	404	442	443	444	447	450	451	452
Revenue/Share	1.98	1.72	1.64	2.07	1.91	1.79	1.93	2.44	2.66	2.35
FCF/Share	(4.22)	0.83	(3.46)	(0.51)	1.21	(1.46)	1.12	1.70	0.71	1.60

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

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