

Silver Wheaton

Q414 and FY14 results preview

Edison has adjusted its Q414, FY14 and FY15 financial forecasts to reflect both the current price of gold and silver and the price prevailing during the quarter just completed. At the same time, Silver Wheaton has announced modifications to its streaming agreement with Barrick regarding Pascua-Lama and its agreement with Nyrstar regarding Campo Morado.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/12	849.6	600.0	166	35	14.0	1.5
12/13	706.5	381.6	106	45	22.0	1.9
12/14e	639.1	276.9	76	26	30.7	1.1
12/15e	852.9	401.8	110	34	21.2	1.5

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Barrick and Campo Morado modifications

In respect of its agreement with Barrick, Silver Wheaton has agreed to extend the completion test deadline from 31 December 2017 to 30 June 2020 in return for an extension to its entitlement to production from Lagunas Norte, Pierina and Veladero from 31 December 2016 to 31 March 2018. In the event that the completion test is not satisfied, SLW shall be entitled to the return of its initial cash consideration of US\$625m less a credit for silver delivered up to that date. Currently, the credit stands at approximately US\$275m and Edison estimates that this will increase by a further US\$91m as a result of the extension of SLW's streaming entitlement, such that Barrick's repayment would be c US\$259m in 2020 should Pascua-Lama not go ahead. In respect of the Campo Morado mine, Silver Wheaton has agreed to cancel its streaming agreement in exchange for 1) a cash consideration of US\$25m payable this month (note that this was the amount forecast as recoverable by management at the time of SLW's Q3 results in November), 2) an entitlement to 75% of the silver in concentrate produced at the Campo Morado mine in Q4 (cf 100% previously) and 3) a five-year right of first refusal on any silver streaming or royalty transaction in relation to any Nyrstar property, globally. Taken together, Edison estimates that the aggregate value of the modifications to the two streaming agreements is no more than 8 US cents per share and much less than the bid-offer spread of 45c in SLW's stock in the marketplace.

Valuation: 62% capital upside beckons

Edison has adjusted its financial forecasts for precious metals prices actually prevailing in Q414 (US\$16.46/oz Ag and US\$1,200/oz) and a revised forecast gold price of US\$1,285/oz in FY15 (cf US\$1,381/oz previously). In the longer term, we have also assumed that the development of Rosemont will be pushed back by a year. As a result, we estimate peak production and peak EPS (excluding Pascua-Lama) of 44.5Moz AgE and US\$1.50 per share in FY19, respectively, implying a slightly increased value per share of US\$36.92 in US dollar terms and an 8% increase in Canadian dollar terms to C\$44.19 on account of the 6% devaluation of the Canadian dollar vs the US dollar over the course of the past two months.

Q414 and FY14 preview

Metals & mining

19 January 2015

Price **C\$27.92**

Market cap **C\$10.2bn**

C\$1.1970/US\$

Net debt (US\$m) at end September 2014 765.2

Shares in issue 364.5m

Free float 100%

Code SLW

Primary exchange TSX

Secondary exchange NYSE

Share price performance



% 1m 3m 12m

Abs 27.2 25.3 17.1

Rel (local) 23.2 23.1 13.2

52-week high/low C\$29.65 C\$19.43

Business description

Silver Wheaton (SLW) is the world's pre-eminent pure precious metals streaming company with 24 precious metals streaming agreements relating to assets in Mexico, Peru, Canada, Brazil, Chile, Argentina, Sweden, Greece, Portugal, the US and Guyana.

Next events

FY14 results March 2015

First quarterly dividend declared March 2015

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

[Edison profile page](#)

Q414e results

Edison's Q414 and FY14 forecasts have been updated as shown in Exhibit 1 to reflect an average gold price of US\$1,200/oz and an average silver price of US\$16.46/oz (cf the previous forecasts, which were based on US\$1,300/oz Au and US\$19.86/oz Ag). Note that we have assumed that counterparties will try to 'flush through' production to sales in Q4, such that the two will be approximately the same and there will be a negligible change in inventory. We have also assumed that any 'batch effect' (whereby sales tend to occur towards the end of the period) will be minimised for the same reason.

Exhibit 1: Silver Wheaton FY14 forecasts, by quarter

US\$000s (unless otherwise stated)	Q114	Q214	Q314	Q414 current	FY14e current	Q414e previous	FY14e previous	*Q414e prev@spot	*FY14e prev@spot
Silver production (koz)	6,860	6,311	6,081	6,310	25,562	6,362	25,614	6,362	25,614
Gold production (oz)	33,786	32,755	35,395	46,181	148,117	46,181	148,117	46,181	148,117
AgE production (koz)	8,977	8,455	8,447	9,676	35,551	9,384	35,263	9,727	35,601
Silver sales (koz)	6,225	5,227	6,299	6,310	24,061	6,362	24,113	6,362	24,113
Gold sales (oz)	30,122	34,778	36,718	46,181	147,799	46,181	147,799	46,181	147,799
AgE sales (koz)	8,116	7,494	8,740	9,676	34,039	9,384	33,734	9,727	34,089
Ave realised Ag price (US\$/oz)	20.36	19.81	18.98	16.46	18.86	19.86	19.75	16.18	18.78
Ave realised Au price (US\$/oz)	1,283	1,295	1,261	1,200	1,254	1,300	1,286	1,179	1,248
Ave realised AgE price (US\$/oz)	20.38	19.81	18.98	16.46	18.77	19.86	19.74	16.18	18.69
Ave Ag cash cost (US\$/oz)	4.12	4.15	4.16	4.17	4.15	4.18	4.15	4.18	4.15
Ave Au cash cost (US\$/oz)	381	393	378	383	384	383	384	383	384
Ave AgE cash cost (US\$/oz)	4.57	4.71	4.59	4.55	4.60	4.71	4.65	4.55	4.60
Sales	165,379	148,570	165,852	159,274	639,075	186,375	666,176	157,377	637,178
Cost of sales									
Cost of sales, excluding depletion	37,088	35,368	40,109	44,002	156,567	44,225	156,790	44,225	156,790
Depletion	36,621	38,514	44,134	46,267	165,536	46,499	165,768	46,499	165,768
Total cost of sales	73,709	73,882	84,243	90,269	322,103	90,724	322,558	90,724	322,558
Earnings from operations	91,670	74,688	81,609	69,005	316,972	95,651	343,618	66,652	314,619
Expenses and other income									
General and administrative	10,110	10,375	8,383	8,383	37,251	8,383	37,251	8,383	37,251
Foreign exchange (gain)/loss	(281)	147	(282)		-416		(416)		-416
Net interest paid/(received)	1,108	591	583	519	2,801	519	2,801	519	2,801
Other income/(expense)	910	933	(319)		1,524		1,524		1,524
	11,847	12,046	8,365	8,902	41,160	8,902	41,160	8,902	41,160
Earnings before income taxes	79,823	62,642	73,244	60,103	275,812	86,749	302,458	57,750	273,459
Income tax expense/(recovery)	14	(850)	597		-239		(239)		-239
Marginal tax rate (%)	0.0	(1.4)	0.8	0.0	-0.1	0.0	(0.1)	0.0	-0.1
Net earnings	79,809	63,492	72,647	60,103	276,051	86,749	302,697	57,750	273,698
Basic EPS (US\$)	0.22	0.18	0.20	0.16	0.76	0.24	0.83	0.16	0.75
Diluted EPS (US\$)	0.22	0.17	0.20	0.16	0.73	0.23	0.80	0.15	0.72

Source: Silver Wheaton, Edison Investment Research. Note: *At assumed Q414 prices of US\$16.18/oz Ag and US\$1,179/oz Au.

Edison's estimates compare to an average consensus basic EPS estimate of 16c for Q414 (within the range 11-24c) and 76c for FY14, within a range of 62-89c (source: Bloomberg, 16 January 2014). Note that Q314 results are stated excluding a US\$68.2m non-cash impairment charge relating to Mineral Park and Campo Morado.

Outlook

Goldcorp

Goldcorp released its production and preliminary cost announcement on 12 January, including updates on both Penasquito and Los Filos.

Penasquito

Gold production at Penasquito in CY14 was 567koz and is expected to rise to 700-750koz in CY15, while silver production is expected to be in the range of 24-26Moz (NB Edison is currently assuming 24Moz).

After moderating in H214, grades at Penasquito are expected to be lowest in the first quarter of 2015 consistent with the commencement of a new pit phase. As a result, Goldcorp expects relatively low first quarter production followed by steady production growth over the course of 2015 as mining continues deeper into the higher-grade portions of the Penasco pit. The Northern Well Field project remains on track to be completed mid-year, which is expected to meet the long-term water requirements for Penasquito, and production expectations over the next five years assume plant throughput of 115ktpd.

At the same time, exploration at Penasquito will continue to focus on defining the high-grade core of the copper-gold, sulphide-rich skarn mineralisation located below and adjacent to the diatreme ore body that hosts current mineral reserves. Current exploration activities include drilling to establish the vertical and horizontal size and extent of the skarn deposit and metallurgical test-work on the mineralisation is underway.

The pre-feasibility studies for the Concentrate Enrichment Process (CEP) and Pyrite Leach Process were essentially complete at the end of 2014 and are undergoing internal review. The preliminary economic results are reported to demonstrate “the robust economics of these projects and their potential to significantly increase the mine life at Penasquito.” The two projects are being integrated as they enter the feasibility study phase, which is expected to commence by the end of Q115 and to be completed in early 2016. The copper concentrate project alone is estimated to be capable of adding an attributable 1.125-1.25Moz Ag per annum to SLW’s annual production profile, which Edison estimates could add approximately 5c to basic EPS from c FY17.

Owing to the positive pre-feasibility study results for the CEP and Pyrite Leach projects, in combination with the revised approach to the development of Camino Rojo (a prospect and potential supplemental ore source some c 50km from Penasquito), the focus in 2015 will be on the completion of a revised mine plan for Penasquito that incorporates all three projects over the life of the mine. Goldcorp believes that this revised mine plan “demonstrates strong potential to significantly increase the value of Penasquito and materially extend its mine life.”

Los Filos

Gold production at Los Filos was reported to be weak in Q414. As a result, annual production was 258koz. However, this is forecast by Goldcorp to increase to 265-290koz in CY15, with the focus being on the continued management of community and security risks in the region and the completion of a new life-of-mine plan to maximise Goldcorp’s return on investment. Construction of the next stage of the heap leach pad remains on track for completion in mid-2015. The exploration programme will continue to focus on in-fill drilling and conversion of inferred mineral resources into reserves at El Bermejil North and in the underground operation.

Constancia

First production from HudBay's Constancia mine in Peru is imminent, with commercial production expected to be declared in Q215. As per its agreement with Constancia, SLW settled its final US\$135m instalment relating to the purchase of the gold stream via the issue of 6.1m shares on 26 September 2014.

San Dimas

Having successfully completed its ramp up to 2,500tpd, San Dimas has announced its intention to ramp up to 3,000tpd by 2016. Complementing the expansion, exploration success has extended the known mineralisation in one of San Dimas's largest producing veins beyond a minor fault that was historically considered its limit. Encouraging results from a nearby property, Ventanas, also hold out the prospect that this property too could deliver additional ore to the expanded San Dimas mill.

Salobo

Capacity utilisation at Salobo was reported to be 70% across both lines in Q314, which could be rationalised as Salobo I processing at full capacity and Salobo II processing at 4.8Mtpa. Full capacity across both lines is expected to be achieved by the end of FY15.

Mineral Park

Under the Mineral Park winding up process, a portion of the proceeds relating to the sale of the assets of the company will be directed to Silver Wheaton in recognition of the streaming agreement between the two parties. In return, Silver Wheaton will renounce any claims against the Mineral Park mine. However, it reserves the right to take action against Mercator (Mineral Park's Canadian parent company) as the guarantor of the stream. Note that, for the purposes of Edison's financial forecasting, production from Mineral Park was removed after Q214.

FY15 results

Edison's FY15 forecasts have similarly been updated to account not only for the streaming agreement modifications described above, but also for a revision to the average gold price for the year, from US\$1,381/oz to US\$1,285/oz. The average silver price has been maintained at US\$21.81/oz, although we also provide a sensitivity analysis to demonstrate the financial effect of it remaining at current levels (US\$17.14/oz) for the remainder of the year. In this respect, it is worth noting that the current gold-silver price ratio of 74x is effectively without precedent since 1792 (see Exhibit 3, overleaf) and may be considered within the context of silver's being approximately 40x more plentiful than gold in the earth's crust when measured by the number of atoms present, or approximately 20x more plentiful when measured by weight (given that the atomic mass of gold is approximately twice the atomic mass of silver).

Exhibit 2: Silver Wheaton FY15 forecasts

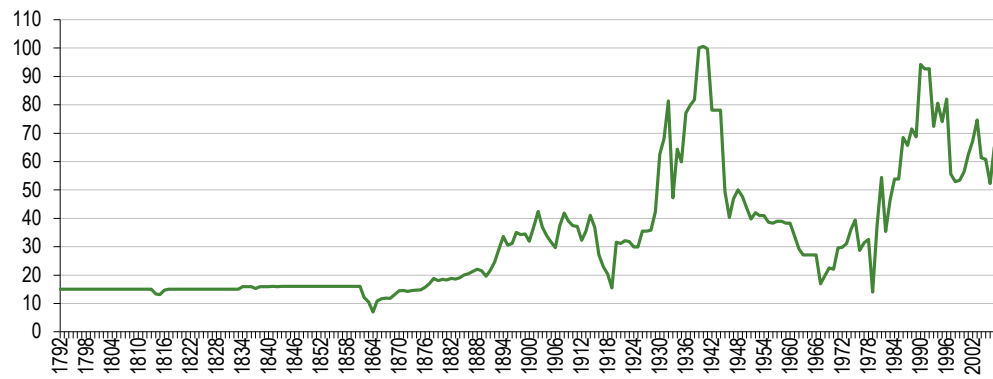
US\$000s (unless otherwise stated)	FY15 (previous)	FY15 (current)	FY15 (current at spot)
Silver production (koz)	27,032	26,530	26,530
Gold production (oz)	213,521	213,521	213,521
AgE production (koz)	40,550	39,112	42,538
Silver sales (koz)	27,032	26,530	26,530
Gold sales (oz)	213,521	213,521	213,521
AgE sales (koz)	40,550	39,112	42,538
Ave realised Ag price (US\$/oz)	21.81	21.81	17.14
Ave realised Au price (US\$/oz)	1,381	1,285	1,285
Ave realised AgE price (US\$/oz)	21.81	21.81	17.14
Ave Ag cash cost (US\$/oz)	4.54	4.55	4.60
Ave Au cash cost (US\$/oz)	387	387	387
Ave AgE cash cost (US\$/oz)	5.06	5.20	4.81
Sales	884,308	852,946	729,104
Cost of sales			
Cost of sales, excluding depletion	205,231	203,214	204,583
Depletion	208,683	206,858	206,858
Total cost of sales	413,914	410,073	411,441
Earnings from operations	470,395	442,873	317,663
Expenses and other income			
General and administrative	37,251	37,251	37,251
Foreign exchange (gain)/loss			
Net interest paid/(received)	3,981	3,822	3,822
Other income/(expense)			
	41,232	41,073	41,073
Earnings before income taxes	429,163	401,800	276,590
Income tax expense/(recovery)	0	0	0
Marginal tax rate (%)	0.0	0.0	0.0
Net earnings	429,163	401,800	276,590
Basic EPS (US\$)	1.18	1.10	0.76
Diluted EPS (US\$)	1.13	1.06	0.73

Source: Silver Wheaton, Edison Investment Research

Edison's estimates compare to an average consensus basic EPS estimate of 81c for FY15, within the range 48-112c (source: Bloomberg, 16 January 2014).

Note the increase in the average silver cash cost compared to FY14, which is principally attributable to the start of Constancia streaming agreement, in relation to which SLW's cash payments are US\$5.90/oz. Note also the variation in the average silver cash cost with the silver price, which is attributable to Keno Hill.

Exhibit 3: Silver-gold price ratio, 1792-2014



Source: Edison Investment Research, Kitco, South African Chamber of Mines

Exhibit 4: Financial summary

	US\$000s	2012	2013	2014e	2015e	2016e
Year end December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		849,560	706,472	639,075	852,946	870,661
Cost of Sales		(117,489)	(139,352)	(156,567)	(203,214)	(217,081)
Gross Profit		732,071	567,120	482,508	649,731	653,581
EBITDA		701,232	531,812	445,257	612,480	616,330
Operating Profit (before amort. and except.)		600,003	387,659	279,721	405,622	403,874
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	(68,151)	0	0
Other		788	(11,202)	(1,108)	0	0
Operating Profit		600,791	376,457	210,462	405,622	403,874
Net Interest		0	(6,083)	(2,801)	(3,822)	(1,865)
Profit Before Tax (norm)		600,003	381,576	276,920	401,800	402,008
Profit Before Tax (FRS 3)		600,791	370,374	207,661	401,800	402,008
Tax		(14,755)	5,121	239	0	0
Profit After Tax (norm)		586,036	375,495	276,051	401,800	402,009
Profit After Tax (FRS 3)		586,036	375,495	207,900	401,800	402,008
Average Number of Shares Outstanding (m)		353.9	355.6	362.7	364.5	364.5
EPS - normalised (c)		166	106	76	110	110
EPS - normalised and fully diluted (c)		165	105	73	106	106
EPS - (IFRS) (c)		166	106	57	110	110
Dividend per share (c)		35	45	26	34	34
Gross Margin (%)		86.2	80.3	75.5	76.2	75.1
EBITDA Margin (%)		82.5	75.3	69.7	71.8	70.8
Operating Margin (before GW and except.) (%)		70.6	54.9	43.8	47.6	46.4
BALANCE SHEET						
Fixed Assets		2,403,958	4,288,557	4,343,171	4,321,313	4,178,856
Intangible Assets		2,281,234	4,242,086	4,296,700	4,274,842	4,132,385
Tangible Assets		1,347	5,670	5,670	5,670	5,670
Investments		121,377	40,801	40,801	40,801	40,801
Current Assets		785,379	101,287	355,541	688,843	1,112,236
Stocks		966	845	745	994	1,015
Debtors		6,197	4,619	4,377	5,842	5,963
Cash		778,216	95,823	350,419	682,007	1,105,258
Other		0	0	0	0	0
Current Liabilities		(49,458)	(21,134)	(26,026)	(33,566)	(35,808)
Creditors		(20,898)	(21,134)	(26,026)	(33,566)	(35,808)
Short term borrowings		(28,560)	0	0	0	0
Long Term Liabilities		(32,805)	(1,002,164)	(1,002,403)	(1,002,403)	(1,002,403)
Long term borrowings		(21,500)	(998,136)	(998,136)	(998,136)	(998,136)
Other long term liabilities		(11,305)	(4,028)	(4,267)	(4,267)	(4,267)
Net Assets		3,107,074	3,366,546	3,670,283	3,974,186	4,252,882
CASH FLOW						
Operating Cash Flow		720,209	540,597	489,809	618,307	618,429
Net Interest		0	(6,083)	(2,801)	(3,822)	(1,865)
Tax		(725)	(154)	478	0	0
Capex		(641,976)	(2,050,681)	(276,842)	(160,000)	(70,000)
Acquisitions/disposals		0	0	0	0	0
Financing		12,919	58,004	138,716	0	0
Dividends		(123,852)	(160,013)	(94,764)	(122,897)	(123,313)
Net Cash Flow		(33,425)	(1,618,330)	254,596	331,588	423,251
Opening net debt/(cash)		(761,581)	(728,156)	902,313	647,717	316,129
HP finance leases initiated		0	0	0	0	0
Other		0	(12,139)	0	0	0
Closing net debt/(cash)		(728,156)	902,313	647,717	316,129	(107,122)

Source: Silver Wheaton accounts, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Silver Wheaton and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2015. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.