

Silver Wheaton

Q4/FY14 results

Solid FY14 portends future growth

Silver Wheaton's net earnings in both Q414 and FY14 were closely in line with our expectations, at US\$52.0m (vs US\$52.1m forecast) and US\$268.0m (vs US\$268.0m, respectively) after record full-year silver equivalent oz sales. In simple terms, a slightly better performance (cf expectations) by its silver producing interests in Q4 offset a slightly worse one at its gold producing interests. In addition, earnings benefited from a decline in both the cost of sales and depletion compared with Q3.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	706.5	381.6	106	45	17.7	2.4
12/14	620.2	268.8	75	26	25.0	1.4
12/15e	811.8	358.0	90	30	20.8	1.6
12/16e	1,104.5	568.5	141	41	13.3	2.2

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

Organic and corporate growth potential aplenty

From FY14, growth in the foreseeable future at Silver Wheaton will be driven by: 1) the acquisition earlier this month of an additional 25% gold stream from Salobo; 2) a return to high grades at Penasquito as well as the Concentrate Enrichment and the Pyrite Leach projects, which could be worth c 5c per share to basic EPS, and are currently the subject of definitive feasibility studies; 3) the attainment of full commercial production at Constanica from mid-FY15; 4) an increase in throughput from 2,500tpd to 3,000tpd at San Dimas in mid-2016; and 5) a return to high-grade zones at the 777 mine. Beyond such organic growth, Silver Wheaton has US\$1.3bn in readily accessible funds (plus future cash flows) at its disposal to make additional, future, accretive acquisitions of by-product precious metal streams from world-class assets in the lower half of the cost curve.

Valuation: 124% potential capital upside in C\$ terms

We are forecasting 40.7Moz of attributable silver equivalent production from SLW's streams in FY15 (vs 43.5Moz management estimate). Beyond FY15, management then expects compound production growth of 17.2% pa over five years, such that silver equivalent production reaches 51Moz in 2019, including 325koz of gold, which will drive a 123.2% increase in basic EPS (Edison forecast). On this basis, we predict a value of US\$42.03 (C\$53.43) per share in FY19, representing a total internal rate of return to investors at the current share price of 29.2% in US dollars over five years. Current forecasts for FY15 assume average gold and silver prices of US\$1,285/oz and US\$19.92/oz, respectively. If prices remain at current levels for the rest of the year (US\$1,180/oz and US\$16.53/oz, respectively), we estimate that basic EPS will be reduced by c US\$0.28/share. In the meantime, SLW trades on multiples that are cheaper than its royalty/streaming 'peers' in c 80% of instances considered and multiples that are cheaper than gold miners themselves in c 42% of instances considered, despite being associated with materially less risk.

Metals & mining

27 March 2015

Price **C\$23.83**
Market cap **C\$9.6bn**

C\$1.2713/US\$

Net debt (US\$m) at end December 2014 690.4

Shares in issue 403.4m

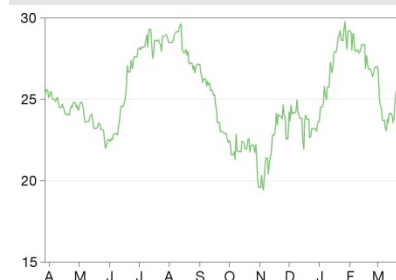
Free float 100%

Code SLW

Primary exchange TSX

Secondary exchange NYSE

Share price performance



% 1m 3m 12m

Abs (5.1) 7.2 (9.8)

Rel (local) (3.7) 3.8 (13.3)

52-week high/low C\$29.77 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

Q115 results May

Second quarterly dividend announced May

Annual shareholder meeting May

Analyst

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[Edison profile page](#)

Q414 results

Both Silver Wheaton's Q414 and FY14 results were closely in line with our expectations after a record year of sales in silver equivalent oz terms. In simple terms, a slightly better performance (cf expectations) by its silver producing interests in Q4 offset a slightly worse one at its gold producing interests. San Dimas (silver) outperformed in terms of production, while the Barrick mines outperformed in terms of both sales and production, owing to the mining of higher-grade areas of the Valedero mine, in particular. By contrast, among its gold interests, Sudbury outperformed in terms of both production and sales (and benefited from a material upwards adjustment of its historical production in Q3), although Minto underperformed as a result of delays in the receipt of a Water Use Licence Amendment and the consequent need to supplement underground ore feed with stockpiled ore in processing. In addition, earnings benefited from a decline in both the cost of sales and depletion compared with Q314.

Note that there was only a muted 'flush through' effect of production into sales in Q4. However, there was also a limited 'batch effect' with prices achieved closely approximating averages for the period (ie there was little back-weighting of prices towards quarter-end numbers rather than quarter averages). Exhibit 1 summarises SLW's results for both the quarter (implied) and the full-year relative to both expectations and the results of previous quarters.

Exhibit 1: Silver Wheaton FY14, by quarter*

US\$000s (unless otherwise stated)	Q114	Q214	Q314	Q414e	Q414	Q414 vs Q314 % change	Q414 vs Q414e % change	FY14e	FY14	FY14 vs FY14e % change
Silver production (koz)	6,860	6,311	6,081	6,166	6,404	5.3	3.9	25,418	25,674	1.0
Gold production (oz)	33,786	32,755	35,395	44,715	34,522	(2.5)	(22.8)	146,651	142,815	(2.6)
AgE production (koz)	8,977	8,455	8,447	9,426	8,964	6.1	(4.9)	35,301	35,285	0.0
Silver sales (koz)	6,225	5,227	6,299	5,585	5,733	(9.0)	2.6	23,336	23,484	0.6
Gold sales (oz)	30,122	34,778	36,718	40,498	37,904	3.2	(6.4)	142,116	139,522	(1.8)
AgE sales (koz)	8,116	7,494	8,740	8,537	8,541	(2.3)	0.0	32,900	32,891	0.0
Avg realised Ag price (US\$/oz)	20.36	19.81	18.98	16.46	16.46	(13.3)	0.0	18.85	18.92	0.4
Avg realised Au price (US\$/oz)	1,283	1,295	1,261	1,200	1,213	(3.8)	1.1	1,257	1,261	0.3
Avg realised AgE price (US\$/oz)	20.38	19.81	18.98	16.46	16.43	(13.4)	(0.2)	18.85	18.86	0.1
Avg Ag cash cost (US\$/oz)	4.12	4.15	4.16	4.17	4.13	(0.7)	(1.0)	4.15	4.14	(0.2)
Avg Au cash cost (US\$/oz)	381	393	378	383	391	3.4	2.1	384	386	0.5
Avg AgE cash cost (US\$/oz)	4.57	4.71	4.59	4.54	4.51	(1.7)	(0.7)	4.60	4.59	(0.2)
Sales	165,379	148,570	165,852	140,525	140,375	(15.4)	(0.1)	620,326	620,176	0.0
Cost of sales										
Cost of sales, excluding depletion	37,088	35,368	40,109	38,797	38,532	(3.9)	(0.7)	151,362	151,097	(0.2)
Depletion	36,621	38,514	44,134	40,730	40,911	(7.3)	0.4	159,999	160,180	0.1
Total cost of sales	73,709	73,882	84,243	79,527	79,443	(5.7)	(0.1)	311,361	311,277	0.0
Earnings from operations	91,670	74,688	81,609	60,999	60,932	(25.3)	(0.1)	308,966	308,899	0.0
Expenses and other income										
- General and administrative	10,110	10,375	8,383	8,383	8,992	7.3	7.3	37,251	37,860	1.6
- Foreign exchange (gain)/loss	(281)	147	(282)		(193)	(31.6)	N/A	(416)	(609)	46.4
- Net interest paid/(received)	1,108	591	583	519	(5)	(100.9)	(101.0)	2,801	2,277	(18.7)
- Other income/(expense)	910	933	(319)		915	(386.8)	N/A	1,524	2,439	60.0
Total expenses and other income	11,847	12,046	8,365	8,902	9,709	16.1	9.1	41,160	41,967	2.0
Earnings before income taxes	79,823	62,642	73,244	52,097	51,223	(30.1)	(1.7)	267,806	266,932	(0.3)
Income tax expense/(recovery)	14	(850)	597	0	(806)	(235.0)	N/A	(239)	(1,045)	337.2
Marginal tax rate (%)	0.0	(1.4)	0.8	0.0	(1.6)	(300.0)	N/A	0.0	(0.4)	N/A
Net earnings	79,809	63,492	72,647	52,097	52,029	(28.4)	(0.1)	268,045	267,977	0.0
Basic EPS (US\$)	0.22	0.18	0.20	0.15	0.14	(30.0)	(6.7)	0.74	0.75	1.4
Diluted EPS (US\$)	0.22	0.17	0.20	0.14	0.14	(30.0)	0.0	0.71	0.74	4.2

Source: Silver Wheaton, Edison Investment Research. Note: *Excluding impairments.

Note that historic production, sales pricing and cost figures are 'as reported' (ie not adjusted for subsequent adjustments such as the Q3 Sudbury revision). In this case, production was revised upwards by 6,280oz, from 5,916oz to 12,196oz – an increase of 106.2%. Assuming that this was realised in Q4 instead, Silver Wheaton's total attributable gold production would have been 40,802oz for the quarter – ie within 8.8% of our estimate (above).

Operations

Despite its decline in production in Q4 owing to lower grades, **Penasquito** reprised its position as the top silver-producing asset at Silver Wheaton despite the drought that is affecting its access to fresh water. The pit is expected to return to the high-grade zone later this year and to remain there for approximately the next three and a half years. In the meantime, construction of the Northern Wellfield is underway with completion scheduled for the middle of next year. Until then, contingency plans remain in place for the supply of fresh water to the mine. In the longer term, pre-feasibility studies for the Concentrate Enrichment Process (CEP) project and the Pyrite Leach project have now both been completed. Considered separately, either project has the potential to significantly enhance both the overall economics and the mine life of Penasquito. The copper concentrate project alone is estimated to be capable of adding 1.125-1.25Moz Ag per year to SLW's annual production profile, which we estimate could add approximately 5c to basic EPS from c FY17. The operator of the mine, Goldcorp, expects the projects to be integrated at the feasibility study stage, scheduled for completion in early 2016. Within exploration activities, activity is focused on establishing the vertical and horizontal size and extent of the copper-gold sulphide-rich skarn deposit below and adjacent to the diatreme ore body.

Having successfully completed its expansion from 2,150tpd processing capacity to 2,500tpd, **San Dimas** was reported to have actually processed at an average throughput rate of 2,846tpd during Q414 – ie 13.8% above nameplate capacity. The operator of the mine, Primero, has announced a further expansion to 3,000tpd, which is expected to be completed in Q216. Given that it has already effectively achieved 69.2% of that increase in Q414, however, the incremental increase to 3,000tpd appears little more than a formality.

Construction of Hudbay's **Constancia** mine is now essentially complete. Initial production has been achieved and full commercial production is anticipated from Q215 onwards. Note that our forecasts for 2015 assume a 449koz Ag contribution from Constancia of full production of c 2.0Moz per year and maximum production of c 2.9Moz per year.

Capstone responded to a request from the Yukon Water Board for additional information prior to issuing a Water Use Licence Amendment for **Minto North** on 16 February. Nevertheless, it does not now expect to start stripping the deposit at the beginning of Q2 as originally planned.

Production from the **777** mine declined by 20.1%, quarter-on-quarter, as ground support difficulties forced operations into lower-grade zones while higher-grade pillars were left to stabilise. By its nature this problem is expected to be a temporary one only, although timing remains uncertain, with the result that we have reduced our production forecast to 45koz (in line with SLW's) for FY15.

Guidance

For FY15, Silver Wheaton has provided the following production guidance, which is compared to our revised estimates in the following table:

Exhibit 2: SLW FY15 guidance vs Edison estimates

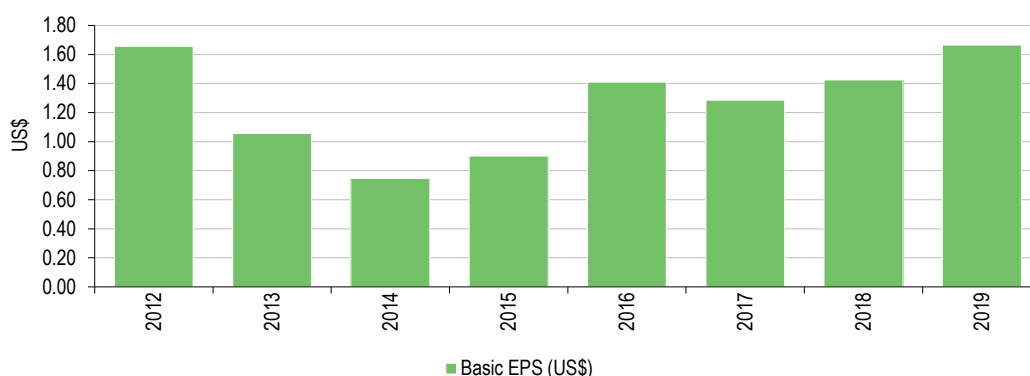
Asset	SLW guidance	Edison estimate	Variance (%)
Silver (koz)			
Penasquito	7,300	7,000	-4.1
Sam Dimas	6,600	6,380	-3.3
Barrick	2,200	1,800	-18.2
Yauliyacu	2,900	2,751	-5.1
Other	7,940	8,963	+12.9
Total	26,940	26,894	-0.2
Gold (koz)			
777	45	45	0.0
Salobo	120	120	0.0
Sudbury	35	30	-14.3
Other	30	20	-33.3
Total	230	215	-6.5
Silver price (US\$/oz)	Not disclosed	1,285	
Gold price (US\$/oz)	Not disclosed	19.93	
Gold/silver ratio	72.0	64.5	-10.4
Silver equivalent production (koz)	43,500	40,741	-6.3

Source: Silver Wheaton, Edison Investment Research

Beyond FY15, management expects production growth of 17.2% over five years, such that silver equivalent production reaches 51Moz in 2019, including 325koz of gold (translated into AgE production at a ratio of 72:1).

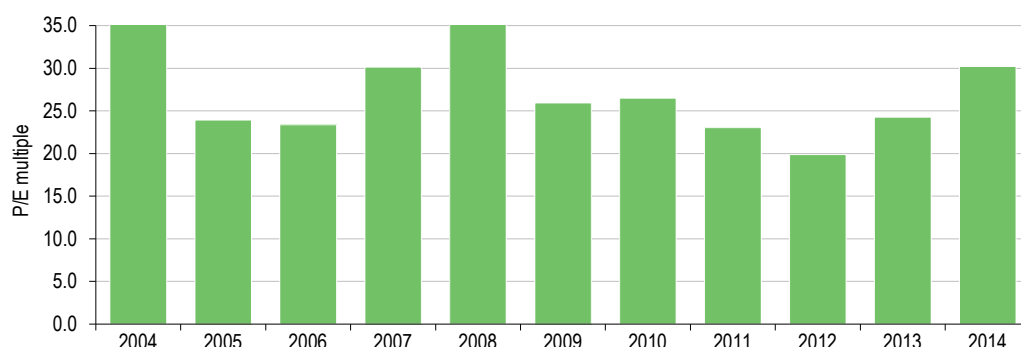
Valuation and sensitivities

By contrast, we expect the gold:silver ratio (currently standing at an almost unprecedented 72x) to moderate to a ratio more in-keeping with relatively recent historical levels of 56x by FY19. Nevertheless, we forecast that this will still result in an increase in earnings of more than 100% compared to FY14 levels – equivalent to a compound growth rate of 17.4% per year for five years, as shown in the chart below:

Exhibit 3: Edison forecast of SLW basic EPS, FY12-FY19e


Source: Silver Wheaton (historic), Edison Investment Research (forecasts)

Excluding FY04 (part year) and FY08 (during which there was an exceptional write-down), Silver Wheaton shares have historically traded on an average P/E multiple of 25.3x current-year basic EPS (compared with 30.2x in FY14).

Exhibit 4: Silver Wheaton historic current year P/E multiples


Source: Edison Investment Research. Note: FY14 EPS excludes impairment charge.

Applying this multiple to our long-term EPS forecast of US\$1.66 per share in FY19 implies a potential share value of US\$42.03 (or C\$53.43).

In the meantime, the table below shows Silver Wheaton's current rating on a number of valuation measures relative to both a sample of its 'peer' royalty/streaming companies and a sample of gold miners. Of note is the fact that Silver Wheaton trades on multiples that are cheaper than its royalty/streaming 'peers' in c 80% of the instances considered. It also trades on multiples that are cheaper than many of the gold miners themselves in c 42% of instances considered (63% in the case of P/E ratios and yields alone), despite being associated with materially less risk.

Exhibit 5: Silver Wheaton comparative valuation vs sample of operating and royalty/streaming companies

	P/E (x)		Yield (%)		P/CF	
	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2
Royalty companies						
Franco-Nevada	58.2	56.5	1.6	1.6	23.4	22.1
Royal Gold	55.9	42.3	1.3	1.3	24.0	19.0
Sandstorm Gold	83.9	46.7	0.0	0.0	11.1	9.9
Average	66.0	48.5	1.0	1.0	19.5	17.0
Operators						
Barrick	18.2	13.1	1.7	1.8	5.1	4.4
Newmont	18.9	18.3	0.4	0.5	5.7	5.3
Goldcorp	27.7	20.8	3.1	3.2	9.3	8.3
Newcrest	24.1	15.4	0.0	0.5	9.2	7.6
Kinross	50.2	27.1	0.0	0.0	3.1	2.9
Agnico-Eagle	47.1	32.5	1.1	1.1	8.8	8.0
Eldorado	70.1	29.5	0.3	0.3	15.2	10.1
Yamana	52.9	22.8	1.4	1.6	5.6	5.0
Average	38.7	22.4	1.0	1.1	7.7	6.5
Silver Wheaton (Edison forecasts)	20.8	13.3	1.6	2.2	12.4	9.2
SLW (Edison at spot Ag, Au prices)	30.1		1.3		15.2	
SLW (consensus)	27.0	22.7	1.2	1.7	15.8	13.0

Source: Bloomberg, Edison Investment Research. Note: Peers priced on 20 March 2015.

Our estimate of 90c for FY15 (see Exhibit 7) compares to an average consensus basic EPS estimate of 73.8c (within the range 41-96c), including Edison, or 71.8c excluding Edison (source: Bloomberg, 20 March 2015).

Sensitivities

Our FY15 and FY16 forecasts are based on silver and gold prices of US\$19.93/oz and US\$25.06/oz and US\$1,285/oz and US\$1,397/oz, respectively. In the event that precious metals prices remain at current levels (US\$16.53/oz Ag and US\$1,180/oz Au at the time of writing) until 31

December 2015, averages for the year will be approximately US\$16.57/oz Ag and US\$1,190/oz Au, in which case we forecast that SLW will instead record basic EPS of 62c in FY15.

Based on our production forecasts, consensus basic EPS of 71.8c will be achieved in FY15, *inter alia*, if:

- The silver price remains at US\$16.53/oz and the gold price rises to average US\$1,366/oz for the year.
- The gold price remains at US\$1,180/oz and the silver price rises to average US\$17.98/oz for the year.
- The gold price averages US\$1,170/oz and the silver price averages US\$18.14/oz (ie both 9.0% below our existing estimates).

Pascua-Lama

All forecasts and assumptions by us and management specifically exclude the possibility of a resumption of development of the Pascua-Lama project on the Chile-Argentina border by Barrick. Pascua-Lama is currently on care and maintenance, as a result of which Silver Wheaton's streaming agreement with Barrick is subject to the satisfaction of a completion test on or before 31 December 2017. If the requirements of the completion test are not satisfied by the amended completion date, the agreement may be terminated by Silver Wheaton, in which case it will be entitled to the return of the upfront cash consideration of US\$625m less a credit for any silver delivered up to that date. In the event of a decision to resume development in FY17, however, we estimate that Silver Wheaton will benefit from an average additional 10.1Moz Ag in the first three years of operations and 5.2Moz over the project's estimated 26-year life. Assuming the project begins production in FY18, we forecast that this has the potential to add up to US\$2.31/share to our valuation as at 1 January 2015.

Relative performance

With the exception of a short period between July and October 2008 (corresponding to the onset of the global financial crisis), Silver Wheaton has proved a consistently reliable investment, having outperformed the silver price by 137.4% and the gold price by 94.4% in US dollar terms in the 10 years since 19 March 2005.

Exhibit 6: Silver Wheaton share price vs silver and gold



Source: Datastream, Edison Investment Research. Note: Underlying data in US dollars and US\$/oz.

Financials

Silver Wheaton had US\$690m of net debt at 31 December 2014, equating to a gearing ratio (debt/equity) of 19.0% and a leverage ratio (debt/[debt+equity]) of 16.0%. Debt is funded through a US\$2.0bn revolving credit facility (RCF) that matures in February 2020.

SLW's US\$900m acquisition of an additional 25% gold stream from Salobo (covered in a separate [note](#) earlier this month) was principally funded via a US\$800m bought deal, which has now closed. As such, SLW's net debt currently is likely to be similar to its net debt level at end-December, leaving it with c US\$1.3bn in immediately accessible funds should it wish to purchase any additional streams in the short to medium terms.

Between now and December 2019, we estimate that SLW will generate US\$3.9bn in cash flows from operations, equivalent to an average rate of US\$773m per year. All other things being equal therefore, we estimate that SLW will be net debt free in FY16 (see Exhibit 7, below).

Exhibit 7: Financial summary

	US\$000s	2012	2013	2014	2015e	2016e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		849,560	706,472	620,176	811,771	1,104,458
Cost of Sales		(117,489)	(139,352)	(151,097)	(206,969)	(245,851)
Gross Profit		732,071	567,120	469,079	604,802	858,606
EBITDA		701,232	531,812	431,219	566,942	820,746
Operating Profit (before amort. and except.)		600,003	387,659	271,039	362,095	570,522
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	(68,151)	0	0
Other		788	(11,202)	(1,830)	0	0
Operating Profit		600,791	376,457	201,058	362,095	570,522
Net Interest		0	(6,083)	(2,277)	(4,073)	(2,054)
Profit Before Tax (norm)		600,003	381,576	268,762	358,022	568,468
Profit Before Tax (FRS 3)		600,791	370,374	198,781	358,022	568,468
Tax		(14,755)	5,121	1,045	0	0
Profit After Tax (norm)		586,036	375,495	267,977	358,022	568,469
Profit After Tax (FRS 3)		586,036	375,495	199,826	358,022	568,468
Average Number of Shares Outstanding (m)		353.9	355.6	359.4	396.9	403.4
EPS - normalised (c)		166	106	75	90	141
EPS - normalised and fully diluted (c)		165	105	74	90	141
EPS - (IFRS) (c)		166	106	56	90	141
Dividend per share (c)		35	45	26	30	41
Gross Margin (%)		86.2	80.3	75.6	74.5	77.7
EBITDA Margin (%)		82.5	75.3	69.5	69.8	74.3
Operating Margin (before GW and except.) (%)		70.6	54.9	43.7	44.6	51.7
BALANCE SHEET						
Fixed Assets		2,403,958	4,288,557	4,309,270	5,042,923	4,862,700
Intangible Assets		2,281,234	4,242,086	4,270,971	5,004,624	4,824,401
Tangible Assets		1,347	5,670	5,427	5,427	5,427
Investments		121,377	40,801	32,872	32,872	32,872
Current Assets		785,379	101,287	338,493	656,807	1,246,576
Stocks		966	845	26,263	946	1,287
Debtors		6,197	4,619	4,132	5,560	7,565
Cash		778,216	95,823	308,098	650,301	1,237,724
Other		0	0	0	0	0
Current Liabilities		(49,458)	(21,134)	(16,171)	(30,292)	(35,725)
Creditors		(20,898)	(21,134)	(16,171)	(30,292)	(35,725)
Short term borrowings		(28,560)	0	0	0	0
Long Term Liabilities		(32,805)	(1,002,164)	(1,002,856)	(1,002,856)	(1,002,856)
Long term borrowings		(21,500)	(998,136)	(998,518)	(998,518)	(998,518)
Other long term liabilities		(11,305)	(4,028)	(4,338)	(4,338)	(4,338)
Net Assets		3,107,074	3,366,546	3,628,736	4,666,582	5,070,694
CASH FLOW						
Operating Cash Flow		720,209	540,597	434,582	604,952	823,833
Net Interest		0	(6,083)	(2,277)	(4,073)	(2,054)
Tax		(725)	(154)	(204)	0	0
Capex		(641,976)	(2,050,681)	(146,249)	(938,500)	(70,000)
Acquisitions/disposals		0	0	0	0	0
Financing		12,919	58,004	6,819	800,000	0
Dividends		(123,852)	(160,013)	(79,775)	(120,176)	(164,356)
Net Cash Flow		(33,425)	(1,618,330)	212,896	342,203	587,423
Opening net debt/(cash)		(761,581)	(728,156)	902,313	690,420	348,217
HP finance leases initiated		0	0	0	0	0
Other		0	(12,139)	(1,003)	0	0
Closing net debt/(cash)		(728,156)	902,313	690,420	348,217	(239,206)

Source: Company sources, Edison Investment Research

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