EDISON

Silver Wheaton

Q4/FY16 & FY17 by quarter

What a difference a quarter makes

Metals & mining

A mixed performance at Silver Wheaton's (SLW) silver division was trumped by an exceptional performance at its gold division in Q416, such that the company's financial results materially outperformed our prior estimates for Q416 as well as SLW's own guidance at the time of its Q316 results. As a consequence, sales and cash flows derived by SLW from gold operations exceeded those from silver for the first time ever.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	648.7	223.6	53	20	51.9	0.7
12/16	891.6	269.8	62	21	44.3	0.8
12/17e	879.7	266.6	60	26	45.8	0.9
12/18e	973.0	391.1	89	29	30.9	1.1

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

Inventories and prices see-saw in Q4 vs Q3

In addition to its quarterly results, SLW's FY16 results were characterised by record silver and gold sales volumes and record revenues. Moreover, in contrast to its Q316 results, inventories were drawn down, rather than increasing (although the full benefit of this was masked by falling precious metals prices in Q4 in the aftermath of the US presidential election). As at 31 December, payable ounces attributable to Silver Wheaton produced but not yet delivered amounted to 3.2Moz silver and 61,700oz gold (cf 3.8Moz silver and 63,300oz gold as at end-September), equating to 1.25 months and 2.1 months of annual silver and gold production, respectively, or 1.6 months in aggregate (cf 1.9 months as at end-September) – slightly below SLW's target level of two months.

Name change to reflect new reality

In order to better reflect Silver Wheaton's increasingly gold-rich asset base, the board of directors has recommended that the company change its name to Wheaton Precious Metals Corp at its shareholder meeting in May. Assuming that the change is approved, the company also plans to change its TSX and NYSE ticker symbols from SLW to WPM and its web domain to www.wheatonpm.com.

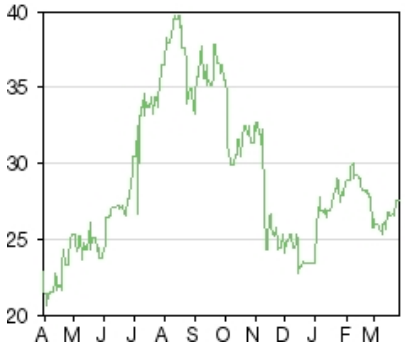
Valuation: 26.3% IRR in US$ over four years predicted

Assuming no material purchases of additional streams (which is unlikely), we forecast a value per share for SLW of US$36.66, or C$49.00 (vs US$33.09, or C$44.03, previously), in FY20 (at average precious metals prices of US$23.98/oz Ag and US$1,362/oz Au), implying a 26.3% pa total internal rate of return for investors in US dollar terms over the next four years to 2020, inclusive. In the meantime, SLW's shares are trading on near-term financial ratios that are cheaper than those of its royalty/streaming 'peers' in at least 83% of measures considered, and the miners themselves in at least 41% of measures, despite being associated with materially less operating and cost risk (see Exhibit 8). Additional potential upside exists in the form of the optionality provided by the expansion of major assets, such as Salobo (see pages 5 & 7), and the development of major assets such as Pascu-Lama and Rosemont.

29 March 2017

Price	**C$27.49**
Market cap	**C$12bn**
	C$1.3366/US$
Net debt (US$m) at 31 December 2016	1,068.7
Shares in issue	441.5m
Free float	100%
Code	SLW
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance



%	1m	3m	12m
Abs	(0.8)	15.8	20.5
Rel (local)	(0.2)	14.9	4.2
52-week high/low		C$39.7	C$20.6

Business description

Silver Wheaton is the world's pre-eminent pure precious metals streaming company, with c 30 high-quality, precious metals streaming and early deposit agreements relating to assets in Mexico, Peru, Canada, Brazil, Chile, Argentina, Sweden, Greece, Portugal, the US and Guyana.

Next events

AGM	May 2017
Q117 results	May 2017
Q2 dividend declared	May 2017

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Edison profile page

Silver Wheaton is a research client of Edison Investment Research Limited

Q416 in perspective

For the second quarter in succession, Silver Wheaton's results were characterised by a mixed performance at its silver division (eg better than expected production at Antamina, but worse than expected at Penasquito), but an unequivocally positive performance at its gold division, wherein all assets outperformed our expectations. In addition, whereas Q316 results were adversely affected by an under-sale of metal relative to production and a build-up of inventory, this effect was reversed in Q416 with an over-sale (especially in the gold division) and a consequent draw down in inventory to near target levels. As a result of both the outperformance in the gold division and the inventory draw-down, SLW's financial results materially outperformed our prior estimates during the quarter, as well as exceeding our forecasts for FY16 (albeit by a smaller margin) and SLW's own guidance at the time of its Q316 results of 30Moz and 335,000oz of silver and gold production, respectively. A summary of SLW's Q4 results, as calculated by Edison, relative to both Q3 and Edison's prior expectations is as follows:

Exhibit 1: Silver Wheaton FY16 forecast, by quarter*

US$000s (unless otherwise stated)	Q116	Q216	Q316	Q416e	Q416	Chg** (%)	Diff*** (%)	FY16e	FY16	Diff**** (%)
Silver production (koz)	7,570	7,581	7,651	7,911	7,589	-0.8	-4.1	30,713	30,379	-1.1
Gold production (oz)	64,942	70,249	109,193	81,626	107,332	-1.7	31.5	326,010	353,703	8.5
AgE production (koz)	12,733	12,852	15,084	13,742	15,218	0.9	10.7	54,355	56,169	3.3
Silver sales (koz)	7,552	7,142	6,122	7,911	7,506	22.6	-5.1	28,727	28,322	-1.4
Gold sales (oz)	65,258	70,757	85,063	81,626	108,931	28.1	33.5	302,704	330,009	9.0
AgE sales (koz)	12,759	12,451	11,913	13,742	15,249	28.0	11.0	50,800	52,388	3.1
Avg realised Ag price (US$/oz)	14.68	17.18	19.53	17.09	16.95	-13.2	-0.8	17.00	16.96	-0.2
Avg realised Au price (US$/oz)	1,175	1,267	1,336	1,221	1,205	-9.8	-1.3	1,254	1,246	-0.6
Avg realised AgE price (US$/oz)	14.70	17.06	19.57	17.09	16.95	-13.4	-0.8	17.08	17.02	-0.4
Avg Ag cash cost (US$/oz)	4.14	4.46	4.51	4.55	4.59	1.8	0.9	4.41	4.42	0.2
Avg Au cash cost (US$/oz)	389	401	390	395	389	-0.3	-1.5	394	391	-0.8
Avg AgE cash cost (US$/oz)	4.44	4.84	5.10	4.97	5.04	-1.2	1.4	4.84	4.86	0.4
Sales	187,511	212,351	233,204	234,856	258,491	10.8	10.1	867,922	891,557	2.7
Cost of sales										
Cost of sales, excluding depletion	56,636	60,208	60,776	68,238	77,617	27.7	13.7	245,055	254,434	3.8
Depletion	71,344	75,074	73,919	76,587	88,365	19.5	15.4	296,923	308,702	4.0
Total cost of sales	127,980	135,282	134,695	144,825	165,983	23.2	14.6	541,979	563,136	3.9
Earnings from operations	59,531	77,069	98,509	90,031	92,509	-6.1	2.8	325,944	328,421	0.8
Expenses and other income										
- General and administrative	10,844	9,959	9,513	8,293	4,123	-56.7	-50.3	38,609	34,439	-10.8
- Foreign exchange (gain)/loss	0	0	0		0	N/A	N/A		0	N/A
- Net interest paid/(received)	6,932	4,590	6,007	7,680	6,664	10.9	-13.2	25,209	24,193	-4.0
- Other (income)/expense	1,160	1,599	1,380	1,126	843	-38.9	-25.1	5,265	4,982	-5.4
Total expenses and other income	18,936	16,148	16,900	17,099	11,630	-31.2	-32.0	69,083	63,614	-7.9
Earnings before income taxes	40,595	60,921	81,609	72,932	80,879	-0.9	10.9	256,861	264,807	3.1
Income tax expense/(recovery)	(384)	615	(1,377)	0	(184)	-86.6	N/A	(1,146)	(1,330)	16.1
Marginal tax rate (%)	(0.9)	1.0	(1.7)	0.0	(0.2)	-88.2	N/A	(0.4)	(0.5)	25.0
Net earnings	40,979	60,306	82,986	72,932	81,063	-2.3	11.1	258,007	266,137	3.2
Avg no. shares in issue (000s)	402,952	436,726	440,635	440,635	440,635	0.0	0.0	430,237	430,461	0.1
Basic EPS (US$)	0.10	0.14	0.19	0.17	0.18	-5.3	5.9	0.60	0.62	3.3
Diluted EPS (US$)	0.10	0.14	0.19	0.17	0.18	-5.3	5.9	0.60	0.62	3.3

Source: Silver Wheaton, Edison Investment Research. Note: *Excluding US$71m Sudbury impairment; **Q416 vs Q316; ***Q416 actual vs Q416 estimate; ****FY16 actual vs FY16 estimate.

Of note in the Q416 results is the decline in general & administrative expenses, which was occasioned, for the most part, by a US$3m reversal of a prior charge relating to management performance share units (PSUs).

From an operational perspective, key features of the quarter were as follows:

- Capacity utilisation across both of Salobo's 12Mtpa lines reached 98%, resulting in record quarterly production in Q416 and record monthly production in December.

- A continuation of lower mined grades at Penasquito as a result of mine sequencing.
- Lower throughput and grades at Sudbury in addition to disruption caused by mine redesign and remediation work.
- Higher grades at Minto and, to a lesser extent, better recoveries at 777 (both of which contribute to SLW's gold 'other' business segment).

Sudbury impairment

Sudbury's operator, Vale, has recently completed a study on the constituent mines in an effort to improve operating margins. In essence, the conclusion of the study was to axe marginal production, with the result that recoverable gold in the 2017-2032 mine plan is now calculated to be 20% less than previously estimated and giving rise to an impairment in the value of the stream (as calculated by Silver Wheaton) of US$71m.

FY17 outlook

Silver Wheaton has provided the market with production guidance of 28Moz of silver and 340,000oz of gold for FY17. Edison's FY17 production forecasts vary slightly compared to Silver Wheaton's, as follows:

Exhibit 2: Silver Wheaton FY17 production guidance

Asset	SLW estimated output (koz)	Edison estimated output (koz)	Comment
Silver			
Penasquito	5,250	5,250	
San Dimas	4,000	3,258	Edison assumes strike will last 4.5 months vs SLW 3mth est.
Antamina	6,000	6,000	
Constancia	2,500	2,446	
Other	10,250	9,564	Cessation of Cozamin stream in April 2017.
Total	**28,000**	**26,518**	Edison estimate 5.2% below SLW guidance.
Gold			
Salobo	245	241	
Sudbury	40	40	
Constancia	10	14	
Other	45	41	Assumes 21koz from Minto and 20koz from 777.
Total	**340**	**335**	Edison estimate 1.2% below SLW guidance.

Source: Silver Wheaton. Note: Totals may not add up owing to rounding.

San Dimas

As in Q316, production at San Dimas in Q4 was affected by high unplanned worker absences and a failure to achieve mine plans, which resulted in reduced development rates and also a number of delayed ventilation improvement projects. This, in turn, limited access to certain high-grade areas of the mine. In response, Primero (the mine's operator) has begun reducing the scale and complexity of the mine, including significant decreases to the workforce. However, on 15 February, unionised employees initiated strike action, which has resulted in the complete stoppage of all mining and milling activities to date.

Silver Wheaton's guidance (above) assumes that the strike at San Dimas will last for three months (ie approximately 1.5mths in Q1 and 1.5mths in Q2). This compares with Edison's forecast of 4.5mths. However, investors should note that Edison's forecast should not be taken as reflecting any unique insight or proprietary knowledge about the nature and duration of workforce strikes in Mexico, so much as a device for demonstrating the effect of the strike for an entire quarter (ie Q217 in Exhibit 5) on Silver Wheaton's earnings.

Since Primero articulated material uncertainty surrounding its ability to continue as a going concern in its Q416 results' Management Discussion & Analysis (MD&A), its lenders have since agreed in

principle to a six month extension of the maturity of its US$75m revolving credit facility (RCF), from May to November 2017, which will ultimately provide Primero with greater flexibility to replace the RCF with a longer-dated term loan. The proposed amended credit agreement would exclude financial covenants in the amended RCF during this six month period to support the San Dimas restart plan. In the meantime, Silver Wheaton is supporting Primero by guaranteeing amounts payable under the RCF to ensure the latter's ability to meet its financial obligations and return the San Dimas mine to profitability. Primero expects the documentation formalising this extension and the guarantee to be completed imminently. Note that since Q112, San Dimas's production attributable to Silver Wheaton has been, on average, 1,543koz silver per quarter. The carrying value of Silver Wheaton's streaming agreement relating to San Dimas is US$140.6m.

Sudbury

Sudbury will transition to a single furnace in 2017. To achieve this, Vale will take one of the existing furnaces offline in H117. It will then rebuild and enlarge it, prior to returning it to operation in H217, when the remaining furnace will be powered down. In addition, subsequent to the quarter end, Vale announced that the Stobie mine (representing c 5% of Silver Wheaton's attributable production from Sudbury) will be placed on care and maintenance later in 2017, owing to a number of factors, including declining ore grades and, more recently, seismicity issues that have restricted production below the 3,000ft (910m) level. In mitigation however, Vale has embarked on a major exploration programme at Sudbury, which is designed to expand and extend the life of the asset, and from the success of which, Silver Wheaton would be an automatic beneficiary.

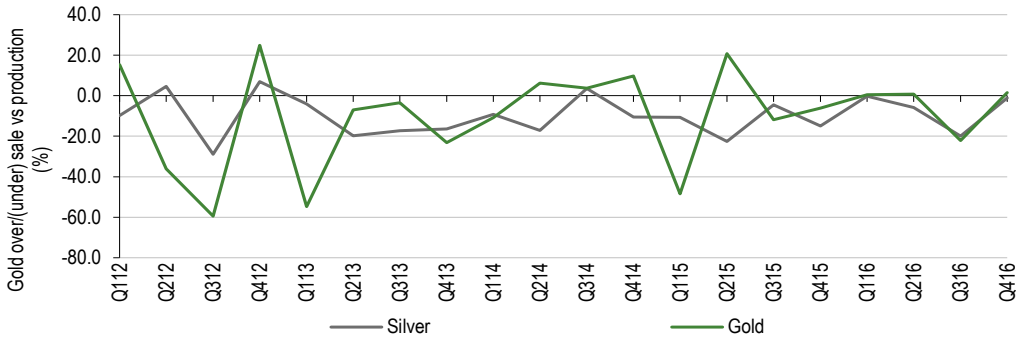
General & administrative expenses

SLW is forecasting non-stock general & administrative expenses in the range of US$33-35m for the full year– ie c US$8.5m per quarter – including additional legal costs relating to SLW's dispute with the Canadian Revenue Agency. Investors should note that our financial forecasts in Exhibits 5 and 9 exclude stock-based compensation costs.

Ounces produced but not yet delivered – aka inventory

Compared to a 9.9% average historical under-sale of silver relative to production and a 10.0% historical under-sale of gold, production and sales of both silver and gold were closely aligned in Q416 – demonstrating, among other things, the traditional 'flush through' effect in the final quarter:

Exhibit 3: Over/(under) sale of silver and gold as a % of production, Q112-Q316



Source: Edison Investment Research, Silver Wheaton

As at 31 December, payable ounces attributable to Silver Wheaton produced but not yet delivered amounted to 3.2Moz silver and 61,700oz gold (cf 3.8Moz silver and 63,300oz gold as at end-September), equating to 1.25 months and 2.1 months of annual silver and gold production, respectively (cf 1.5 months and 2.3 months of forecast FY16 production, as at end-September), or

1.6 months in aggregate (cf 1.9 months as at end-September) – slightly below SLW's target level of two months.

Note that, for these purposes, the use of the term 'inventory' reflects ounces produced by SLW's operating counterparties at the mines over which it has streaming agreements, but which have not yet been delivered to SLW. It in no way reflects the other use of the term in the mining industry itself, where it is typically used to refer to metal in circuit (among other things), and may therefore (under certain circumstances) be considered to be a consequence of metallurgical recoveries in the plant.

Medium-term outlook

Production

Over the next five years, management estimates average annual production of approximately 29Moz of silver and 340,000oz of gold. These compare with Edison's medium-term forecasts, as follows:

Exhibit 4: Edison forecast SLW precious metals production

	FY17e	FY18e	FY19e	FY20e
Silver production (Moz)	26.5	28.7	28.7	31.8
Gold production (koz)	335	291	330	323

Source: Edison Investment Research.

In the immediate future, silver output from Penasquito attributable to Silver Wheaton is expected to recover back to its steady-state level of 7Moz as grades improve once again with mine sequencing. From 2019 onwards, it will also benefit from the development of the Pyrite Leach Project, which will add an additional 1.0-1.5Moz of silver attributable to SLW pa.

Apart from exploration success however, the other major source of organic production growth for Silver Wheaton is Salobo (which already accounts for 72% of Silver Wheaton's gold division's output). The operator, Vale, is in the process of studying expansion scenarios and is deploying four drill rigs to test the deposit at depth. Given the open-ended nature of the deposit and depending on the work that Vale does and the decision that it makes, any expansion could add as much as 100% to gold output attributable to Silver Wheaton from Salobo per year – albeit at the cost of an additional payment from SLW. Mill throughput at the Salobo mine is currently running at 98% of its 24Mtpa nameplate capacity. If throughput capacity is expanded within a predetermined period and depending on the grade of material processed, SLW will be required to make an additional payment to Vale regarding its 75% gold stream. The additional payments range in size from US$113m if throughput is expanded beyond 28Mtpa by 1 January 2036, to US$953m if throughput is expanded beyond 40Mtpa by 1 January 2021.

Potential future stream acquisitions

SLW estimates the size of the potential market open to it to be the 70% of silver production of c 870Moz in FY16 that is produced as a by-product of either gold or base metals mines (ie approximately 609Moz silver per year). This compares with SLW's production of 30.4Moz Ag in FY16 – ie SLW estimates that it has penetrated a mere c 5.0% of its potential market.

While it is difficult/impossible to predict potential future stream acquisition targets with any degree of certainty, it is perhaps possible to highlight four that may be of interest to Silver Wheaton in due course and regarding which it already has strong, existing counterparty relationships:

- The 75% of the silver output at Penasquito that is currently not subject to any streaming arrangement.
- The platinum group metal (PGM) by-product stream at Sudbury.

- The 75% of the silver output at Pascua-Lama that is currently not subject to any streaming arrangement (subject to permitting and development).
- The 50% of the gold output at Constancia that is currently not subject to any streaming arrangement.

FY17 by quarter

Edison's updated basic EPS estimate for FY17 of 60c (see Exhibit 5 for revisions) compares to an average consensus estimate of 66c within a range 38-80c (cf a consensus of 91c within a range of 64-135c in December). However, it also compares with our forecast of 57c in December in the event that silver and gold prices remained at their then levels of US$16.40/oz and US$1,172/oz, respectively. Broken down by quarter, our estimates are as follows:

Exhibit 5: Silver Wheaton FY17 forecast, by quarter*

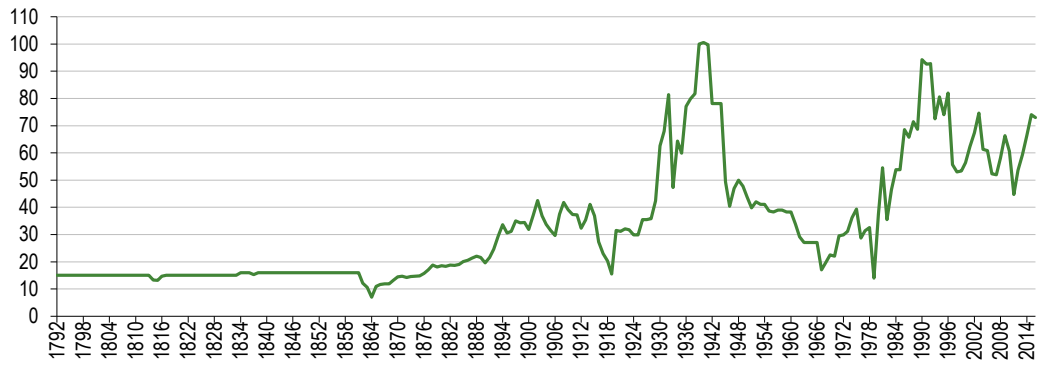
US$000s (unless otherwise stated)	Q117e	Q217e	Q317e	Q417e	FY17e (current)	FY17e (previous)	FY17e (previous at spot)	FY18e
Silver production (koz)	6,467	5,815	7,118	7,118	26,518	30,939	30,939	28,701
Gold production (oz)	83,765	83,765	83,765	83,765	335,062	335,062	335,062	290,642
AgE production (koz)	12,564	12,019	13,322	13,322	50,269	49,940	54,883	45,166
Silver sales (koz)	6,467	5,815	7,118	7,118	26,518	30,939	30,939	28,701
Gold sales (oz)	83,765	83,765	83,765	83,765	335,062	335,062	335,062	290,642
AgE sales (koz)	12,564	12,019	13,322	13,322	50,269	49,940	54,883	45,166
Avg realised Ag price (US$/oz)	17.41	17.53	17.53	17.53	17.50	22.48	16.40	21.54
Avg realised Au price (US$/oz)	1,218	1,248	1,248	1,248	1,241	1,275	1,172	1,220
Avg realised AgE price (US$/oz)	17.41	17.53	17.53	17.53	17.50	22.48	16.40	21.54
Avg Ag cash cost (US$/oz)	4.66	4.70	4.63	4.63	4.66	5.09	4.67	5.25
Avg Au cash cost (US$/oz)	395	395	395	395	395	395	395	396
Avg AgE cash cost (US$/oz)	5.03	5.03	4.96	4.96	5.09	5.81	5.05	5.89
Sales	214,611	206,479	229,321	229,321	879,732	1,122,410	900,087	973,039
Cost of sales								
Cost of sales, excluding depletion	63,204	60,451	66,084	66,084	255,822	289,976	277,103	265,965
Depletion	74,428	73,705	75,151	75,151	298,435	306,059	306,059	265,935
Total cost of sales	137,632	134,156	141,235	141,235	554,258	596,035	583,161	531,900
Earnings from operations	76,979	72,323	88,086	88,086	325,474	526,375	316,926	441,138
Expenses and other income								
- General and administrative	8,500	8,500	8,500	8,500	34,000	38,609	38,609	34,000
- Foreign exchange (gain)/loss					0			
- Net interest paid/(received)	6,225	6,225	6,225	6,225	24,901	25,458	25,458	15,995
- Other (income)/expense	843	843	843	843	3,372			
Total expenses and other income	15,568	15,568	15,568	15,568	62,273	64,067	64,067	49,995
Earnings before income taxes	61,411	56,755	72,518	72,518	263,202	462,308	252,858	391,143
Income tax expense/(recovery)	0	0	0	0	0			0
Marginal tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	61,411	56,755	72,518	72,518	263,202	462,308	252,858	391,143
Ave. no. shares in issue (000s)	440,635	440,635	440,635	440,635	440,635	440,635	440,635	440,635
Basic EPS (US$)	0.14	0.13	0.16	0.16	0.60	1.05	0.57	0.89
Diluted EPS (US$)	0.14	0.13	0.16	0.16	0.60	1.05	0.57	0.89

Source: Silver Wheaton, Edison Investment Research. Note: *Forecasts exclude stock-based compensation costs.

Edison's financial forecasts for Q217 are notable for the fact that they assume the continuation of the strike at San Dimas for the entire quarter (vs half of the first quarter) and therefore provide investors with an indication of the financial cost of the strike to Silver Wheaton on a quarterly basis.

Edison's financial forecasts for FY18 are also notable for the fact that our production forecasts are at or near the bottom of the range (especially for gold), as a result of which they therefore almost exclusively demonstrate Silver Wheaton's operational gearing to (in this case) a normalisation of the silver price relative to the gold price from its current, unprecedented level:

Exhibit 6: Gold price as a multiple of silver price, 1792-2016

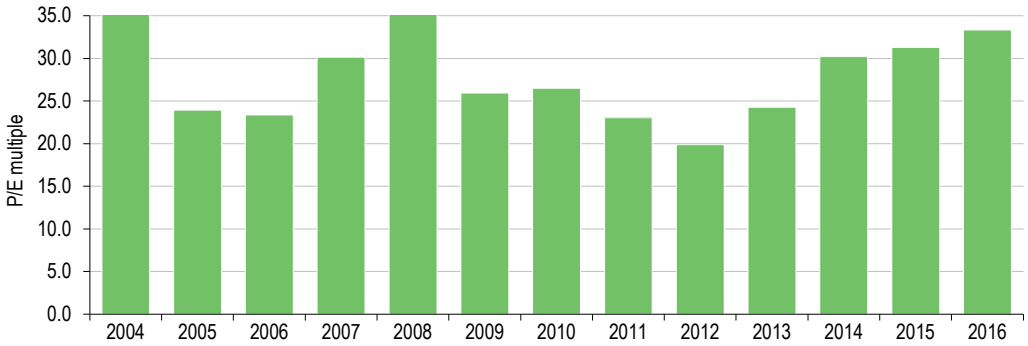


Source: Edison Investment Research (underlying data South African Chamber of Mines and www.kitco.com)

Valuation and sensitivities

Excluding FY04 (part year) and FY08 (when there was an exceptional write-down), SLW's shares have historically traded on an average P/E multiple of 26.5x current year basic EPS (cf 45.8x Edison FY17e and 30.9x FY18e – see Exhibit 8).

Exhibit 7: Silver Wheaton's 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$1.38 in FY20 (at Edison's average long-term precious metals prices of US$23.98/oz Ag and US$1,362/oz Au in FY20), implies a potential share value of US$36.66, or C$49.00, in that year.

Currently, Edison makes no provision for either future expansion at Salobo or related expansion payments in its long-term forecasts. However, in the event that Salobo were to be expanded from 24Mtpa to 48Mtpa by the addition of a further two 12Mtpa processing lines by 1 January 2021 – thereby attracting the maximum incremental payment from Silver Wheaton to Vale – we estimate that it would increase our estimate of SLW's earnings in FY20 by a material US$0.19/share. This, in turn, would increase our forecast value per share for the company to US$41.67, implying an internal rate of return to investors buying Silver Wheaton shares currently at C$27.51, equivalent to 29.2% pa in US dollar terms over four years.

In the meantime, from a relative perspective, it is notable that SLW is cheaper than its royalty/streaming 'peers' on at least 83% of the valuation measures used in Exhibit 8 on an individual company basis (ie in 20 out of 24 measures) and on multiples that are cheaper than the miners themselves in at least 41% of the same valuation measures (ie 37 out of 90 measures), despite being associated with materially less operational and cost risk, in particular.

Exhibit 8: Silver Wheaton comparative valuation vs a sample of operating and royalty/streaming companies

	P/E (x)		Yield (%)		P/CF (x)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Royalty companies						
Franco-Nevada	69.9	58.3	1.3	1.4	25.4	23.1
Royal Gold	43.8	39.1	1.4	1.4	16.2	14.8
Sandstorm Gold	93.1	79.3	0.0	0.0	15.9	15.1
Osisko	49.6	46.2	1.1	1.1	29.5	27.4
Average	**64.1**	**55.7**	**1.0**	**1.0**	**21.7**	**20.1**
Silver Wheaton (Edison forecasts)	**34.5**	**23.2**	**1.3**	**1.4**	**16.0**	**13.8**
SLW (consensus)	**31.4**	**27.5**	**1.4**	**1.4**	**15.7**	**14.6**
Gold producers						
Barrick	22.6	21.7	0.6	0.6	7.4	8.0
Newmont	32.7	27.6	0.8	0.8	8.5	7.7
Goldcorp	43.8	32.5	0.5	0.5	10.4	9.5
Newcrest	23.1	18.4	1.0	1.5	10.1	8.8
Kinross	103.9	39.4	0.0	0.0	4.5	4.2
Agnico-Eagle	116.8	62.2	0.9	0.9	14.1	12.6
Eldorado	35.9	22.1	0.3	0.2	13.6	9.0
Yamana	98.9	16.8	1.1	1.6	5.3	3.6
Randgold Resources	27.6	22.7	2.0	2.2	14.8	12.9
Average	**56.2**	**29.3**	**0.8**	**0.9**	**9.9**	**8.5**
Silver producers						
Hecla	33.2	28.4	0.2	0.2	9.5	8.9
Pan American	33.9	21.7	0.5	0.6	12.3	9.6
Coeur Mining	20.8	15.3	0.0	0.0	7.3	5.5
First Majestic	74.2	33.9	0.0	0.0	12.2	9.0
Hocschild	37.3	19.6	1.3	1.9	6.1	5.1
Fresnillo	32.6	25.0	1.4	1.9	18.0	13.6
Average	**38.7**	**24.0**	**0.6**	**0.8**	**10.9**	**8.6**

Source: Bloomberg, Edison Investment Research. Note: Peers priced on 24 March 2017.

Financials

As at 31 December, SLW had US$124.3m in cash and US$1,193.0m of debt outstanding under its US$2bn revolving credit facility (RCF), such that it had net debt of US$1,068.7m overall after US$175m of (US$0.40/share) of operating cash flows and a calculated US$150.8m of net cash inflows. Relative to the company's equity, this level of net debt equates to a financial gearing (net debt/equity) ratio of 21.6% and a leverage (net debt/[net debt+equity]) ratio of 17.8%. It also compares with a net debt position of US$1,219.5m as at the end of September 2016 and US$1,362.7m as at the end of December 2015 and is consistent with SLW generating c US$150m per quarter from operating activities before financing and investing activities. Most recently, these investing activities involved the acquisition of an additional 25% of the gold output from the Salobo mine in Brazil for an immediate cash payment of US$800m, announced in August (see our note Going for gold, published on 30 August 2016). Otherwise, assuming the operational performance set out in Exhibits 5 and 9, we estimate that SLW's net debt position will decline organically, to US$686.5m by the end of FY17 (equating to gearing of 13.5% and leverage of 11.9%), and that SLW will be substantially net debt free early in FY19, all other things being equal and contingent on it making no further major acquisitions (which is unlikely). Self-evidently, such a level of debt is well within the tolerances required by its banking covenants that:

- net debt should be no more than 0.75x tangible net worth (which was US$4,940.0m as at end-December 2016 and is forecast, by Edison, to be US$5,089.6m as at end-December 2017); and
- interest should be no less than 3x covered by EBITDA (we estimate that net interest will be 23.7x covered in FY17).

On 27 February, the term of the revolving term loan was extended, such that it now matures on 27 February 2022.

Note that the C$191.7m letter of guarantee that SLW has posted re 50% of the disputed taxes relating to its dispute with the CRA (see below) has been determined under a separate agreement and is therefore specifically excluded from calculations regarding SLW's banking covenants. In the meantime, SLW's revolving debt facility attracts an interest rate of Libor plus 120-220bp.

Canadian Revenue Agency (CRA)

There have been no further substantive developments regarding SLW's dispute with the CRA since our update note of 15 February 2016.

SLW notes that the CRA's position is that the transfer pricing provisions of the Income Tax Act (Canada) in relation to income earned by SLW's foreign subsidiaries should apply "such that the income of Silver Wheaton subject to tax in Canada should be increased by an amount equal to substantially all of the income earned outside of Canada by the Company's foreign subsidiaries for the 2005-2010 taxation years". Should this interpretation be upheld, we would expect it to have potentially profound consequences for Canada's status as an investment destination for suppliers of finance and capital to overseas destinations in general (ie not just to the mining industry).

Earlier this month, Silver Wheaton's CEO, Randy Smallwood, was quoted as saying that the company is willing to settle its tax dispute with the CRA via a payment of C$5-10m "with gritted teeth" but still believes no payment should be required. As such, the C$5-10m quoted reflects no admission or error, but rather an appreciation of the costs involved in going to a full trial and also of the effect that the issue is having on SLW's share price.

In the meantime, Silver Wheaton is approximately halfway through the case 'discovery process' with the CRA, designed to provide both sides with the opportunity to arrive at an out-of-court settlement before formal proceedings commence. This discovery process is likely to end in July 2017. Any potential settlement therefore is likely to occur shortly after the discovery process. Otherwise, however, the company has stated that it is willing to go to trial if a 'principled' settlement is not possible (which is likely to be towards the middle of 2018).

Exhibit 9: Financial summary

US$000s	2012	2013	2014	2015	2016	2017e	2018e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	849,560	706,472	620,176	648,687	891,557	879,732	973,039
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(254,434)	(255,822)	(265,965)
Gross Profit	732,071	567,120	469,079	458,473	637,123	623,910	707,073
EBITDA	701,232	531,812	431,219	426,236	602,684	589,910	673,073
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	293,982	291,474	407,138
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	0	0	(68,151)	(384,922)	(71,000)	0	0
Other	788	(11,202)	(1,830)	(4,076)	(4,982)	(3,372)	0
Operating Profit	600,791	376,457	201,058	(161,343)	218,000	288,102	407,138
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,901)	(15,995)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	269,789	266,574	391,143
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	193,807	263,202	391,143
Tax	(14,755)	5,121	1,045	3,391	1,330	0	0
Profit After Tax (norm)	586,036	375,495	267,977	222,880	266,137	263,202	391,143
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	195,137	263,202	391,143
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.5	440.6	440.6
EPS - normalised (c)	166	106	75	53	62	60	89
EPS - normalised and fully diluted (c)	165	105	74	53	62	60	89
EPS - (IFRS) (c)	166	106	56	(41)	45	60	89
Dividend per share (c)	35	45	26	20	21	26	29
Gross Margin (%)	86.2	80.3	75.6	70.7	71.5	70.9	72.7
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.6	67.1	69.2
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.0	33.1	41.8
BALANCE SHEET							
Fixed Assets	2,403,958	4,288,557	4,309,270	5,526,335	6,025,227	5,798,792	5,604,857
Intangible Assets	2,281,234	4,242,086	4,270,971	5,494,244	5,948,443	5,722,008	5,528,073
Tangible Assets	1,347	5,670	5,427	12,315	12,163	12,163	12,163
Investments	121,377	40,801	32,872	19,776	64,621	64,621	64,621
Current Assets	785,379	101,287	338,493	105,876	128,092	510,494	969,531
Stocks	966	845	26,263	1,455	1,481	1,579	1,747
Debtors	6,197	4,619	4,132	1,124	2,316	2,410	2,666
Cash	778,216	95,823	308,098	103,297	124,295	506,504	965,118
Other	0	0	0	0	0	0	0
Current Liabilities	(49,458)	(21,134)	(16,171)	(12,568)	(19,057)	(25,460)	(26,460)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(19,057)	(25,460)	(26,460)
Short term borrowings	(28,560)	0	0	0	0	0	0
Long Term Liabilities	(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(1,194,274)	(1,194,274)	(1,194,274)
Long term borrowings	(21,500)	(998,136)	(998,518)	(1,466,000)	(1,193,000)	(1,193,000)	(1,193,000)
Other long term liabilities	(11,305)	(4,028)	(4,338)	(2,908)	(1,274)	(1,274)	(1,274)
Net Assets	3,107,074	3,366,546	3,628,736	4,150,735	4,939,988	5,089,551	5,353,654
CASH FLOW							
Operating Cash Flow	720,209	540,597	434,582	435,783	608,503	592,748	673,650
Net Interest	0	(6,083)	(2,277)	(4,090)	(24,193)	(24,901)	(15,995)
Tax	(725)	(154)	(204)	(208)	28	0	0
Capex	(641,976)	(2,050,681)	(146,249)	(1,791,275)	(805,472)	(72,000)	(72,000)
Acquisitions/disposals	0	0	0	0	0	0	0
Financing	12,919	58,004	6,819	761,824	595,140	0	0
Dividends	(123,852)	(160,013)	(79,775)	(68,593)	(78,708)	(113,638)	(127,041)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	295,298	382,209	458,614
Opening net debt/(cash)	(761,581)	(728,156)	902,313	690,420	1,362,703	1,068,705	686,496
HP finance leases initiated	0	0	0	0	0	0	0
Other	0	(12,139)	(1,003)	(5,724)	(1,300)	0	0
Closing net debt/(cash)	(728,156)	902,313	690,420	1,362,703	1,068,705	686,496	227,882

Source: Silver Wheaton sources, Edison Investment Research

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