EDISON

Silver Wheaton

Q3 in perspective and Q4 preview

Results and preview

Metals & mining

Silver Wheaton's (SLW) Q316 results were characterised by exceptionally strong production from its gold assets, supported by record quarterly output at Salobo and Minto and a strong performance at 777. Production from SLW's silver assets was in line with our expectations. However, a 20.0% under-sale of silver relative to production (towards the upper end of the historical range) and a 22.1% under-sale of gold resulted in a return of inventory to more normal levels. This detracted from financial results, although PBT was still at its highest since Q113 (when silver and gold prices were US$29.89/oz and US$1,645/oz, respectively). Given broadly flat production expectations, however, plus the end-of-year 'flush through' effect, no repetition of this inventory build is expected in Q416.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	620.2	268.8	74	26	25.4	1.4
12/15	648.7	223.6	53	20	35.5	1.1
12/16e	867.9	262.1	60	21	31.4	1.1
12/17e	1,122.4	462.3	105	33	17.9	1.8

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles and exceptional items.

Inventory now near target levels

Ounces produced but not yet delivered to Silver Wheaton by its operating counterparties (considered as 'inventory') amounted to 3.8Moz silver and 63,300oz gold as at end-September 2016, equating to 1.5 months and 2.3 months of forecast FY16 production, respectively, or 1.9 months in aggregate – close to SLW's target level of two months.

FY16 production guidance

Official management guidance for FY16 is for gold production of 335,000oz (vs 305,000oz previously) owing to better than expected results in the first nine months of the year and expected production from Salobo and Sudbury in Q4. By contrast, attributable silver production for 2016 is now expected to be 30Moz (vs 32Moz previously) as a result of lower than expected results from Penasquito and San Dimas, partly offset by better than expected results from Antamina. On a silver-equivalent basis, however, guidance remains unchanged, at 55Moz (based on average LBMA gold and silver prices of US$1,260/oz and US$17.12/oz, respectively, for the first nine months of calendar 2016).

Valuation: 20.9% 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$33.09, or C$44.03, in FY20 (at prices of US$23.98/oz Ag and US$1,362/oz Au), implying a 20.9% pa total internal rate of return for investors in US dollar terms over the next four years. 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 87% of measures considered, and the miners themselves in at least 46% of measures considered, despite being associated with materially less operating and cost risk.

6 December 2016

Price	**C$25.03**
Market cap	**C$11,018m**
	C$1.3305/US$
Net debt (US$m) at 30 September 2016	1,219.5
Shares in issue	440.2m
Free float	100%
Code	SLW
Primary exchange	TSX
Secondary exchange	NYSE

Share price performance

%	1m	3m	12m
Abs	(21.5)	(29.8)	33.9
Rel (local)	(24.6)	(31.2)	18.5
52-week high/low		C$39.73	C$14.99

Business description

Silver Wheaton is the world's pre-eminent pure precious metals streaming company, with more than 25 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

Q4/FY16 results	March 2017

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Edison profile page

Q316 in perspective

Silver Wheaton's Q316 results were characterised by exceptionally strong production from its gold assets, supported by record quarterly output at Salobo and Minto and a strong performance at the 777 mine. Production from SLW's silver assets was in line with our expectations, with another quarter of outperformance from Antamina being offset by a subpar result at San Dimas (see page 3, below); although production from Penasquito was affected by the factors set out in our report, Q3 results scheduled for 9 November, published on 2 November, it was nevertheless ahead of our expectations and ahead of the pro rata outcome that would otherwise have been inferred from Goldcorp's Q3 results.

The other principal feature of the results was a 20.0% under-sale of silver relative to production (towards the upper end of the historical range) and a 22.1% under-sale of gold, which resulted in a return of inventory to more normal levels of circa two months of production versus circa one month as at the end of Q216. Exhibit 1 provides a summary of SLW's Q3 results relative to both the previous quarter (Q216) and also our prior expectations, as well as our updated forecasts for Q4 in the light of recent precious metals price weakness.

Exhibit 1: Silver Wheaton FY16 forecast, by quarter*

US$000s (unless otherwise stated)	Q116	Q216	Q316e	Q316e** (Ag under-sale)	Q316a	Chg*** (%)	Diff**** (%)	Q416e (prev)	Q416e (current)	FY16e (prev)	FY16e (current)
Silver production (koz)	7,570	7,581	7,796	7,796	7,651	0.9	-1.9	8,060	7,911	31,001	30,713
Gold production (oz)	64,942	70,249	81,626	81,626	109,193	55.4	33.8	81,626	81,626	298,443	326,010
AgE production (koz)	12,733	12,852	13,355	13,355	15,084	17.4	12.9	13,930	13,742	52,779	54,355
Silver sales (koz)	7,552	7,142	7,796	7,016	6,122	-14.3	-12.7	8,060	7,911	30,550	28,727
Gold sales (oz)	65,258	70,757	81,626	81,626	85,063	20.2	4.2	81,626	81,626	299,267	302,704
AgE sales (koz)	12,759	12,451	13,355	12,576	11,913	-4.3	-5.3	13,930	13,742	52,404	50,800
Avg realised Ag price (US$/oz)	14.68	17.18	19.60	19.60	19.53	13.7	-0.4	17.59	17.09	17.29	17.00
Avg realised Au price (US$/oz)	1,175	1,267	1,335	1,335	1,336	5.4	0.1	1,265	1,221	1,265	1,254
Avg realised AgE price (US$/oz)	14.70	17.06	19.60	19.60	19.57	14.7	-0.2	17.59	17.09	17.30	17.08
Avg Ag cash cost (US$/oz)	4.14	4.46	4.66	5.18	4.51	1.1	-12.9	4.58	4.55	4.46	4.41
Avg Au cash cost (US$/oz)	389	401	395	395	390	-2.7	-1.3	395	395	398	394
Avg AgE cash cost (US$/oz)	4.44	4.84	5.14	5.45	5.10	5.4	-6.4	4.96	4.97	4.87	4.84
Sales	187,511	212,351	261,763	246,484	233,204	9.8	-5.4	245,033	234,856	906,658	867,922
Cost of sales											
Cost of sales, excluding depletion	56,636	60,208	68,583	68,583	60,776	0.9	-11.4	69,158	68,238	254,585	245,055
Depletion	71,344	75,074	76,741	76,741	73,919	-1.5	-3.7	77,548	76,587	300,707	296,923
Total cost of sales	127,980	135,282	145,325	145,325	134,695	-0.4	-7.3	146,706	144,825	555,293	541,979
Earnings from operations	59,531	77,069	116,439	101,159	98,509	27.8	-2.6	98,327	90,031	351,365	325,944
Expenses and other income											
- General and administrative	10,844	9,959	8,754	8,754	9,513	-4.5	8.7	8,754	8,293	38,311	38,609
- Foreign exchange (gain)/loss	0	0	0	0	0	N/A	N/A	0		0	
- Net interest paid/(received)	6,932	4,590	4,811	4,811	6,007	30.9	24.9	4,811	7,680	21,144	25,209
- Other (income)/expense	1,160	1,599	814	814	1,380	-13.7	69.5	814	1,126	4,387	5,265
Total expenses and other income	18,936	16,148	14,379	14,379	16,900	4.7	17.5	14,379	17,099	63,842	69,083
Earnings before income taxes	40,595	60,921	102,060	86,781	81,609	34.0	-6.0	83,948	72,932	287,524	256,861
Income tax expense/(recovery)	(384)	615	0	0	(1,377)	-323.9	N/A	0	0	231	-1,146
Marginal tax rate (%)	(0.9)	1.0	0.0	0.0	(1.7)	-270.0	N/A	0.0	0.0	0.1	-0.4
Net earnings	40,979	60,306	102,060	86,781	82,986	37.6	-4.4	83,948	72,932	287,293	258,007
Ave. no. shares in issue (000s)	402,952	436,726	438,453	438,453	440,635	0.9	0.5	438,453	440,635	438,453	430,237
Basic EPS (US$)	0.10	0.14	0.23	0.20	0.19	35.7	-5.0	0.19	0.17	0.67	0.60
Diluted EPS (US$)	0.10	0.14	0.23	0.20	0.19	35.7	-5.0	0.19	0.17	0.67	0.60

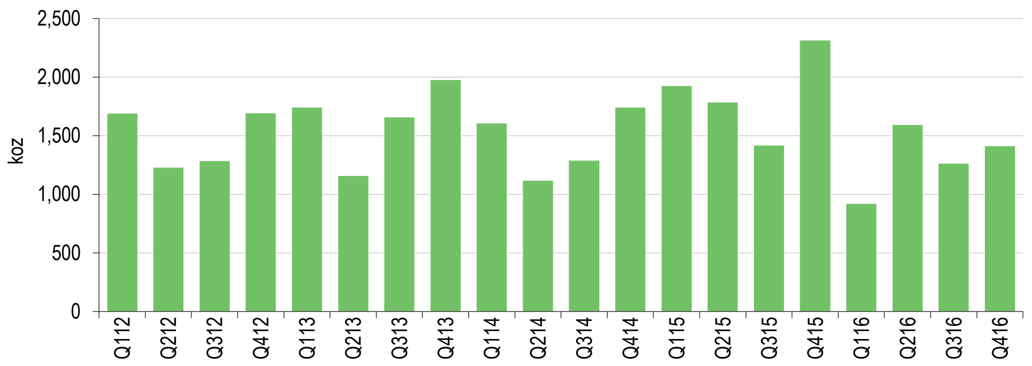
Source: Silver Wheaton, Edison Investment Research. Note: *Forecasts exclude stock-based compensation costs. **Assumed 10% under-sale of silver relative to production. ***Q316a vs Q216a. ****Q316a vs Q316e (Ag under-sale).

Our revised EPS estimate of 17c for Q4 compares to an average consensus basic EPS estimate of 20c (vs 21c immediately before SLW's Q3 results), within a range of 16-24c (source: Bloomberg, 2 December 2016). Our updated FY16 EPS estimate of 60c compares to an average consensus basic EPS estimate of 64c within a range of 60-70c.

San Dimas

Production at San Dimas in Q316 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. As a result of these tribulations, Primero (the mine's operator) estimates that silver production in FY16 will now be 5.5-6.0Moz. Given that San Dimas has produced 3.8Moz of silver in the first three quarters of the year, achieving output of 5.5Moz would require the production of 1.7Moz of silver in Q4, which, while possible (San Dimas last produced in excess of this number in Q415), may prove challenging under the circumstances and during the Christmas quarter. Our forecast for production at San Dimas in Q416 is therefore 1.4Moz.

Exhibit 2: Silver production from San Dimas attributable to SLW, Q112-Q416e (koz)



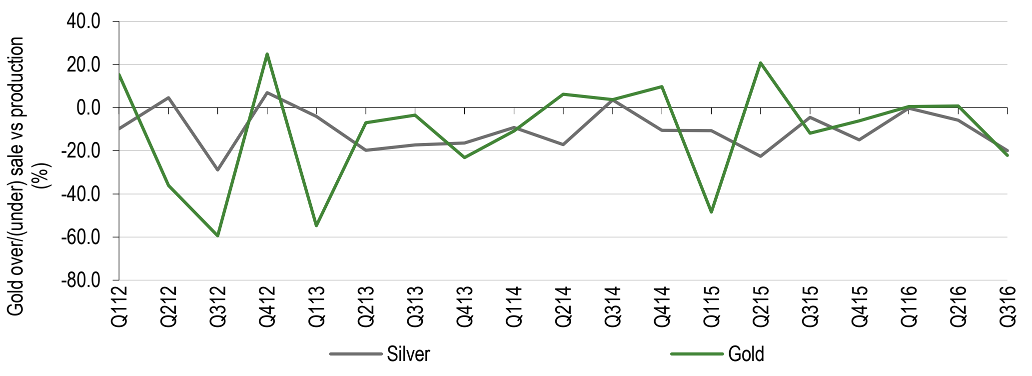
Source: Edison Investment Research, Silver Wheaton

Note that since Q112, San Dimas's production attributable to Silver Wheaton has been, on average, 1,543koz silver per quarter.

Ounces produced but not yet delivered – aka inventory

Edison's forecasts assume parity between production and sales in Q416, compared to an average historical under-sale of 10.4% for silver in the period Q112-Q316 and 10.6% for gold (see below):

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



Source: Edison Investment Research, Silver Wheaton

Payable ounces attributable to Silver Wheaton produced but not yet delivered amounted to 3.8Moz silver and 63,300oz gold as at end-September 2016, equating to 1.5 months and 2.3 months of forecast FY16 production, respectively, or 1.9 months in aggregate – close to SLW's target level of two months. Combined with broadly flat production expectations for Q416, this alone should militate against a material change in Q4 inventory. In addition, the fourth quarter, immediately before the calendar and (often) financial year ends, is traditionally the one in which operating companies typically try to 'flush' inventory through the sales pipeline.

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 mining companies themselves, 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.

Exceptional business plan

Silver Wheaton acquires the right to purchase streams of precious metals from producing or near-producing mines in return for a combination of a fixed upfront payment (in US dollars, typically in either cash or SLW shares) and an ongoing payment (in US$/oz). Typically, it focuses on by-product precious metals streams as this offers the greatest arbitrage opportunity between the perceived value of the stream to the producer in the equity market and the perceived value of the stream to Silver Wheaton. Specifically, however, it seeks to build long-term value by entering streaming agreements with large, relatively financially stable counterparties operating premium high-margin projects in the lowest quartile (and certainly the lowest half) of the cost curve. As well as providing comfort regarding the sustainability of the underlying operation, this strategy also helps to mitigate geopolitical and operating risks. In addition, it provides a degree of flexibility if projects are not developed according to plan (eg as evidenced by SLW's ability to successfully negotiate a series of amendments with Barrick regarding the latter's Pascua-Lama project). Unlike a number of its peers, Silver Wheaton has restricted itself solely to precious metals streaming agreements and does not participate in the base metal and oil & gas markets. This strategy has the beneficial side effect that it also exposes SLW to the traditional premium multiples afforded to precious metal companies compared to base metal ones. Notwithstanding its silver heritage, however, SLW describes itself as 'agnostic' in terms of its preference for either silver or gold streams.

Latterly, Silver Wheaton has engaged in two 'early deposit' contracts whereby it has contracted to buy gold and silver streams from the Cotabambas and Toroparu mines in South America, thereby effectively becoming a relatively low-cost financing component of these projects at a time when the availability of both debt and equity financing is uncertain and their associated costs therefore relatively high.

Streaming agreement characteristics

While royalty companies compete with Silver Wheaton to some extent in the provision of capital to the mining industry, there are notable differences between the two business plans. Royalties are typically linked to tenement areas, for example, and also typically relate to a mine's primary output, whereas streaming arrangements are governed by a commercial agreement between two companies (albeit typically relating to a single mine) and relate to a mine's secondary, or by-product, output. A summary of the unique features of Silver Wheaton's streaming business plan and how it distinguishes itself from other investment opportunities in the mining industry is provided below.

Compared to exchange traded funds (ETFs), Silver Wheaton:

- has exposure to exploration success in the form of extended mine lives;
- has exposure to levels of production;
- is operationally geared to changes in metals prices; and
- pays a dividend.

Compared to mining companies, Silver Wheaton:

- has no exposure to capital cost overruns;
- has no exposure to operating cost overruns;
- is only exposed to grade fluctuations inasmuch as they affect production levels rather than margins;
- has a predetermined level of inflation applied to its own unit cash costs; and
- is unaffected by changes in a host country's mining tax and regulatory regimes.

Compared to royalty companies, Silver Wheaton:

- has geared exposure to metals prices; and
- typically negotiates and exploits the value differential around a secondary, or by-product, metal stream, rather than being applied to all metals streams including the primary one.

A key advantage for Silver Wheaton compared to potential competitors is its size, scale and valuation, which allows it to raise equity on a non-dilutive basis to fund new streams, or even to issue counterparties with equity in consideration of new streams.

Cornerstone assets

Silver Wheaton has four cornerstone assets (San Dimas, Penasquito, Antamina and Salobo). The following is an analysis of the financial returns generated as a result of the application of SLW's investment criteria to one of its cornerstone assets – Penasquito.

Penasquito

A gold-silver-lead-zinc mine, located in Mexico and operated by Goldcorp, Penasquito has consistently been regarded as one of Silver Wheaton's key cornerstone assets. The stream relating to this asset was acquired late in 2007 for US$485m plus US$3.56m in costs and US$15.761m in capitalised interest. The first silver-bearing lead and zinc concentrate was delivered from the mine in 2009 after production at its first 50,000tpd sulphide process line was ramped up on schedule and on budget. During the ramp-up period, metal recoveries, concentrate grades and concentrate quality were within expected ranges. At the same time, construction of a second 50,000tpd sulphide process line was progressing towards planned completion in Q310. After exceeding ramp-up expectations, Penasquito became Silver Wheaton's second largest contributor of silver production in 2010 and, after further expansions, it finally surpassed San Dimas to become Silver Wheaton's largest contributor of silver production in 2012, by which time it held the title of Mexico's largest precious metals mine, one of the world's largest and lowest-cost gold-silver mines and one of Goldcorp's most significant cash flow generators. After adjusting the mine's production schedule to reflect a targeted mill throughput rate of 110,000tpd, rising to in excess of 115,000tpd beyond 2015, Penasquito is now forecast to yield average annual production attributable to Silver Wheaton of 7Moz Ag per year over the next two years, plus an additional 4-6Moz pa (of which 25% will be attributable to SLW) once the Pyrite Leach Project is commissioned in FY19.

Compared to an initial investment of US$504.3m, Penasquito has yielded the following historical and forecast cash flows to Silver Wheaton:

Exhibit 4: Penasquito cash flows to Silver Wheaton, 2008-26 (US$m)

	Historical									Forecast									
Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Cash flow	2.3	6.9	52.2	126.8	162.2	105.2	106.0	85.1	57.7	128.0	121.2	140.1	162.3	159.3	150.0	148.7	145.9	143.8	146.1

Source: Edison Investment Research, Silver Wheaton

On an undiscounted basis therefore, Penasquito paid back Silver Wheaton's initial investment in 2014. When discounted at Edison's standard mining discount rate of 10%, the mine has already returned US$412.3m to Silver Wheaton (as at end FY16e) in 2007 money terms and is also worth a residual US$878.0m in 2017 money terms. Applying a 10% discount/hurdle rate, pay back is indicated in late 2018/early 2019 in 2007 money terms.

By contrast, applying a 10% discount/hurdle rate over the entire stream of income yields an ultimate value of US$784.6m, which is directly comparable to the stream's acquisition cost of US$504.3m in 2007 money terms. Stated alternatively, the stream will provide Silver Wheaton with an internal rate of return of 15.6% from the point of acquisition in 2007 to 2026. In addition, there is substantial underground potential beneath the current open pits, providing excellent opportunities for further exploration growth and expanded and/or extended silver production.

Silver Wheaton's assets

As at Q316, Silver Wheaton has agreements over more than 20 major metals streams, summarised in Exhibit 5 below.

Exhibit 5: Silver Wheaton precious metals streaming and dearly deposit agreements

Asset	Owner/operator	Location	Attributable production to be purchased (%)		Per ounce cash payment (US$/oz)		Term of agreement	Date of original contract
			Silver	Gold	Silver	Gold		
San Dimas	Primero	Mexico	6.0Moz + 50% of excess	0	4.24		Life of mine	Oct 2004
Yauliyacu*	Glencore	Peru	1.5Moz + 50% of excess	0	8.70		Life of mine	Mar 2006
Penasquito	Goldcorp	Mexico	25	0	4.09		Life of mine	Jul 2007
Salobo	Vale	Brazil	0	75		400	Life of mine	Feb 2013
Sudbury	Vale	Canada	0	70		400	20 years	Feb 2013
Antamina**	Glencore	Peru	33.75/22.5	0	20% of spot		Life of mine	Nov 2015
Barrick								
■ Pascua-Lama	Barrick	Chile/Argentina	25	0	3.90		Life of mine	Sep 2009
■ Lagunas Norte	Barrick	Peru	100	0	3.90		8.5 years	Sep 2009
■ Pierina	Barrick	Peru	100	0	3.90		8.5 years	Sep 2009
■ Veladero	Barrick	Argentina	100	0	3.90		8.5 years	Sep 2009
Other								
Los Filos	Goldcorp	Mexico	100	0	4.26		25 years	Oct 2004
Zinkgruvan	Lundin	Sweden	100	0	4.27		Life of mine	Dec 2004
Stratoni	Eldorado	Greece	100	0	4.14		Life of mine	Apr 2007
Minto	Capstone	Canada	100	100	4.10	315	Life of mine	Nov 2008
Cozamin	Capstone	Mexico	100	0	4.24		10 years	Apr 2007
Neves-Corvo	Lundin	Portugal	100	0	4.14		50 years	Jun 2007
Aljustrel	I'M SGPS	Portugal	100	0	4.06		50 years	Jun 2007
Keno Hill	Alexco	Canada	25	0	3.90		Life of mine	Oct 2008
Rosemont	Hudbay	US	100	100	3.90	450	Life of mine	Feb 2010
Loma de La Plata (Navidad)	Pan American	Argentina	12.5	0	4.00		Life of mine	Not finalised
777	Hudbay	Canada	100	100/50***	5.96	404	Life of mine	Aug 2012
Constancia	Hudbay	Peru	100	50	5.90	400	Life of mine	Aug 2012
Early deposit								
Toroparu	Sandspring	Guyana	50	10		400	Life of mine	Nov 2013
Cotabambas	Panoro	Peru	100	25	5.90	450	Life of mine	Not finalised

Source: Silver Wheaton, Edison Investment Research. Note: *In the fourth quarter of 2015, SLW amended its silver purchase agreement with Glencore at Yauliyacu, such that the term of the agreement, which was set to expire in 2026, was extended to the life of mine; in addition, with effect from 1 January 2016, Glencore was obliged to deliver to SLW a per annum amount equal to the first 1.5Moz of payable silver produced at Yauliyacu plus 50% of any excess at a price that was increased by US$4.50/oz from the original agreement plus, if the market price of silver exceeds US$20/oz, 50% of the excess, to a maximum of US$10/oz. **SLW is entitled to 33.75% of silver production at Antamina until 140Moz have been delivered and 22.5% thereafter, for a 50-year term that can be extended in increments of 10 years at the company's discretion. ***Silver Wheaton is entitled to acquire 100% of the life-of-mine gold production from Hudbay's 777 mine until Hudbay's Constancia project satisfies a completion test, or the end of 2016, whichever is the later, at which point Silver Wheaton's share of gold production from 777 will be reduced to 50% for the remaining life of the mine.

Medium- and near-term outlook

Production

Official management guidance for FY16 is for gold production of 335,000oz (vs 305,000oz previously) owing to better than expected results in the first nine months of the year and expected production from Salobo and Sudbury in Q4. By contrast, attributable silver production for 2016 is now expected to be 30Moz (vs 32Moz previously) as a result of lower than expected results from Penasquito and San Dimas, partly offset by better than expected results from Antamina. On a silver-equivalent basis, however, it remains unchanged, at 55Moz (based on average LBMA gold and silver prices of US$1,260/oz and US$17.12/oz, respectively, for the first nine months of calendar 2016).

Over the next five years (including 2016), management estimates average annual production of approximately 330,000oz of gold and 31Moz of silver.

These compare with our medium-term forecasts, as follows:

Exhibit 6: Edison forecast SLW precious metals production

	FY16	FY17	FY18	FY19	FY20
Silver production (Moz)	30.7	30.9	28.7	28.7	31.8
Gold production (koz)	326.0	335.1	290.6	329.9	322.6
Silver equivalent production (Moz)*	54.4	49.9	45.2	47.4	50.1

Source: Edison Investment Research. Note: *Calculated at Edison's long-term metals price forecasts for FY17 and beyond (see our report Gold and other metals: Normalisation augurs well for exploration, published in October 2016).

General & administrative

SLW now forecasts non-stock general & administrative expenses in the range of US$31-32m for the full year (cf US$31-34m previously) – ie c US$8m per quarter – including additional legal costs relating to SLW's dispute with the Canadian Revenue Agency. Investors should note that our financial forecasts in Exhibit 1 specifically exclude stock-based compensation costs.

FY16 risks and upside

In the first three quarters of the year, silver production attributable to Silver Wheaton was 22.8Moz (the equivalent of 7.6Moz per quarter, on average). For SLW to meet its guidance of 30.0Moz in FY16, production in Q416 would have to be 7.2Moz during the three-month period. While our estimate of production attributable to Silver Wheaton from San Dimas is conservative for Q416 in the order of 0.3Moz (see page 3), we are somewhat optimistic in our estimate of 3.0Moz of output from its 'other' assets cf an average of 2.7Moz in the first three quarters of the year. Again, while we recognise that 3.0Moz is optimistic, we believe it is achievable if all of the assets perform in tandem. Self-evidently, an optimistic estimate in the order of 0.3Moz of production from SLW's 'other' assets approximately offsets a pessimistic estimate in the same order relating to San Dimas.

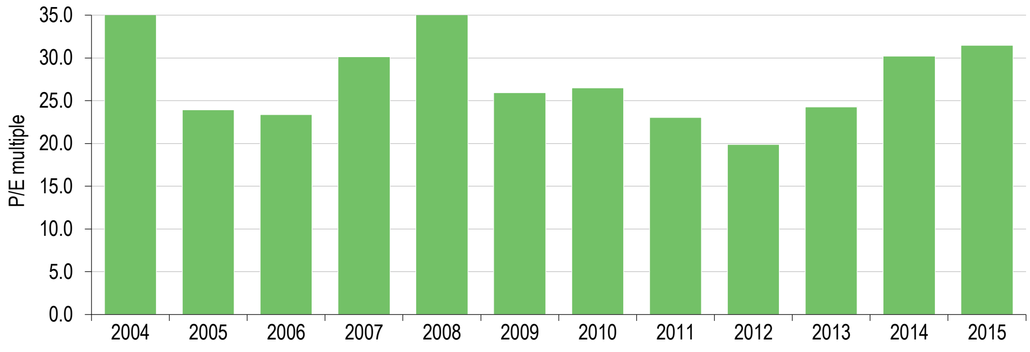
FY17

Edison has adjusted its FY17 forecasts to reflect our updated annual precious metals price forecasts, as set out in our report Gold and other metals: Normalisation augurs well for exploration, published in October 2016. In the wake of this adjustment, our basic EPS estimate for FY17 of 105c compares to an average consensus estimate of 91c within a range of 64-135c. Note that, if silver and gold prices remain at the current levels of US$16.40/oz and US$1,172/oz, respectively, at the time of writing, we estimate that basic EPS in FY17 will instead be 57c per share (all other things being equal).

Valuation

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 25.9x current year basic EPS (cf 30.2x Edison FY16e or 28.3x consensus FY16e, currently – 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$1.28 in FY20, at Edison's revised long-term precious metals prices (US$23.98/oz Ag and US$1,362/oz Au in FY20), implies a potential share value of US$33.09, or C$44.03, in that year.

In the meantime, from a relative perspective, it is notable that SLW is cheaper than its royalty/streaming 'peers' in at least 87% of the valuation measures used in Exhibit 8 and on multiples that are cheaper than the gold miners themselves in at least 48% of the same valuation 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	62.7	51.6	1.5	1.5	22.3	21.2
Royal Gold	35.8	30.4	1.4	1.4	15.1	13.5
Sandstorm Gold	79.4	46.7	0.0	0.0	13.4	12.2
Osisko	41.3	37.5	1.1	1.2	26.2	24.4
Average	**54.8**	**41.6**	**1.0**	**1.0**	**19.3**	**17.8**
Silver Wheaton (Edison forecasts)	**30.2**	**17.3**	**1.2**	**1.8**	**13.7**	**10.3**
SLW (consensus)	**28.3**	**19.9**	**1.2**	**1.7**	**13.3**	**11.1**
Operators						
Barrick	22.1	15.1	0.6	0.6	6.5	5.7
Newmont	19.0	17.5	0.4	0.8	6.7	6.5
Goldcorp	46.8	22.3	0.9	0.6	9.2	7.0
Newcrest	18.1	14.9	1.1	1.6	8.3	7.3
Kinross	27.6	16.0	0.0	0.0	4.2	3.4
Agnico-Eagle	61.7	36.4	0.9	1.0	11.3	9.9
Eldorado	38.9	18.8	0.1	0.5	14.6	8.8
Yamana	29.8	15.2	0.9	0.8	4.6	3.8
Randgold Resources	24.3	18.5	1.0	1.2	14.2	10.6
Average	**32.0**	**19.4**	**0.6**	**0.8**	**8.8**	**7.0**

Source: Bloomberg, Edison Investment Research. Note: Edison SLW FY17 forecasts assume precious metals prices of US$22.48/oz Ag and US$1,275/oz Au. Peers priced on 2 December 2016.

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 to SLW's estimated production of 30.7Moz Ag in FY16, ie SLW estimates that it has penetrated only 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 three that may be of interest to Silver Wheaton in due course and regarding which it already has strong, existing counterparty relationships:

- The 75% silver stream at Penasquito that is currently not subject to any streaming arrangement.
- The platinum group metal (PGM) by-product stream at Sudbury.
- The 75% silver stream at Pascua-Lama that is currently not subject to any streaming arrangement (subject to permitting and development).

Financials

SLW had net debt of US$1,219.5m as at the end of September 2016 after US$161.6m of cash inflows from operations (equivalent to 36.7c/share). This compares with US$582m as at the end of June 2016, US$1,284.2m as at the end of March and US$1,362.7m as at the end of December 2015 and is consistent with SLW generating c US$100-150m 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 Exhibit 1, we estimate that SLW's net debt will be US$1,092.6m by the end of FY16 (equating to gearing of 22.1% and leverage of 18.1%), 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 of its banking covenants that:

- net debt should be no more than 0.75x tangible net worth (which was US$4,963.2m as at end-September 2016 and is forecast, by Edison, to be US$4,945.6m as at end-December 2016); and
- interest should be no less than 3x covered by EBITDA (we estimate that net interest will be 23.2x covered in FY16).

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 for the mining industry).

Otherwise, any further developments will be communicated to investors as and when they occur.

Exhibit 9: Financial summary

US$000s	2012	2013	2014	2015	2016e	2017e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	849,560	706,472	620,176	648,687	867,922	1,122,410
Cost of Sales	(117,489)	(139,352)	(151,097)	(190,214)	(245,055)	(289,976)
Gross Profit	732,071	567,120	469,079	458,473	622,867	832,434
EBITDA	701,232	531,812	431,219	426,236	584,258	793,825
Operating Profit (before amort. and except.)	600,003	387,659	271,039	227,655	287,335	487,766
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	0	0	(68,151)	(384,922)	0	0
Other	788	(11,202)	(1,830)	(4,076)	(5,265)	0
Operating Profit	600,791	376,457	201,058	(161,343)	282,070	487,766
Net Interest	0	(6,083)	(2,277)	(4,090)	(25,209)	(25,458)
Profit Before Tax (norm)	600,003	381,576	268,762	223,565	262,126	462,308
Profit Before Tax (FRS 3)	600,791	370,374	198,781	(165,433)	256,861	462,308
Tax	(14,755)	5,121	1,045	3,391	1,146	0
Profit After Tax (norm)	586,036	375,495	267,977	222,880	258,007	462,308
Profit After Tax (FRS 3)	586,036	375,495	199,826	(162,042)	258,007	462,308
Average Number of Shares Outstanding (m)	353.9	355.6	359.4	395.8	430.2	440.6
EPS - normalised (c)	166	106	75	53	60	105
EPS - normalised and fully diluted (c)	165	105	74	53	60	105
EPS - (IFRS) (c)	166	106	56	(41)	60	105
Dividend per share (c)	35	45	26	20	21	33
Gross Margin (%)	86.2	80.3	75.6	70.7	71.8	74.2
EBITDA Margin (%)	82.5	75.3	69.5	65.7	67.3	70.7
Operating Margin (before GW and except.) (%)	70.6	54.9	43.7	35.1	33.1	43.5
BALANCE SHEET						
Fixed Assets	2,403,958	4,288,557	4,309,270	5,526,335	6,064,000	5,829,941
Intangible Assets	2,281,234	4,242,086	4,270,971	5,494,244	6,031,802	5,797,743
Tangible Assets	1,347	5,670	5,427	12,315	12,430	12,430
Investments	121,377	40,801	32,872	19,776	19,768	19,768
Current Assets	785,379	101,287	338,493	105,876	4,324	327,366
Stocks	966	845	26,263	1,455	1,946	2,517
Debtors	6,197	4,619	4,132	1,124	2,378	3,075
Cash	778,216	95,823	308,098	103,297	0	321,774
Other	0	0	0	0	0	0
Current Liabilities	(49,458)	(21,134)	(16,171)	(12,568)	(259,708)	(30,504)
Creditors	(20,898)	(21,134)	(16,171)	(12,568)	(26,074)	(30,504)
Short term borrowings	(28,560)	0	0	0	(233,634)	0
Long Term Liabilities	(32,805)	(1,002,164)	(1,002,856)	(1,468,908)	(863,054)	(863,054)
Long term borrowings	(21,500)	(998,136)	(998,518)	(1,466,000)	(859,000)	(859,000)
Other long term liabilities	(11,305)	(4,028)	(4,338)	(2,908)	(4,054)	(4,054)
Net Assets	3,107,074	3,366,546	3,628,736	4,150,735	4,945,562	5,263,749
CASH FLOW						
Operating Cash Flow	720,209	540,597	434,582	435,783	590,762	796,988
Net Interest	0	(6,083)	(2,277)	(4,090)	(25,209)	(25,458)
Tax	(725)	(154)	(204)	(208)	2,292	0
Capex	(641,976)	(2,050,681)	(146,249)	(1,791,275)	(834,596)	(72,000)
Acquisitions/disposals	0	0	0	0	0	0
Financing	12,919	58,004	6,819	761,824	627,274	0
Dividends	(123,852)	(160,013)	(79,775)	(68,593)	(90,454)	(144,121)
Net Cash Flow	(33,425)	(1,618,330)	212,896	(666,559)	270,069	555,408
Opening net debt/(cash)	(761,581)	(728,156)	902,313	690,420	1,362,703	1,092,634
HP finance leases initiated	0	0	0	0	0	0
Other	0	(12,139)	(1,003)	(5,724)	0	0
Closing net debt/(cash)	(728,156)	902,313	690,420	1,362,703	1,092,634	537,226

Source: Silver Wheaton sources, Edison Investment Research

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