

Wheaton Precious Metals

Salobo tasting sweet

Q324/FY24 forecasts,
Koné & Fenix PMPAs and
Salobo site visit

Metals and mining

30 October 2024

Price **C\$91.91**

Market cap **C\$41,675m**

C\$1.3899/US\$, US\$1.2994/£

Cash at end June 2024 (excluding US\$540.2m
US\$5.7m in lease liabilities)

Shares in issue 453.4m

Free float 100.0%

Code WPM

Primary exchange TSX

Secondary exchanges LSE, NYSE

Share price performance



% 1m 3m 12m

Abs 11.8 16.3 56.4

Rel (local) 9.1 7.8 19.3

52-week high/low C\$94.71 C\$52.92

Business description

Wheaton Precious Metals is the world's pre-eminent ostensibly precious metals streaming company, with 46 high-quality precious metals streaming and royalty agreements over mines in Mexico, Canada, Brazil, Chile, the US, Argentina, Peru, Sweden, Greece, Portugal and Colombia.

Next events

Q324 results 7 November 2024

Third quarterly dividend record date Late November

Distribution date Early December

Q424/FY24 results March 2025

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Investment Research Limited**

Ahead of Wheaton's scheduled Q3 results after the bell on Thursday 7 November, we have adjusted our earnings forecasts for the quarter to take account of generally higher precious metals prices, lower production and sales at Penasquito, Constanca and San Dimas, but higher production and sales at Salobo. Specifically, Vale's announcement that Salobo produced 46.6kt of copper in Q3 implies gold production attributable to Wheaton of 65,019oz ±3,480oz (cf 54,750oz previously forecast). As a result, we have upgraded our forecast EPS for Q3 fractionally. However, we have upgraded our forecast for FY24 by a more material 9.9c/share, largely on account of the effect of higher precious metals prices on Q4 earnings. Note that if current metals prices persist, our FY25 EPS forecast will be US\$1.72/share (cf the US\$1.24/share shown below).

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/22	1,065.1	505.4	112	60	59.0	0.9
12/23	1,016.0	533.4	118	60	56.0	0.9
12/24e	1,309.0	775.5	145	62	45.5	0.9
12/25e	1,322.4	654.5	124	65	53.4	1.0

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

FY24 marks the start of a multi-year growth profile

In recent days, Wheaton Precious Metals (WPM) has shown itself to be one of the major beneficiaries of the funding stasis for mining projects in western world financial markets by entering into a definitive precious metals purchase agreement (PMPA) with Montage Gold in respect of its Koné mine in Côte d'Ivoire and also an updated and expanded PMPA with Rio2 in respect of its Fenix project in Chile. Both are key components in packages that fully finance the projects and allow them to develop rapidly. As a result, we are forecasting that WPM's attributable production will grow to 899.0k gold equivalent ounces (GEOs) in FY30 (cf 596.5k GEOs in FY24e).

Valuation: Steady on conservative assumptions

Using a capital asset pricing model-type method, whereby we discount cash flows at a nominal 9% per year, our 'terminal' valuation of WPM has held steady at US\$57.01 (C\$79.24) in FY27, assuming zero subsequent long-term growth in real cash flows (which we think unlikely). However, if we instead assume 7.4% pa long-term growth in cash flows (ie the average compound annual growth rate in the price of gold from 1967 to 2023), our current valuation of WPM in FY24 increases manyfold to US\$136.28/share, or C\$189.42/share. As such, at an implied rate of 5.7% per year, WPM's share price currently appears to be discounting future compound annual average increases in cash flows per share from FY27 only very slightly in excess of the long-term average rate of US dollar inflation of 4.0% from 1967 until 2023. Alternatively, assuming no purchases of additional streams, we calculate a value per share for WPM of US\$56.57 or C\$78.62 or £43.54 in FY27, based on a historical multiple of 30.8x contemporary earnings (albeit at a gold price of only US\$2,239/oz). In the meantime, WPM is maintaining its premium rating relative to its peers, albeit it appears good value within the context of future dividend expectations, especially in years two and three.

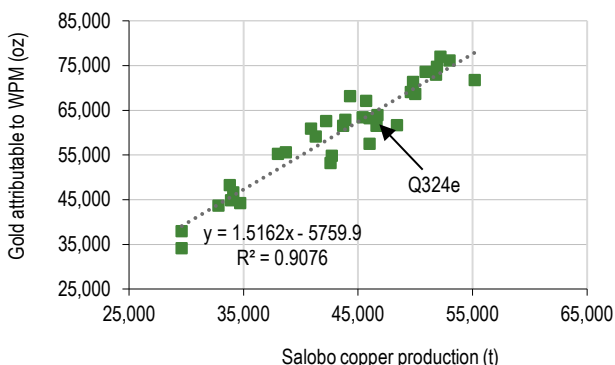
Q324 forecasts

WPM's Q324 results are scheduled after the close of business in Canada on Thursday 7 November. Ahead of their release, we have adjusted our earnings forecasts for the quarter to take account of the following:

- Generally higher precious metals prices (see Exhibit 1, below).
- Lower sales at Penasquito (in line with Newmont's Q3 results) to reflect port delays to shipments ex-Mexico as a result of Hurricanes Beryl, Debby, Francine and (in particular) Helene – albeit we expect this shortfall to be largely made up in Q4 notwithstanding Hurricane Milton early in the quarter.
- Lower production at Constancia to reflect mine phasing and a temporary delay in moving to higher-grade areas of the mine.
- Slightly lower production at San Dimas in Q3 relative to Q2 to reflect a 4% increase in gold production (quarter-on-quarter), but an 8% decrease in silver production, driven by lower silver grades and recoveries only partially offset by an increase in ore tonnes processed.
- Higher production from Salobo to reflect Vale's announcement of 46.6kt copper production in Q3, driven by a 30% (year-on-year) increase in ore processed, supported by a stronger mill performance and notwithstanding the after-effects of a conveyor belt fire at the Salobo III plant in June (see 'Salobo site visit' section, below, for more detail).
- An increase in WPM's general and administrative (G&A) charge, reflecting the strong performance of Wheaton's share price during the quarter.

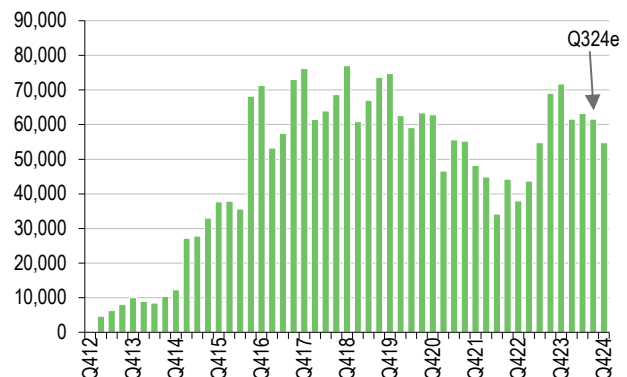
Of the six effects, the most significant is our estimate of higher gold production attributable to Wheaton from Salobo. The mine produced 46.0kt copper in Q2 and 46.6kt copper in Q3 and there is a very strong correlation (0.954 Pearson product moment correlation coefficient, quarterly, since Q316) between copper produced and gold produced attributable to WPM (as shown in Exhibit 1, below). In this case, 46.6kt Cu produced in Q3 implies gold production attributable of 65,019oz \pm 3,480oz and, for these purposes, we have therefore assumed that production attributable to Wheaton from Salobo in Q3 will be at the lower end of the range, at 61,539oz. Note however, that we continue to expect lower output of both copper and gold in Q4 owing to mine sequencing as it segues into lower-grade zones of the pit (as shown in Exhibit 2).

Exhibit 1: Salobo copper production versus gold production attributable to WPM, Q316–Q324e



Source: Wheaton Precious Metals, Edison Investment Research

Exhibit 2: Gold production attributable to WPM from Salobo, Q412–Q424e



Source: Wheaton Precious Metals, Vale, Edison Investment Research

The consequence of these changes is that we have increased our revenue estimate by US\$3.9m (or 1.3%), partially offset by a US\$2.7m (16.7%) increase in the G&A charge to result in a US\$2.7m (1.8%) increase in net earnings to US\$153.9m, or US\$0.339/share (as shown below):

Exhibit 3: WPM Q324 forecast change*

US\$000s (unless otherwise stated)	Implied re- stated Q124	Underlying Q224	Q324e (prior)	Q324 (current)	**Change (%)	***Change (%)	**Change (units)	***Change (units)
Silver production (koz)	5,476	5,062	4,830	4,446	-7.9	-12.2	-384	-616
Gold production (oz)	93,370	84,993	81,873	84,137	2.8	-1.0	2,264	-856
Palladium production (oz)	4,463	4,338	4,209	4,209	0.0	-3.0	0	-129
Cobalt production (klb)	240	259	214	214	0.0	-17.4	0	-45
Silver sales (koz)	4,067	3,823	4,087	3,690	-9.7	-3.5	-397	-133
Gold sales (oz)	92,019	77,326	76,018	78,120	2.8	1.0	2,102	794
Palladium sales (oz)	4,774	4,301	3,786	3,786	0.0	-12.0	0	-515
Cobalt sales (klb)	309	88	214	214	0.0	143.2	0	126
Average realised Ag price (US\$/oz)	23.77	29.11	27.95	29.45	5.4	1.2	1.50	0.34
Average realised Au price (US\$/oz)	2,072	2,356	2,422	2,476	2.2	5.1	54	120
Average realised Pd price (US\$/oz)	980	979	921	969	5.2	-1.0	48	-10
Average realised Co price (US\$/lb)	15.49	16.02	12.48	12.48	0.0	-22.1	0.00	-3.54
Average Ag cash cost (US\$/oz)	4.77	4.95	4.92	5.00	1.6	1.0	0.08	0.05
Average Au cash cost (US\$/oz)	439	441	451	442	-2.1	0.1	-9	1
Average Pd cash cost (US\$/oz)	182	175	166	174	5.1	-0.3	8	-1
Average Co cash cost (US\$/lb)****	2.96	3.11	2.25	2.25	-0.2	-27.8	0.00	-0.86
Sales	296,806	299,064	304,506	308,425	1.3	3.1	3,919	9,361
Cost of sales								
Cost of sales, excluding depletion	61,555	54,007	55,507	54,078	-2.6	0.1	-1,429	71
Depletion	63,676	58,865	59,400	58,507	-1.5	-0.6	-893	-358
Total cost of sales	125,231	112,872	114,907	112,585	-2.0	-0.3	-2,322	-287
Earnings from operations	171,575	186,192	189,599	195,840	3.3	5.2	6,241	9,648
Expenses and other income								
- General and administrative*****	13,315	17,185	16,299	19,017	16.7	10.7	2,718	1,832
- Foreign exchange (gain)/loss			0	0	N/A	N/A	0	0
- Interest paid	1,442	1,299	1,378	1,378	0.0	6.0	-1	79
- Other (income)/expense	(6,840)	(4,752)	(7,828)	(7,828)	0.0	64.7	0	-3,076
Total expenses and other income	7,917	13,732	9,849	12,567	27.6	-8.5	2,718	-1,165
Earnings before income taxes	163,658	172,460	179,750	183,273	2.0	6.3	3,523	10,813
Income tax expense/(recovery)	24,824	22,895	28,614	29,412	2.8	28.5	798	6,517
Marginal tax rate (%)	15.2	13.3	15.9	16.0	0.9	20.7	0.1	2.7
Net earnings	138,834	149,565	151,136	153,861	1.8	2.9	2,725	4,296
Average no. shares in issue (000s)	453,094	453,430	453,430	453,430	0.0	0.0	0	0
Basic EPS (US\$)	0.306	0.330	0.333	0.339	1.9	2.8	0.01	0.01
Diluted EPS (US\$)	0.306	0.329	0.333	0.339	1.7	3.0	0.01	0.01
DPS (US\$)	0.155	0.155	0.155	0.155	0.0	0.0	0.00	0.00

Source: Wheaton Precious Metals, Edison Investment Research. Note: *Excluding impairments, impairment reversals and exceptional items (unless otherwise indicated). **Change is Q324e (current) of Q324e (prior). ***Change is Q324e of Q224. ****Cobalt inventory is held on WPM's balance sheet at the lower of cost and net realisable value; cash costs per pound of cobalt sold are therefore affected by changes in the valuation of inventory quarterly. *****Forecasts include stock-based compensation costs. Totals may not add up owing to rounding.

Note that, for the purposes of the above analysis, we have shown Q224 on an 'underlying' basis, with the global minimum tax (GMT) attributable in Q124, but reported in Q224, adjusted back out into Q124 (which is also the basis of our 'Implied re-stated' Q124 numbers).

As a result, our forecasts compare as follows with respect to the consensus for the quarter:

Exhibit 4: WPM Q324 EPS forecasts compared to Q124 and Q224 actuals (US\$/share)

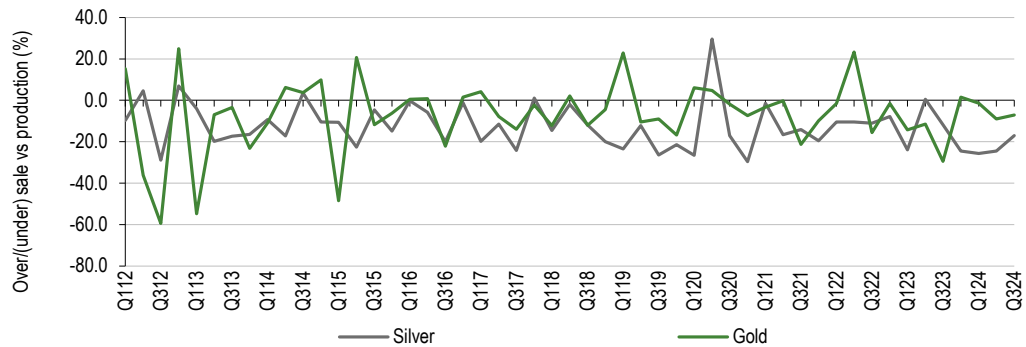
	Q124	Q224	Q324e	Forecast change (%)
Edison forecasts	0.306	0.330	0.339	+2.7
Mean consensus	0.306	0.330	0.339	+2.7
High consensus	0.306	0.330	0.400	+21.2
Low consensus	0.306	0.330	0.330	u/c

Source: LSEG Data & Analytics, Edison Investment Research. Note: As at 28 October 2024.

Ounces produced but not yet delivered

For the group as a whole, we expect the level of silver under-sales to remain relatively high in Q3, at 17.0% of production (cf a long-term average of 12.6% since Q112), while we expect the level of gold under-sales to remain relatively close to the long-term average, at 7.2% (cf a long-term average of 7.1%):

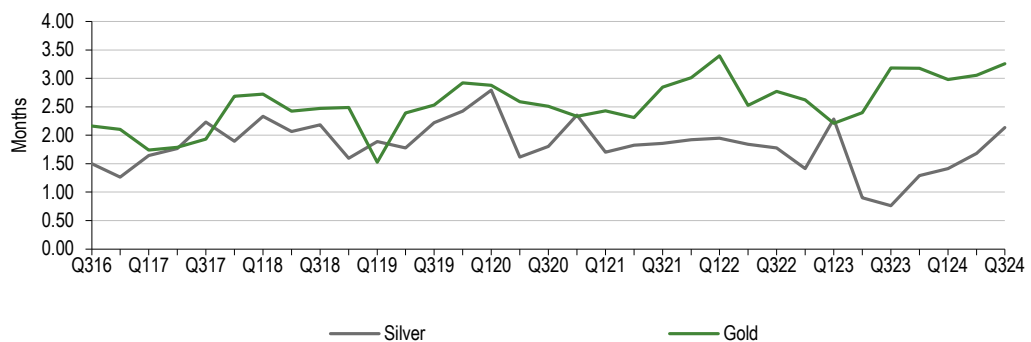
Exhibit 5: Over/(under) sale of silver and gold as a percentage of production, Q112–Q324e



Source: Edison Investment Research, Wheaton Precious Metals. Note: As reported.

As a result, we expect silver ounces produced but not yet delivered (PBNB) to WPM to increase to c 3.6Moz and to now equate to 2.14 months of our forecast FY24 production level (cf 2.8Moz and 1.68 months at the end of Q224) – that is, broadly in line with WPM’s target level of two months for silver production. We expect gold ounces PBNB to increase by 6,017oz (or 6.7%) to 95,684oz, or 3.26 months of estimated FY24 production (cf 89,667oz and 3.05 months at the end of Q124). This figure of 3.26 months of gold ounces PBNB is slightly above WPM’s target levels of two to three months for gold and palladium production, but arguably sets up a rebound in Q4 when Wheaton’s counterparties traditionally flush through sales ahead of the end of the calendar (and usually financial) year-end.

Exhibit 6: WPM ounces produced but not yet delivered, Q316–Q324e (months of production)



Source: Edison Investment Research, Wheaton Precious Metals. Note: As reported.

General and administrative expenses

At the time of its Q423 results, WPM provided guidance for non-stock G&A expenses of US\$41–45m, or US\$10.25–11.25m per quarter, for FY24, which represents a decline relative to US\$47–50m in FY23 and US\$47–49m in FY22 and is on a par with guidance of US\$42–44m for FY21 and US\$40–43m for FY20.

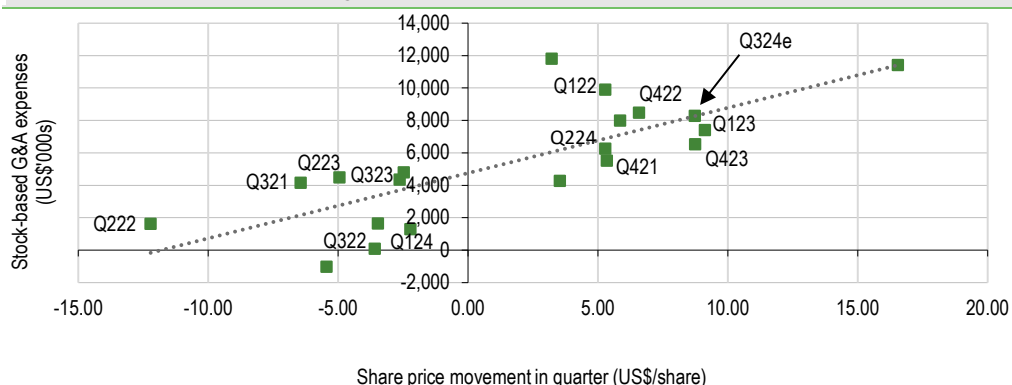
Given WPM's share price as at the date of our last [note](#) in August, we forecast that the total G&A charge for WPM in Q3 should be US\$16.3m. WPM's share price appreciated by 16.7% in US dollar terms over the quarter, with the result that we have increased our estimate of G&A expenses to US\$19.0m, of which 57% will have been attributable to non-stock-based G&A expenses and 43% to stock-based expenses.

Exhibit 7: WPM G&A expenses, Q421–Q324e (US\$000s)										
Item	Q222	Q322	Q422	Q123	Q223	Q323	Q423	Q124	Q224	Q324e
G&A salaries excluding PSU and equity settled stock-based compensation	5,061	4,629	4,187	5,021	4,749	4,591	4,051	5,365	5,083	
Other (including depreciation, donations and professional fees)	5,784	5,137	7,112	6,456	7,407	5,751	7,401	6,669	5,861	
Non-stock-based G&A	10,845	9,766	11,299	11,477	12,156	10,342	11,452	12,034	10,944	10,750
Guidance	11,750–	11,750–	11,750–	11,750–	11,750–	11,750–	11,750–	10,250–	10,250–	10,250–
	12,250	12,250	12,250	12,500	12,500	12,500	12,500	11,250	11,250	11,250
PSU accrual	110	(1,491)	7,035	5,855	2,625	2,604	5,222	(317)	4,586	
Equity settled stock-based compensation	1,498	1,568	1,439	1,542	1,859	1,732	1,305	1,598	1,655	
Stock-based G&A	1,608	77	8,474	7,397	4,484	4,336	6,527	1,281	6,241	8,267
Total general & administrative	12,453	9,843	19,773	18,874	16,640	14,678	17,979	13,315	17,185	19,017
Non-stock as pct of total G&A (%)	87.1	99.2	57.1	60.8	73.1	70.5	63.7	90.4	63.7	56.5

Source: Wheaton Precious Metals, Edison Investment Research. Note: PSU = performance share units. Totals may not add up owing to rounding.

Exhibit 8, below, shows the precise position of our stock-based G&A forecasts for Q3 relative to Wheaton's share price movement in US dollars. Note that the error of estimation of the regression analysis is US\$2.4m for any particular quarter.

Exhibit 8: Graph of historical share price change (US\$/share) versus stock-based G&A expenses (US\$000s), quarterly, Q419–Q324e



Source: Edison Investment Research (underlying data: Bloomberg and Wheaton Precious Metals)

New stream acquisitions

Koné

On 23 October, Wheaton announced that it had entered into a definitive PMPA with Montage Gold in respect of its Koné mine in Côte d'Ivoire, which also effectively represents a full financing package for the project.

Key terms of the stream are as follows:

- An upfront cash consideration of US\$625m in four equal instalment payments during construction, subject to certain customary conditions.
- WPM will purchase 19.5% of the payable gold until a total of 400koz has been delivered, at which point it will purchase 10.8% of the payable gold until an additional 130koz has been delivered (the 'Second Dropdown Threshold'), after which it will purchase 5.4% of payable gold for the remainder of the life of the mine.

- Koné production is forecast to average over 60koz Au per year for the first five years of production, over 47koz of gold per year for the first 10 years of production, and over 34koz for the life of the mine. The project is forecast to have a 16-year life based on reserves, with first production anticipated in early 2027.
- WPM will make ongoing payments for the gold ounces delivered equal to 20% of the spot price of gold. For the first five years after the PMPA is signed, there will be a price adjustment mechanism in place if the spot price of gold is less than US\$2,100/oz or greater than US\$2,700/oz (eg if the spot gold price is US\$3,200/oz, Wheaton’s production payment would be US\$675/oz, or 21%, of the spot price). However, this price adjustment mechanism will expire on the fifth anniversary of the PMPA, after which the production payment will be equal to 20% of the spot price.
- Wheaton has also provided Montage with a secured debt facility of up to US\$75m to be allocated to project costs, including cost overruns.
- Other considerations:
 - The gold stream will apply to a ‘Core Area of Interest’, inclusive of the Koné and Gbongogo deposits, with exploration upside beyond the currently defined deposits. WPM will have the right of first refusal on any future precious metal streams, royalties, prepays or similar transactions.
 - Ore from within a 100km ‘Expanded Area of Interest’ will be subject to the stream if that ore is processed at the Koné mineral processing facility, until such time following the ‘Second Dropdown Threshold’ that ounces received under the stream from the Expanded Area of Interest is equal to the remaining ounces from the Core Area of Interest, at which point the stream percentage will be reduced to nil. If at any point after that the remaining ounces from the Core Area of Interest exceed the ounces received from the Expanded Area of Interest, the company will continue receiving 5.4% of payable gold from the Core Area of Interest, for the remaining life of the mine.
 - In the event of a change of control prior to the earlier of completion and 31 December 2026, Montage will have an option to buy back one third of the stream.
 - Montage will provide WPM with corporate guarantees and certain other security over its assets.
 - Montage is expected to comply in all material respects with the International Finance Corporation’s Performance Standards on Environmental and Social Sustainability, the Global Industry Standard on Tailings Management and WPM’s Partner/Supplier Code of Conduct, which outlines Wheaton’s expectations with regard to environmental, social & governance (ESG) matters.

Montage completed, and subsequently published, an updated feasibility study on the Koné project (with Lycopodium as its lead consultant) on 15 February 2024. For the purposes of our valuation of the stream relating to the mine, we have taken ‘Year 1’ of the study to be 2027, albeit we have adjusted output such that this year entails nine months of production (being six months of ramp up and six months of commercial production). On this basis (including the terms of the stream set out above), our estimate of pre-tax cash flows attributable to Wheaton from the project in the first nine years of production (note that, according to the feasibility study, there are a further nine years beyond the end of this schedule) is as follows:

Exhibit 9: Koné project forecast cash flows to WPM (US\$000s)											
	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Pre-tax cash flows to WPM	(156,250)	(468,750)	87,199	109,423	119,279	96,836	90,072	90,623	113,452	133,944	48,416

Source: Wheaton Precious Metals, Edison Investment Research

This schedule inevitably excludes any potential expansion or extension of the mine as a result of blue-sky exploration success. Nevertheless, we calculate that its pre-tax internal rate of return (IRR) to Wheaton will be 10.1% at Edison's gold price forecast assumptions (which dip as low as US\$2,023/oz in the event of real interest rates in the United States becoming positive to the tune of 4%, in line with experience in the early 1980s). At the current price of gold of US\$2,692/oz – flat for the life of the mine – we calculate that the IRR of the stream to Wheaton will be 13.0%, with higher returns earlier and lower returns later.

Fenix

Two days before its Koné announcement, on 21 October, Rio2 announced an expanded relationship with Wheaton whereby WPM will now provide a full financing package for the construction, development, operation, commissioning and ramp-up of the Fenix Gold project in Chile. Under the updated terms, WPM will pay Rio2 an additional upfront cash consideration of US\$100m (over and above the remaining US\$25m outstanding under the original stream), in exchange for which Rio2 will deliver 95,000oz of gold from the project (subject to adjustment if there are delays in deliveries relative to an agreed schedule). In addition, Rio2 has agreed to adjust the production payment for all gold ounces delivered to 20% of the spot gold price. Rio2 has a one-time option to terminate the requirement to deliver the additional gold production from the end of 2027 until the end of 2029 by delivering 95,000oz less any of the previously delivered gold ounces. Wheaton will also provide a US\$20m contingent cost overrun facility for the project in the form of a standby loan facility. Lastly, Wheaton has committed to participate in a private placement of Rio2 common shares for C\$5m at a price per share equal to, and concurrent with, a public offering by Rio2.

Rio2 completed, and subsequently published, a feasibility study on the Fenix project (with Mining Plus as its lead consultant) on 5 September 2023. At the time, the feasibility study posited a 'construction timeline of approximately 14 months from receipt of relevant permits and contractor mobilization'. Assuming that contractor mobilisation is now imminent in the aftermath of the announcement of the expanded stream terms, our estimate of incremental pre-tax cash flows attributable to Wheaton from the project in the first eight years of production (note that, according to the feasibility study, there are a further 10 years beyond the end of this schedule) is as follows:

Exhibit 10: Fenix project forecast incremental cash flows to WPM (US\$000s)

	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e
Pre-tax cash flows to WPM (US\$000s)	(100,000)	13,265	24,797	24,912	24,026	27,014	27,680	24,953

Source: Wheaton Precious Metals, Edison Investment Research

As with Koné, this schedule inevitably excludes any potential expansion or extension of the mine as a result of blue-sky exploration success. Nevertheless, we calculate that its pre-tax IRR to Wheaton on its incremental payment of US\$100m will be 13.5% at Edison's gold price forecast assumptions. At the current gold price of US\$2,692/oz – flat for the life of the mine – we calculate that the IRR on Wheaton's incremental payment will be 19.9%, with higher returns earlier and lower returns later.

FY24 and future forecasts of guidance

In addition to the short-term adjustments, we have also adjusted our medium- and longer-term production forecasts for Wheaton to account for:

- Wheaton's newly announced PMPAs with Montage Gold and Rio2 (discussed above).
- An upwardly revised production profile from Salobo for the next five years (following our visit to site earlier this month – see below).
- Fractionally lower gold production in FY25 attributable to Wheaton from the Blackwater project to reflect a ramp-up period in Q1 and Q225 after pouring first gold in Q424.

- Production from the KZK project commencing in FY27, in line with the implied timeline from the economic review of its 2020 definitive feasibility study.
- Production from Santo Domingo from FY29 to reflect the details provided in its NI 43-101 Technical Report and Feasibility Study Update, published on 31 July 2024, indicating higher overall gold production, but a later starting date.
- Lower output from Stillwater after the parent company, Sibanye Stillwater, announced a restructuring of operations that will see the Stillwater West project being suspended and the East Boulder mine being closed, while simultaneously increasing output of higher-grade material from Stillwater East in a move that appears likely to result in platinum group metals production being reduced by approximately 200koz from 2025's level of c 440–460koz.
- A revised production profile for Platreef to reflect an operational ramp-up from mid-2025 (cf the start of 2025 previously).

On 20 February, WPM provided detailed production guidance for FY24 and beyond. This guidance is summarised below relative to our updated FY24 forecasts in light of the Q1 and Q2 results:

Exhibit 11: WPM precious metals production – Edison forecasts compared to guidance			
	FY24e	FY28e (target)*	FY29–33 (average)*
Prior Edison forecast			
Silver production (Moz)	20.3		
Gold production (koz)	350.3		
Cobalt production (klb)	927		
Palladium production (koz)	17.2		
Gold equivalent (koz)	598.7	816	849
Current Edison forecast			
Silver production (Moz)	19.9		
Gold production (koz)	352.5		
Cobalt production (klb)	927		
Palladium production (koz)	17.2		
Gold equivalent (koz)	596.5	816	885
WPM guidance			
Silver production (Moz)	18.5–20.5		
Gold production (koz)	325–370		
Cobalt & palladium production (koz AuE)	12–15		
Gold equivalent (koz)	550–620	>800	>850

Source: Wheaton Precious Metals, Edison Investment Research forecasts. Note: *Edison forecasts include Antamina extension from FY28.

WPM's guidance for FY24 and beyond is based on standardised pricing assumptions of US\$2,000/oz gold, US\$23.00/oz silver, US\$1,000/oz palladium, US\$1,000/oz platinum and US\$13.00/lb cobalt. Of note is the implied gold/silver ratio of 87.0x, which compares with the current ratio of 84.8x, but a longer-term average of 60.1x since gold was demonetised in August 1971. At the updated standardised prices indicated, our production forecast of 596.5koz gold equivalent (AuE) for FY24 is towards the upper end of WPM's guidance range of 550–620koz AuE, although our sales forecast of 540.2koz AuE is more conservative (see Exhibit 12).

Otherwise, readers will note that our longer-term production forecasts are within 5% of WPM's guidance for the period FY29–33, albeit WPM's guidance will have included neither a contribution from Koné nor any incremental contribution from Fenix as a result of the revision of the stream's terms announced on 21 October.

FY24 forecasts

In the light of our short-term earnings revisions, we have upgraded our forecasts for FY24 to those shown in Exhibit 12, below. Relative to our earlier numbers, the main changes in our estimates

reflect higher metals prices leading to higher revenues – especially in Q4 – falling straight through to the bottom line after the appropriate pro rata effective tax charge:

Exhibit 12: WPM FY24e forecast, by quarter*

US\$000s (unless otherwise stated)	Implied re- stated Q124	Underlying Q224	Q324e (prior)	Q324 (current)	Q424e (prior)	Q424e (current)	FY24e (current)	FY24e (prior)
Silver production (koz)	5,476	5,062	4,830	4,446	4,958	4,958	19,943	20,327
Gold production (oz)	93,370	84,993	81,873	84,137	90,028	90,028	352,528	350,264
Palladium production (oz)	4,463	4,338	4,209	4,209	4,209	4,209	17,218	17,218
Cobalt production (klb)	240	259	214	214	214	214	927	927
Silver sales (koz)	4,067	3,823	4,087	3,690	4,843	4,843	16,423	16,820
Gold sales (oz)	92,019	77,326	76,018	78,120	90,007	90,007	337,472	335,370
Palladium sales (oz)	4,774	4,301	3,786	3,786	4,192	4,192	17,053	17,053
Cobalt sales (klb)	309	88	214	214	214	214	825	825
Avg realised Ag price (US\$/oz)	23.77	29.11	27.95	29.45	26.92	31.71	28.63	26.91
Avg realised Au price (US\$/oz)	2,072	2,356	2,422	2,476	2,394	2,714	2,402	2,303
Avg realised Pd price (US\$/oz)	980	979	921	969	904	1,026	988	948
Avg realised Co price (US\$/lb)	15.49	16.02	12.48	12.48	11.82	11.82	13.81	13.81
Avg Ag cash cost (US\$/oz)	4.77	4.95	4.92	5.00	4.90	5.10	4.96	4.88
Avg Au cash cost (US\$/oz)	439	441	451	442	448	451	443	445
Avg Pd cash cost (US\$/oz)	182	175	166	174	163	185	179	172
Avg Co cash cost (US\$/lb)	2.96	3.11	2.25	2.25	2.13	2.13	2.58	2.58
Sales	296,806	299,064	304,506	308,425	352,175	404,660	1,308,955	1,252,551
Cost of sales								
Cost of sales, excluding depletion	61,555	54,007	55,507	54,078	65,211	66,468	236,109	236,281
Depletion	63,676	58,865	59,400	58,507	70,716	70,716	251,764	252,657
Total cost of sales	125,231	112,872	114,907	112,585	135,927	137,184	487,873	488,939
Earnings from operations	171,575	186,192	189,599	195,840	216,247	267,476	821,082	763,612
Expenses and other income								
– General and administrative**	13,315	17,185	16,299	19,017	15,533	17,503	67,020	62,331
– Foreign exchange (gain)/loss			0	0	0	0	0	0
– Net interest paid/(received)	1,442	1,299	1,378	1,378	1,378	1,378	5,496	5,496
– Other (income)/expense	(6,840)	(4,752)	(7,828)	-7,828	(7,430)	-7,536	-26,955	(26,850)
Total expenses and other income	7,917	13,732	9,849	12,567	9,480	11,345	45,561	40,977
Earnings before income taxes	163,658	172,460	179,750	183,273	206,768	256,131	775,521	722,635
Income tax expense/(recovery)	24,824	22,895	28,614	29,412	32,437	39,760	116,891	108,770
Marginal tax rate (%)	15.2	13.3	15.9	16.0	15.7	15.5	15.1	15.1
Net earnings	138,834	149,565	151,136	153,861	174,331	216,371	658,630	613,865
Average no. shares in issue (000s)	453,094	453,430	453,430	453,430	453,430	453,430	453,346	453,346
Basic EPS (US\$)	0.306	0.330	0.333	0.339	0.384	0.477	1.453	1.354
Diluted EPS (US\$)	0.306	0.329	0.333	0.339	0.384	0.476	1.451	1.352
DPS (US\$)	0.155	0.155	0.155	0.155	0.155	0.155	0.620	0.620

Source: Wheaton Precious Metals, Edison Investment Research. Note: *Excluding impairments, impairment reversals and exceptional items (except where indicated). **Forecasts include stock-based compensation costs. Totals may not add up owing to rounding.

Our updated adjusted basic EPS forecast of US\$1.453 per share for the full year is nevertheless near to consensus, which has also been rising since the time of our last note in August, when it was US\$1.354/share for FY24, within a range of US\$1.22–1.52/share.

Exhibit 13: WPM FY24 consensus EPS forecasts (US\$/share), by quarter

	Q124	Q224	Q324e	Q424e	Sum Q1–Q424e	FY24e	FY25e
Edison forecasts	0.306	0.330	0.339	0.477	1.452	1.453	1.238
Mean consensus	0.306	0.330	0.339	0.416	1.391	1.437	1.797
High consensus	0.306	0.330	0.400	0.460	1.496	1.480	2.260
Low consensus	0.306	0.330	0.330	0.384	1.350	1.340	1.350

Source: LSEG Data & Analytics, Edison Investment Research. Note: As at 28 October 2024.

Readers should note that our low EPS forecast for FY25 arises largely from the use of relatively low precious metals forecasts of US\$2,004/oz Au and US\$23.72/oz Ag (see also Exhibit 20). These will be revisited early in the next financial year. In the event that metals prices remain at current levels, however, our FY25 EPS estimate instead rises to US\$1.72/share.

Salobo site visit

Wheaton hosted a site visit to Salobo earlier this month, which was attended by Edison's analyst. A brief summary of some of the pertinent observations and conclusions arising from the trip is as follows:

- The ore body is heterogeneous and there is no visual distinction between high-grade and low-grade ore; as a result, a great deal of effort is put into grade control to the point of modelling the blast fall (inter alia).
- Vale is currently in the process of mining – and preparing to mine – Phases IV to VIII of its mine plan; of these, Phase IV is notably higher grade; however, plant feed is significantly blended to negate the effect of ore grade variability, generally.
- The stripping ratio of the mine is very low – in the order of 3:1 formally, but probably closer to 1:1 if low-grade material (destined for stockpile but which will probably ultimately be processed) is considered as ore not waste.
- Resources are estimated to be capable of supporting production for at least 30 years with no meaningful constraints to expansion; hence a Salobo 3.5 and/or 4 expansion is still very much under consideration and being actively studied by management. Likely execution of such a project would be within the next three to eight years.
- Mine phasing and mining are managed to retain maximum operational flexibility; to this end, management is in the process of standardising its mine fleet.
- The tailings pond is downstream of the mine and plant; owing to the method of tailings deposition, the contents of the tailings pond is currently predominantly water and will only be substituted slowly for sediments (thereby exerting minimal pressure on the dam wall).

Exhibit 14: Salobo tailings pond



Source: Edison Investment Research

Exhibit 15: Salobo main pit



Source: Edison Investment Research

- Senior management on site has been overhauled in recent months and new management empowered to make significant operational decisions without recourse to head office. As a result, the mine is now managed with much higher regard to asset integrity. An example of the benefits of this new approach were evidenced in the reaction to the June fire on a conveyor belt at Salobo III that had the potential to stop production at the entire complex if not addressed in a timely and decisive manner.
- The level of management oversight is high and highly computerised, with oil, pipes and conveyor belts (among others) continuously monitored remotely for evidence of wear in order to pre-empt and manage plant downtime. As a result, management estimates that 1,720 hours

of maintenance downtime have been saved so far in 2024, with hours of downtime on a single line reduced from 770 to 220.

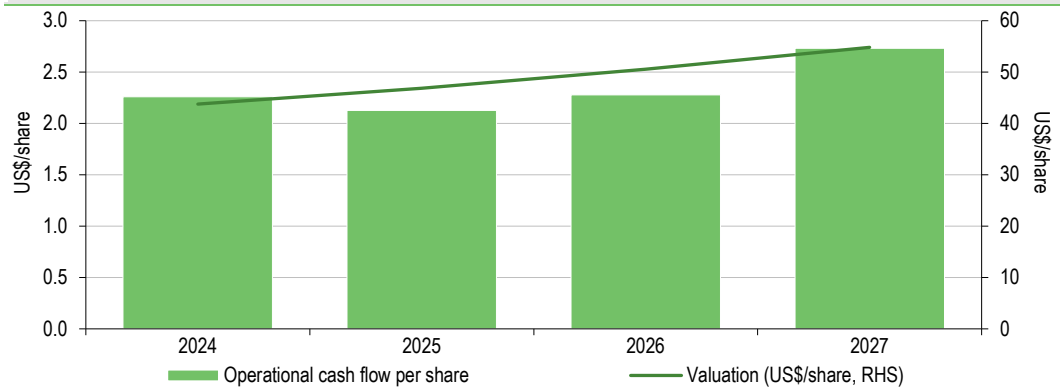
Valuation

Absolute

WPM is a multi-asset company that has shown a willingness and desire to buy streams in the past to maintain production and maximise shareholder returns. As a result, rather than our customary method of discounting maximum potential dividends over the life of operations back to FY24, in the case of WPM, we discount forecast cash flows back over four years to the start of FY24 and then apply an ex-growth terminal multiple to forecast cash flows in that year (FY27) based on the appropriate discount rate.

In this case, our estimate of WPM's 'terminal' cash flow in FY27 remains ostensibly unchanged at US\$2.73/share (cf US\$2.77/share previously).

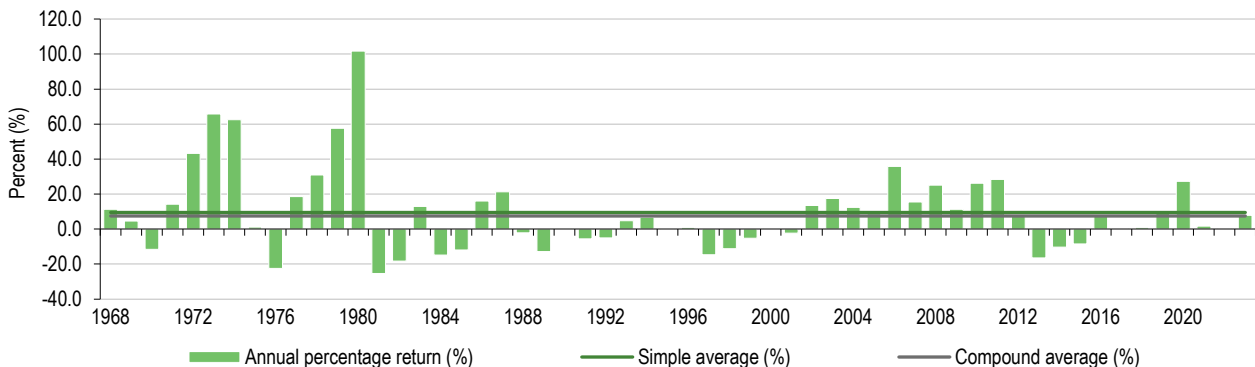
Exhibit 16: WPM operational cash flow and related valuation (US\$/share), FY24–27



Source: Edison Investment Research. Note: Valuation line assumes cash flow per share growth rate of 4% pa post-FY26 in nominal terms, which equals the average US rate of CPI inflation since 1972 (ie 0% pa growth in real terms).

Assuming 4% growth in nominal cash flows beyond FY27 (ie 0% growth in real cash flows) and applying a discount rate of 9% (being the expected long-term required nominal equity return), our 'terminal' valuation of the company at end-FY27 is US\$57.01 per share, or C\$79.24 per share. However, it should be noted that this valuation is inherently conservative in that it assumes a gold price of US\$2,239/oz and zero growth in (real) cash flows beyond FY27. This is inconsistent with the gold price, which has risen at a compound average annual growth rate of 7.4% per year from 1967 to 2023, a simple average annual growth rate of 9.3% per year (cf a compound average inflation rate over the same period of 4.0%) and a compound average real annual growth rate of 3.0% per year.

Exhibit 17: Gold price annual performance, 1968–2023



Source: Edison Investment Research (underlying data: US Bureau of Labor Statistics, Bloomberg, South African Chamber of Mines)

It is also inconsistent with WPM's longer-term historical performance, wherein operational cash flows have increased at a compound average annual growth rate of 19.6% pa for the 18 years between FY05 and FY23, while its operational cash flows per share have increased at a compound average annual growth rate of 13.2% pa.

If we instead assume that cash flows per share increase at a compound average annual growth rate of 7.4% (ie the average compound average annual growth rate in the gold price from 1967 to 2023, cf 4.0% above), then our 'terminal' valuation of WPM increases many times to US\$187.57/share, or C\$260.71/share, and our current valuation to US\$136.28/share, or C\$189.42/share.

Stated alternatively, WPM's current share price of C\$91.91 appears to be discounting future compound annual average increases in cash flow per share of just 5.7% pa from FY27, which is only slightly higher than the long-term average rate of US inflation of 4.0% pa from 1967 to 2023 (inclusive).

A summary of these valuations with respect to their cash flow growth rate assumptions is as follows:

Exhibit 18: WPM valuation with respect to long-term cash flow growth rate assumptions post-FY27

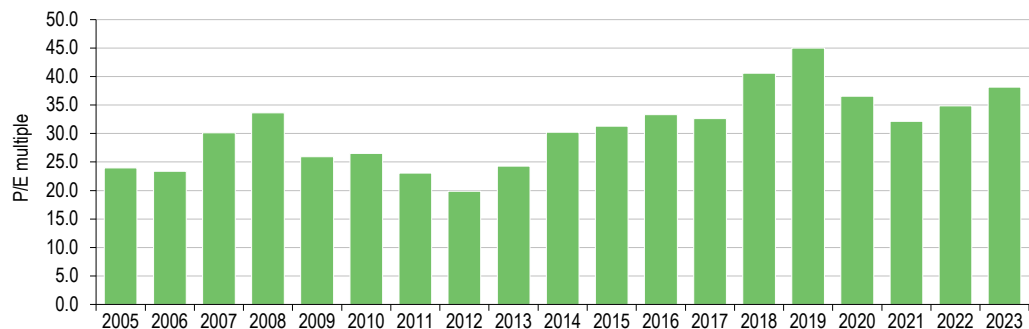
Long-term cash flow growth rate assumption (%)	Comment	WPM valuation (US\$/share)	WPM valuation (C\$/share)
4.0	Zero real growth rate, ie rate equals compound average US inflation rate, 1967–2023	43.79	60.87
5.7	Implied cash flow per share growth rate required to justify current share price	66.13	91.91
7.4	Gold price compound average annual growth rate, 1967–2023	136.28	189.42

Source: LSEG Data & Analytics, Edison Investment Research

Historical

Excluding FY04 (part-year), WPM's shares have historically traded on an average P/E multiple of 30.8x current year basic underlying EPS, excluding impairments (cf 45.5x Edison and 46.1x LSEG Data & Analytics consensus FY24e currently – see Exhibit 20).

Exhibit 19: WPM's average historical current year P/E multiples, 2005–23



Source: Average share price data Bloomberg, Edison Investment Research calculations

Applying this 30.8x multiple to our EPS forecast of US\$1.83 in FY27 (cf US\$1.77 previously) implies a potential value per share for WPM of US\$56.57 or C\$78.62 in that year.

Relative

In the meantime, WPM is maintaining its premium rating relative to its peers, albeit it also appears good value within the context of future dividend expectations, especially in years two and three:

Exhibit 20: WPM comparative valuation versus a sample of operating and royalty/streaming companies

	P/E (x)			Yield (%)			P/CF (x)		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Royalty companies									
Franco-Nevada	40.7	33.4	30.8	1.1	1.1	1.2	30.1	24.7	24.1
Royal Gold	30.6	23.5	23.8	1.1	1.1	1.3	20.3	16.1	15.5
Sandstorm Gold	66.1	29.1	34.6	1.0	1.0	0.0	15.1	13.1	13.8
Osisko	43.8	34.6	33.5	0.8	0.8	0.7	26.4	22.6	22.5
Average	45.3	30.2	30.7	1.0	1.0	0.8	23.0	19.1	19.0
WPM (Edison forecasts)	45.5	53.4	43.9	0.9	1.0	1.0	29.3	31.1	29.0
WPM (consensus)	46.1	36.8	38.0	0.9	1.0	1.0	30.7	24.8	27.4

Source: LSEG Data & Analytics, Edison Investment Research. Note: Peers and WPM (consensus) priced on 28 October 2024.

Readers will note our relatively high year 2 P/E ratio, which arises from our relatively low precious metals forecasts of US\$2,004/oz Au and US\$23.72/oz Ag for FY25. These will be revisited early in the next financial year (see also Exhibit 13).

Financials: End-Q2 US\$534.5m in net cash

As at 30 June, WPM had US\$534.5m in cash on its balance sheet and no debt outstanding under its US\$2bn revolving credit facility. Including a modest US\$5.7m in lease liabilities, it therefore had US\$534.5m in net cash after generating US\$234.4m in operating cash flow and receiving a further US\$131.7m from investing activities (cf a US\$463.5m outflow in Q124, a US\$464.2m outflow in Q423 but only a US\$98.9m outflow in Q323), largely from the disposal of its Hecla shareholding and after relatively few PMPA investments during the quarter.

Exhibit 21: WPM cash, net cash and operating cash flow, by quarter, Q420–Q224

(US\$m)	Q420	Q121	Q221	Q321	Q421	Q122	Q222	Q322	Q422	Q123	Q223	Q323	Q423	Q124	Q224
Cash/(debt)	192.7	191.2	235.4	372.5	226.0	376.2	448.6	494.6	696.1	799.7	828.8	833.9	546.5	306.1	540.2
Net cash/(debt)	6.0	187.7	232.1	369.4	223.2	373.5	446.2	492.5	694.1	797.9	822.3	827.7	540.3	300.2	534.5
Operating cash flow	208.0	232.2	216.3	201.3	195.3	210.5	206.4	154.5	172.0	135.1	202.4	171.1	242.2	219.4	234.4

Source: Wheaton Precious Metals, Edison Investment Research

In addition, WPM had long-term investments, in the form of equity share holdings and warrant holdings, in listed companies in the sum of US\$88.1m as at end-June (cf US\$246.7m as at end

March), equivalent to US\$0.19/share, after it disposed of its investment in Hecla for gross proceeds of US\$177.1m.

For FY23, WPM generated US\$750.8m from operating activities, before consuming US\$646.6m in investing activities and paying out US\$265.1m in dividends. In FY24, we estimate that it will generate US\$1,024.3m from operating activities (cf US\$973.3m previously), before consuming US\$648.1m in net investing activities (cf US\$824.2m previously) and paying out an increased US\$281.1m in forecast dividends under the influence of its new, progressive dividend policy.

However, readers should note that the timing of PMPA payments is uncertain and, inasmuch as investments are advanced or delayed, it is possible that WPM could register either a larger or smaller net cash position on its balance sheet by the year end than that forecast. All other things being equal however – and notwithstanding its recently announced PMPAs with Koné and Fenix – in the absence of any major new asset acquisitions, we do not expect WPM to need recourse to its debt facilities in the future.

Exhibit 22: Financial summary

	\$000s	2020	2021	2022	2023	2024e	2025e	2026e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		1,096,224	1,201,665	1,065,053	1,016,045	1,308,955	1,322,381	1,562,615
Cost of Sales		(266,763)	(287,947)	(267,621)	(228,171)	(236,109)	(294,227)	(339,719)
Gross Profit		829,461	913,718	797,432	787,874	1,072,846	1,028,154	1,222,896
EBITDA		763,763	852,733	735,245	719,704	1,005,826	961,134	1,155,876
Operating profit (before amort. and excepts.)		519,874	597,940	503,293	505,270	754,062	653,291	793,836
Intangible Amortisation		0	0	0	0	0	0	0
Exceptionals		4,469	162,806	164,214	4,593	(2,945)	0	0
Other		387	190	7,680	33,658	26,955	0	0
Operating Profit		524,730	760,936	675,187	543,521	778,072	653,291	793,836
Net Interest		(16,715)	(5,817)	(5,586)	(5,510)	(5,496)	1,164	1,086
Profit Before Tax (norm)		503,546	592,313	505,387	533,418	775,521	654,454	794,922
Profit Before Tax (FRS 3)		508,015	755,119	669,601	538,011	772,576	654,454	794,922
Tax		(211)	(234)	(475)	(367)	(116,891)	(92,998)	(111,333)
Profit After Tax (norm)		503,335	592,079	504,912	533,051	658,630	561,457	683,589
Profit After Tax (FRS 3)		507,804	754,885	669,126	537,644	655,685	561,457	683,589
Average Number of Shares Outstanding (m)		448.7	450.1	451.6	452.8	453.3	453.4	453.4
EPS - normalised (c)		112	132	112	118	145	124	151
EPS - normalised and fully diluted (c)		112	131	112	118	145	124	151
EPS - (IFRS) (c)		113	168	148	119	145	124	151
Dividend per share (c)		42	57	60	60	62	65	67
Gross Margin (%)		75.7	76.0	74.9	77.5	82.0	77.8	78.3
EBITDA Margin (%)		69.7	71.0	69.0	70.8	76.8	72.7	74.0
Operating Margin (before GW and except.) (%)		47.4	49.8	47.3	49.7	57.6	49.4	50.8
BALANCE SHEET								
Fixed Assets		5,755,441	6,046,427	6,039,813	6,463,774	6,860,091	7,266,601	7,806,415
Intangible Assets		5,521,632	5,940,538	5,753,111	6,169,534	6,561,895	6,968,405	7,508,218
Tangible Assets		33,931	44,412	30,607	47,562	48,351	48,351	48,351
Investments		199,878	61,477	256,095	246,678	249,845	249,845	249,845
Current Assets		201,831	249,724	720,093	567,411	673,952	630,765	460,705
Stocks		3,265	12,102	13,817	10,806	14,544	14,693	17,362
Debtors		5,883	11,577	10,187	10,078	7,172	7,246	8,562
Cash		192,683	226,045	696,089	546,527	652,236	608,826	434,780
Other		0	0	0	0	0	0	0
Current Liabilities		(31,169)	(29,691)	(30,717)	(26,075)	(23,937)	(26,724)	(28,905)
Creditors		(30,396)	(28,878)	(29,899)	(25,471)	(23,333)	(26,120)	(28,301)
Short-term borrowings		(773)	(813)	(818)	(604)	(604)	(604)	(604)
Long-term liabilities		(211,532)	(16,343)	(11,514)	(19,594)	(135,895)	(228,893)	(217,550)
Long-term borrowings		(197,864)	(2,060)	(1,152)	(5,625)	(5,035)	(5,035)	(5,035)
Other long-term liabilities		(13,668)	(14,283)	(10,362)	(13,969)	(130,860)	(223,858)	(212,515)
Net Assets		5,714,571	6,250,117	6,717,675	6,985,516	7,374,210	7,641,749	8,020,665
CASH FLOW								
Operating Cash Flow		779,156	845,832	737,821	725,548	1,030,992	963,697	1,154,072
Net Interest		(13,763)	(187)	6,227	33,770	(5,496)	1,164	1,086
Tax		49	(279)	(171)	(6,192)	0	0	(122,677)
Capex		149,648	(404,437)	(44,750)	(648,963)	(649,262)	(714,354)	(901,854)
Acquisitions/disposals		0	0	0	0	0	0	0
Financing		22,396	7,992	10,171	12,934	12,064	0	0
Dividends		(167,212)	(218,052)	(237,097)	(265,109)	(281,075)	(293,917)	(304,673)
Net Cash Flow		770,274	230,869	472,201	(148,012)	107,224	(43,410)	(174,045)
Opening net debt/(cash)		774,766	5,954	(223,172)	(694,119)	(540,298)	(646,597)	(603,187)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(1,462)	(1,743)	(1,254)	(5,809)	(925)	0	0
Closing net debt/(cash)		5,954	(223,172)	(694,119)	(540,298)	(646,597)	(603,187)	(429,141)

Source: Company accounts, Edison Investment Research

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