



Antero Midstream Corp. (NYSE: AM)

Updated Sept 17th, 2019 by Trond Odegaard

Key Metrics

Current Price:	\$7.75	5 Year CAGR Estimate:	31.1%	Volatility Percentile:	93.1%
Fair Value Price:	\$14	5 Year Growth Estimate:	10.0%	Momentum Percentile:	1.2%
% Fair Value:	56%	5 Year Valuation Multiple Estimate:	12.4%	Growth Percentile:	92.7%
Dividend Yield:	16%	5 Year Price Target	\$22.4	Valuation Percentile:	99.2%
Dividend Risk Score:	F	Retirement Suitability Score:	B	Total Return Percentile:	99.7%

Overview & Current Events

Antero Midstream Corporation (AM) is a medium sized midstream company providing gathering and compression services (65% of EBITDA), processing and fractionation services, and pipelines services on a captive basis to Antero Resources (AR). AR is the 5th largest natural gas producer and 2nd largest NGL producer in the country, operating fields primarily in West Virginia. AM has gone through several structural changes since it began operation in 2011. As seems typical for these midstream businesses, the publicly traded entity is a pass-through shell for the profits from the underlying operating entity. It has had listed LP units since 2014, but shares in its corporate format only since 2017. Then, in early 2019, the company underwent a simplification, in which the unit holders exchanged their units for newly issued shares and debt at the operating level was assumed by the remaining entity. Hence there is a rather significant discontinuity between 2018 and 2019 data. AM had revenues of \$142 million in 2018, and has a current market cap of \$3.9 billion.

For 2Q 2019, AM had a 9% increase in distributable cash flow compared to the pro forma prior year quarter. Dividends increased 40%. The company has issued guidance for 2019 DCFS of \$1.39 and dividends/share of \$1.24, for a guided coverage ratio of 1.1. Guidance for 2020 through 2022 gets even better.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
DCFS	-	-	-	-	-	-	-	-	\$0.15	\$0.45	\$1.39	\$2.24
DPS	-	-	-	-	-	-	-	-	\$0.16	\$0.54	\$1.24	\$1.74
Shares¹	-	-	-	-	-	-	-	-	186.1	186.2	506.8	506.8

Analysis of this company is challenged by the short time that shares have been publicly available. Secondly, we are unable to find DCFS reported in the 10Ks, so we used 'cash from operations' in the table above for 2017 and 2018. The company started reporting distributable cash flow this year. Fortunately, we have two sources of information available to us to help with the analysis. Firstly, AM had publicly traded LP units available until 2019. We were tempted to put this info into the table above and somehow splice it with the data for the shares, but did not feel comfortable that we could accomplish an accurate pro forma that properly reflected the underlying LP structure, IDRs, and relative unitholder and shareholder rights and economic interests. Having said this, the underlying operating unit has generated 27% DCFU CAGR and 21% dividend/unit CAGR over the last 4 years. This excellent historical trend provides a reality check on management's guidance, which calls for 12 to 18% DCFS CAGR and 7 to 9% dividend CAGR, out through 2022, based on a range of assumed natural gas prices. We take a conservative approach, and used 10% for DCFS growth and the low end of the DPS range for the 2024 estimates above, which is consistent with their further guidance for a 1.3X coverage or better going forward. Since management has indicated a desire and ability to self-fund growth, and indeed to do opportunistic share repurchases, we assume no further share issuance.

¹ Average Weighted Share count is in millions.

Disclosure: This analyst has a significant position in the security discussed in this research report.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/DCFU	-	-	-	-	-	-	-	-	138	34	5.6	10
Avg. Yld.	-	-	-	-	-	-	-	-	0.8%	3.5%	16.0%	7.8%

DCFS price multiples prior to this year are not meaningfully compared to 2019, since we had to use cash from operations as a proxy to DCFS. And in any event, 2 years would not be long enough to provide a meaningful historical trend. Nonetheless, at a current multiple of 5.6, this stock seems dirt cheap compared to the 8 to 10 that we believe to be reasonable for this sector. As with so many other midstream companies, they are out-of-favor currently and have been hammered this year. Given their growth prospects, we used a 10x price multiple for the estimates above.

Safety, Quality, Competitive Advantage, & Recession Resiliency

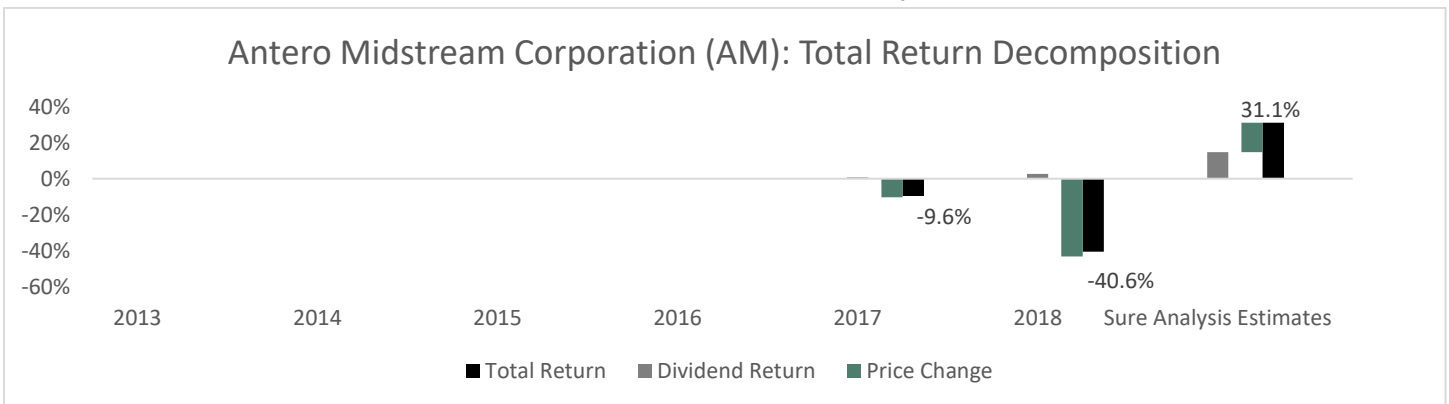
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	-	-	-	-	107%	121%	89%	78%

This year's payout ratio is based on DCFS. Management projects a coverage ratio of greater than or equal to 1.3X by 2022, which we will assume remains about level through 2024. We should note that coverage ratios for LP unit holders, in the years between 2014 and 2018, inclusive, ranged between 1.06 and 1.94, and averaged 1.62X. So, management's guidance for 1.3X is not at all unreasonable. We believe the dividend is sustainable, for several reasons. First, their lower guidance reflects natural gas prices about where they currently are – \$2.5, which is low historically – even relative to the last recession. So, they are not being heroic in their projections. But natural gas prices certainly could go lower; they are essentially unpredictable. Second, management has demonstrated that they are shareholder friendly through their past actions. Third, they are closely connected with AR – who actually does the drilling, and can adjust and fine tune their capex more readily than a non-captive services company to respond to fluctuating market conditions. Last, in 2019, capex was greater than the amount of the distribution, so there's quite a bit of buffer.

Final Thoughts & Recommendation

AM is an enthusiastic buy. They have an extraordinary yield of 16% currently, and shares are trading near the bottom of their multi-year range of \$6.7 to \$22.8. They have a very low D/E of 0.64 and D/EBITDA of 2.8. They have demonstrated high historical CAGR for their unit holders over the past several years, and their guidance for the next 3 years takes one's breath away.

Total Return Breakdown by Year



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