



Antero Midstream Corporation (AM)

Updated December 18th, 2019 by Trond Odegaard

Key Metrics

Current Price:	\$6.54	5 Year CAGR Estimate:	29.2%	Market Cap:	\$3.3B
Fair Value Price:	\$13	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	~02/01/20
Fair Value:	50%	5 Year Valuation Multiple Estimate:	14.7%	Dividend Payment Date:	~02/21/20
Dividend Yield:	18.6%	5 Year Price Target	\$16.6	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	226%

Overview & Current Events

Antero Midstream Corporation (AM) is a medium sized midstream company providing gathering and compression services (65% by EBITDA), processing and fractionation services, and pipeline 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 traded 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.

For 3Q 2019, AM had an 8% increase in distributable cash flow compared to the pro forma prior year quarter. The company has issued guidance for 2019 DCFS of \$1.30 which is a bit lower than the prior 1.39. Prior guidance for dividends/share of \$1.24 for a coverage ratio of 1.1 were not reiterated in the 3rd quarter 10Q so we will assume the fourth quarter dividend is not increased but remains the same as the 2nd and 3rd quarters.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
DCFS	---	---	---	---	---	---	---	---	\$0.15	\$0.45	\$1.30	\$1.66
DPS	---	---	---	---	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.56
Shares¹	---	---	---	---	---	---	---	---	186.1	186.2	506.4	506.4

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. Based on management's prior guidance, we had used a 10% growth rate in table above. This has been reduced to a 5% growth estimate; management's guidance in the 3rd quarter 10Q was less aggressive and less explicit than it was in June. AM's latest investor presentation clearly shows that they are now more focused on paying down their debt (which is not all that high), reducing their capital expenditures, and pruning (monetizing) inefficient assets, than they were earlier in the year. These are all correct responses to the tough environment they are in, but it signals that dividend increases are unlikely in the near term. 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 is long AM.



Antero Midstream Corporation (AM)

Updated December 18th, 2019 by Trond Odegaard

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/DCFU	---	---	---	---	---	---	---	---	138.3	34.4	5.0	10
Avg. Yld.	---	---	---	---	---	---	---	---	0.8%	3.5%	18.6%	9.4%

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, two years would not be long enough to provide a meaningful historical trend. Nonetheless, at a current multiple of 5.0, 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 companies in the midstream sector, they are out-of-favor currently and have been hammered this year. Given the growth prospects for this company, we used a price multiple of 10 for the estimates in the above table.

Safety, Quality, Competitive Advantage, & Recession Resiliency

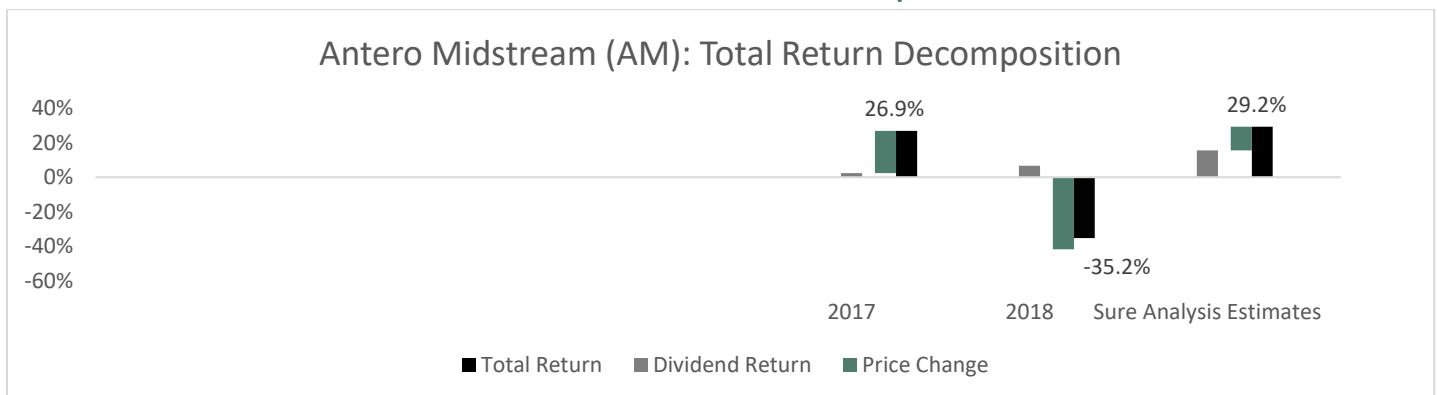
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	-	-	-	-	107%	121%	94%	94%

Payout ratios prior to this year are not meaningfully compared to 2019 for the reasons stated above. This year's payout ratio is based on DCFS. Management projects a coverage ratio of about 1.1 in the near term. – which is a payout ratio of 91%. We are showing a 94% payout ratio in the above table, which is consistent with our assumed 5% growth rates of both the DCFS and the dividend from their current levels. In a recession, as is the case with oil and gas stocks generally, AM's price would get hammered. And there's certainly a chance the dividend could get cut. So while the expected returns are high for this stock, so is the risk (relative to safer recession proof stocks).

Final Thoughts & Recommendation

AM is an enthusiastic buy, albeit less enthusiastic than back in June. My sense is the stock is as cheap as it is because Wall St. hates the O&G sector right now. The price has actually come up a fair amount in the past couple of weeks, from its low of \$4.4 in late November. From \$4.4 to \$6.54 in 3 weeks is not a statement of value change, it's a statement of Wall St bi-polar behavior. They have an extraordinary yield of 18.6% currently, and shares are trading near the bottom of their multi-year range of \$4.4 to \$22.8. They have a very low D/E of 0.75 and a D/EBITDA of 3.2. They have demonstrated high historical CAGR for their unit holders over the past several years, and they are responding appropriately to the tough environment they are in. They would be an enthusiastic buy if they simply maintained their current dividend, DCFS and coverage ratio for 5 years, which they seem likely to do. Any growth they exhibit is icing on the cake. Investors should note there is elevated risk here versus a high-quality blue-chip type security.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst is long AM.



Antero Midstream Corporation (AM)

Updated December 18th, 2019 by Trond Odegaard

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
SG&A Exp.	---	---	---	---	---	---	\$0.00	\$0.81	\$41.13	\$43.85
Operating Profit	---	---	---	---	---	---	\$0.00	-\$0.81	-\$41.13	-\$43.85
Net Profit	---	---	---	---	---	---	\$0.78	\$9.71	\$7.26	\$66.61
Free Cash Flow	---	---	---	---	---	---	\$0.30	\$9.54	\$28.08	\$83.53
Income Tax	---	---	---	---	---	---	\$0.48	\$6.42	\$26.26	\$32.31

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	---	---	---	---	---	---	\$1.04	\$17.37	\$29.76	\$47.71
Cash & Equivalents	---	---	---	---	---	---	\$0.07	\$9.61	\$5.99	\$2.82
Total Liabilities	---	---	---	---	---	---	\$0.48	\$7.10	\$14.15	\$16.84
Accounts Payable	---	---	---	---	---	---	\$0.43	\$0.29	\$1.17	\$0.43
Shareholder's Equity	---	---	---	---	---	---	\$0.56	\$10.27	\$15.61	\$30.86
D/E Ratio	---	---	---	---	---	---	85.7%	69.1%	90.6%	54.6%

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	---	---	---	---	---	---	75.0%	55.9%	24.4%	139.6%
Return on Equity	---	---	---	---	---	---	139.3%	94.5%	46.5%	215.8%
Shares Out.	---	---	---	---	---	---	186.17	186.17	186.18	186.20
FCF/Share	---	---	---	---	---	---	\$0.00	\$0.05	\$0.15	\$0.45

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.