



Antero Midstream Corporation (AM)

Updated March 25th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$2.30	5 Year CAGR Estimate:	26.7%	Market Cap:	\$1.1B
Fair Value Price:	\$3.25	5 Year Growth Estimate:	6.7%	Ex-Dividend Date:	4/30/20 ¹
Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.4%	Dividend Payment Date:	5/12/20 ²
Dividend Yield:	26.1%	5 Year Price Target	\$4.49	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	1.7%

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 should have revenues approaching \$1 billion in 2020.

For Q4 2020, Antero Midstream generated 6% year-over-year adjusted EBITDA growth to \$203 million and its distributable cash flow covered the distribution 1.1 times as capital expenditures came in at \$29 million below guidance, at \$126 million. Full year 2019 results saw low pressure gathering and processing volumes surge by 23% and 70%, respectively, year-over-year and net debt to trailing twelve months pro form adjusted EBITDA was respectable at 3.5x at year-end.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCFS	---	---	---	---	---	---	---	\$0.15	\$0.45	\$1.30	\$0.65	\$0.90
DPS	---	---	---	---	---	---	---	\$0.16	\$0.54	\$1.23	\$0.60	\$0.60
Shares³	---	---	---	---	---	---	---	186.1	186.2	506.4	506.4	480.0

Given challenges in the energy sector, AM is 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 a year ago. 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. Given the current headwinds to energy prices, AM's debt is trading at steep discounts to par value. As a result, we believe the company's dividend is at considerable risk and will likely see a steep cut this year. We also believe that distributable cash flow will take a hit this year as contracts will likely get renegotiated to make Antero Resource's production more economical. Moving forward, capital expenditures will continue to decline, dividends will be held steady, and the company will allocate the vast majority of its new free cash flows towards debt reduction and share repurchases.

¹ Estimate

² Estimate

³ Average Weighted Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCFU	---	---	---	---	---	---	---	138.3	34.4	5.0	3.5	5.0
Avg. Yld.	---	---	---	---	---	---	---	0.8%	3.5%	18.6%	26.1%	13.3%

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 3.5, this stock seems very cheap compared to the 5 times distributable cash flow (reduced from 10 previously due to the challenging environment for energy) 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 5 for the estimates in the above table.

Safety, Quality, Competitive Advantage, & Recession Resiliency

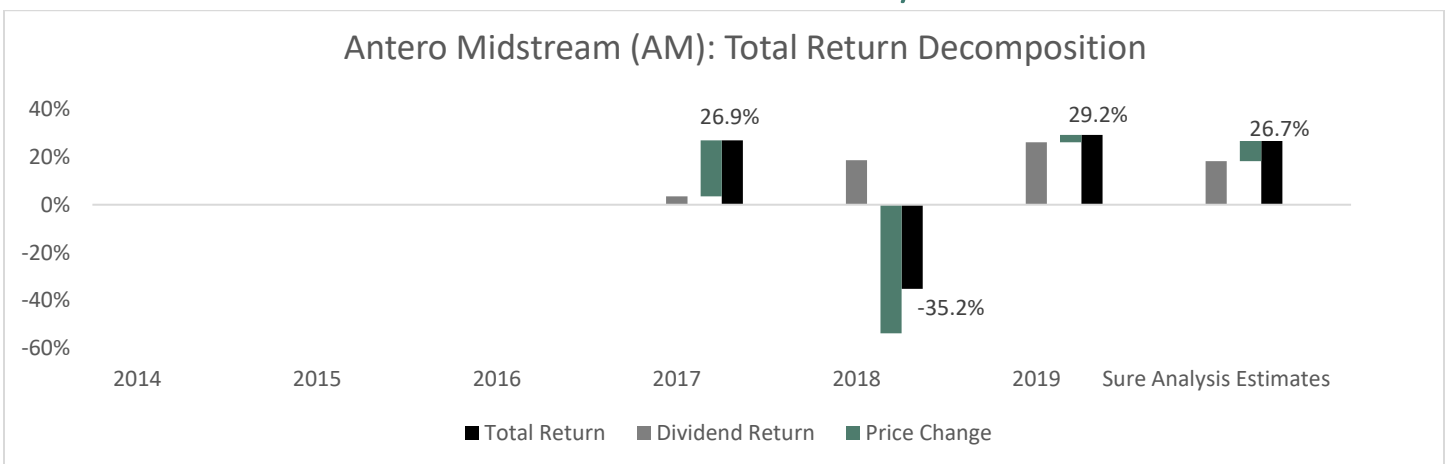
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	-	-	-	-	-	-	-	107%	121%	94%	92%	67%

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 92%. While the balance sheet metrics are solid for now, the pricing of the debt at 50% of par value in traded markets tells another story. Management needs to cut its dividend and focus on paying down debt asap in order to assure investors that its business model is sustainable and its balance sheet will remain solvent in the challenging current environment.

Final Thoughts & Recommendation

AM looks very cheap on a price to distributable cash flow dividend yield basis, even assuming our steep decline in cash flows and dividends for 2020. The main challenge for the firm is assuring investors in its equity and debt securities that its cash flows are dependable, even in this challenging environment and that it will be able to keep leverage ratios down even if its cash flow decline somewhat. As a result, despite the attractive yield, we do not see this as a safe income investment for investors. However, the upside potential is immense, so it remains a speculative buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
SG&A Exp.	---	---	---	---	---	0.00	0.81	41.13	43.85	118
Operating Profit	---	---	---	---	---	0.00	-0.81	-41.13	-43.9	372
Net Profit	---	---	---	---	---	0.78	9.71	7.26	66.61	(355)
Free Cash Flow	---	---	---	---	---	0.30	9.54	28.08	83.53	230
Income Tax	---	---	---	---	---	0.48	6.42	26.26	32.31	(102)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	---	---	1.04	17.37	29.76	47.71	6,283
Cash & Equivalents	---	---	---	---	---	0.07	9.61	5.99	2.82	3,139
Total Liabilities	---	---	---	---	---	0.48	7.10	14.15	16.84	10
Accounts Payable	---	---	---	---	---	0.43	0.29	1.17	0.43	2,892
Shareholder's Equity	---	---	---	---	---	0.56	10.27	15.61	30.86	3,143
D/E Ratio	---	---	---	---	---	85.7%	69.1%	90.6%	54.6%	0.92

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	---	---	75.0%	55.9%	24.4%	139.6%	-22.4
Return on Equity	---	---	---	---	---	139.3%	94.5%	46.5%	215.8%	---
Shares Out.	---	---	---	---	---	186.17	186.17	186.18	186.20	506.4
FCF/Share	---	---	---	---	---	0.00	0.05	0.15	0.45	0.52

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

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