



Antero Midstream Corporation (AM)

Updated June 16th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$5	5 Year CAGR Estimate:	8.4%	Market Cap:	\$2.5B
Fair Value Price:	\$3.3	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	7/29/20 ¹
Fair Value:	154%	5 Year Valuation Multiple Estimate:	-8.3%	Dividend Payment Date:	8/12/20 ²
Dividend Yield:	12.0%	5 Year Price Target	\$5	Years Of Dividend Growth:	NA
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	NA

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 Q1 2020, Antero Midstream grew adjusted EBITDA by 7% year-over-year to \$217 million and its distributable cash flow covered the distribution 1.1 times as capital expenditures came in at \$80 million, a 56% decrease compared to the pro forma prior year quarter. The company also repurchased 4.7 million shares at an average price of \$43.36 per share during the quarter and expect to receive a \$55 million federal income tax refund in 2020 related to net operating losses in prior tax years under the CARES Act. Management also further decreased its capital budget to a range of \$215-\$240 million from the original budget of \$300-\$325 million and the previously reduced budget of \$250-\$275 million.

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.



Antero Midstream Corporation (AM)

Updated June 16th, 2020 by Samuel Smith

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCFU	---	---	---	---	---	---	---	138.3	34.4	5.0	7.7	5.0
Avg. Yld.	---	---	---	---	---	---	---	0.8%	3.5%	18.6%	12.0%	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 7.7, this stock seems expensive 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. Given the growth prospects for this company, we used a price multiple of 5 for the estimates in the above table. We expect multiple contraction to reduce annualized total returns meaningfully in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

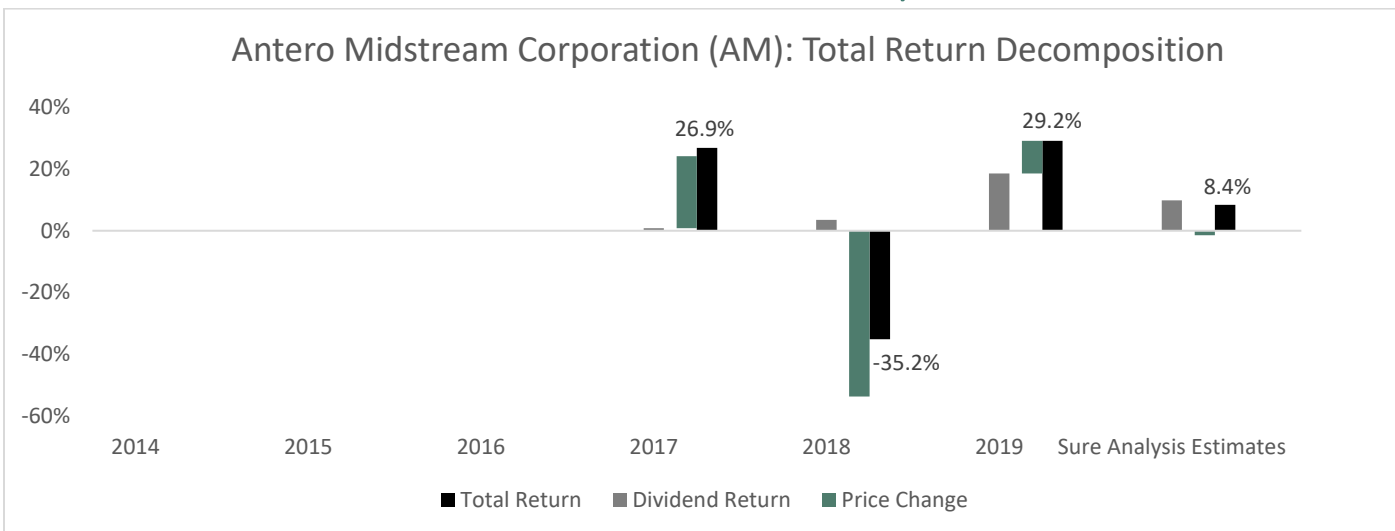
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	107%	121%	94%	92%	67%

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 cheap on a distributable cash flow yield and 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 and yield remain attractive, so it is a hold in our view.

Total Return Breakdown by Year



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

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.



Antero Midstream Corporation (AM)

Updated June 16th, 2020 by Samuel Smith

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.

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.