



Antero Midstream Corporation (AM)

Updated November 14th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$6.3	5 Year CAGR Estimate:	7.4%	Market Cap:	\$2.9B
Fair Value Price:	\$6.7	5 Year Growth Estimate:	-7.5%	Ex-Dividend Date:	1/28/21 ¹
Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	2/12/21 ²
Dividend Yield:	19.5%	5 Year Price Target	\$4.5	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	127%

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 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.

For Q3 2020, Antero Midstream saw adjusted EBITDA increase by 5% year-over-year to \$229 million. Free cash flow came in at \$158 million, up significantly from \$108 million in Q2, enabling the company to sustain its distribution. Q3 Non-GAAP EPS was at \$0.25, while GAAP EPS came in at \$0.22. Capital expenditures declined by 77% year-over-year to \$37 million and net debt at quarter end was \$3.1 billion, while net debt to adjusted EBITDA was 3.7x.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCF/S	---	---	---	---	---	---	---	\$0.15	\$0.45	\$1.30	\$1.33	\$0.90
DPS	---	---	---	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.60
Shares³	---	---	---	---	---	---	---	186.1	186.2	506.4	476.8	450.0

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.

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. We see growth at -7.5% annually as the company grapples with weak macro fundamentals, which will almost certainly result in a substantial reduction in the distribution as well.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCFS	---	---	---	---	---	---	---	138.3	34.4	5.0	4.7	5.0
Avg. Yld.	---	---	---	---	---	---	---	0.8%	3.5%	18.6%	19.5%	13.3%

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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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 4.7, this stock seems roughly fairly valued 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 expansion to increase annualized total returns slightly in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

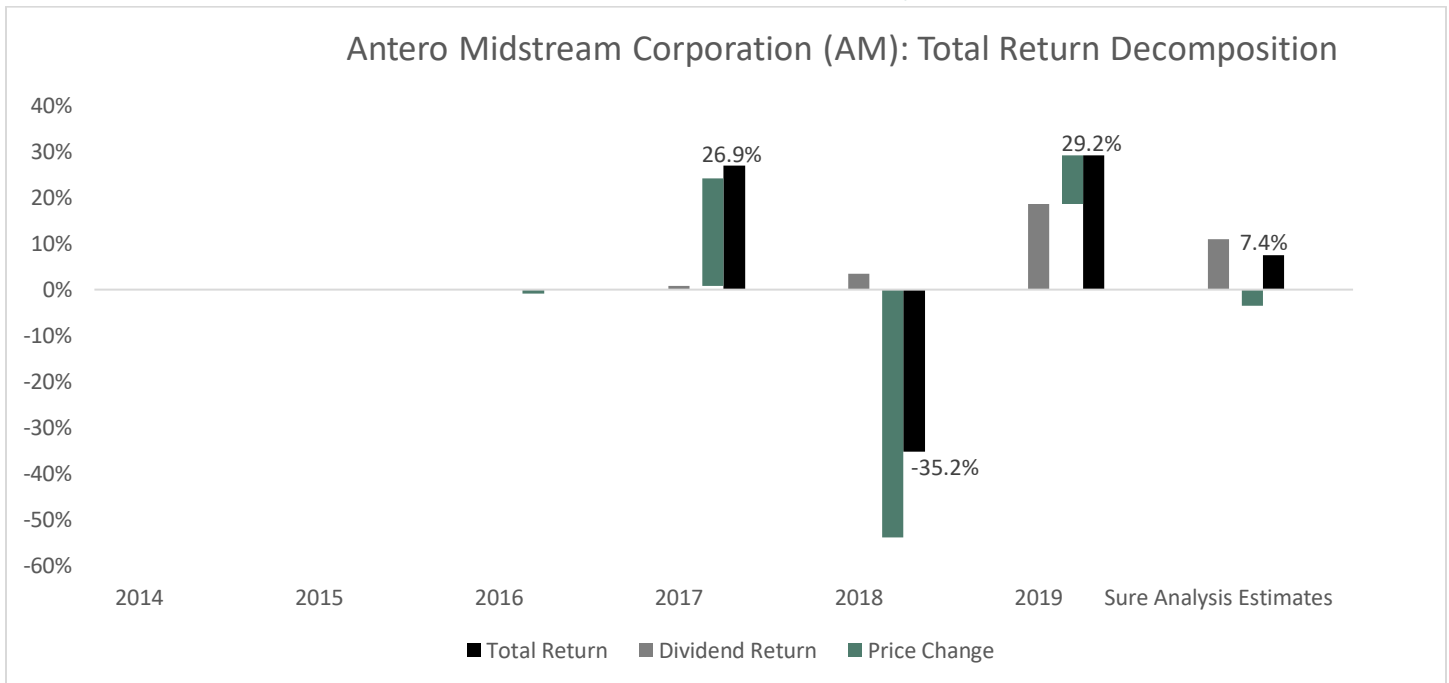
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	107%	121%	94%	93%	67%

Management projects a coverage ratio of about 1.1 in the near term – which is a payout ratio of 93%. While the balance sheet metrics are solid for now, the pricing of the debt at discounts to par value in traded markets tells another story. Management needs to cut its dividend and focus on paying down debt as quickly as possible 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 dividend yield basis. That said, the main challenge to the investment thesis 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 flows decline somewhat. As a result, despite the attractive yield, we do not see this as a safe income investment for investors, so it is a hold in our view for aggressive investors and a sell for conservative dividend growth investors.

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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