



Antero Midstream Corporation (AM)

Updated March 1st, 2021 by Samuel Smith

Key Metrics

Current Price:	\$8.8	5 Year CAGR Estimate:	4.1%	Market Cap:	\$4.3B
Fair Value Price:	\$6.55	5 Year Growth Estimate:	-0.9%	Ex-Dividend Date:	5/02/21 ¹
Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.7%	Dividend Payment Date:	5/11/21 ²
Dividend Yield:	10.2%	5 Year Price Target	\$6.0	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	C	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 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.

On Feb, 17, 2021 Antero Midstream reported Q4 results. Adjusted EBITDA came in at \$29 million. Free cash flow came in at \$135 million, up significantly by 223% year-over-year. Adjusted net income increased 5% to \$98 million compared to the prior year quarter. Capital expenditures declined by 77% year-over-year to \$29 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCF/S	---	---	---	---	---	---	\$0.15	\$0.45	\$1.30	\$1.39	\$1.31	\$1.25
DPS	---	---	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.90	\$0.90
Shares³	---	---	---	---	---	---	186.1	186.2	506.4	476.8	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 and the company just cut its dividend so that the partnership can continue to deleverage. We see growth at -0.9% annually as the company grapples with weak macro fundamentals.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCFS	---	---	---	---	---	---	138.3	34.4	5.0	4.7	6.7	5.0
Avg. Yld.	---	---	---	---	---	---	0.8%	3.5%	18.6%	19.5%	10.2%	14.4%

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.

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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Nonetheless, at a current multiple of 6.7, this stock seems overvalued 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 weigh on annualized total returns in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

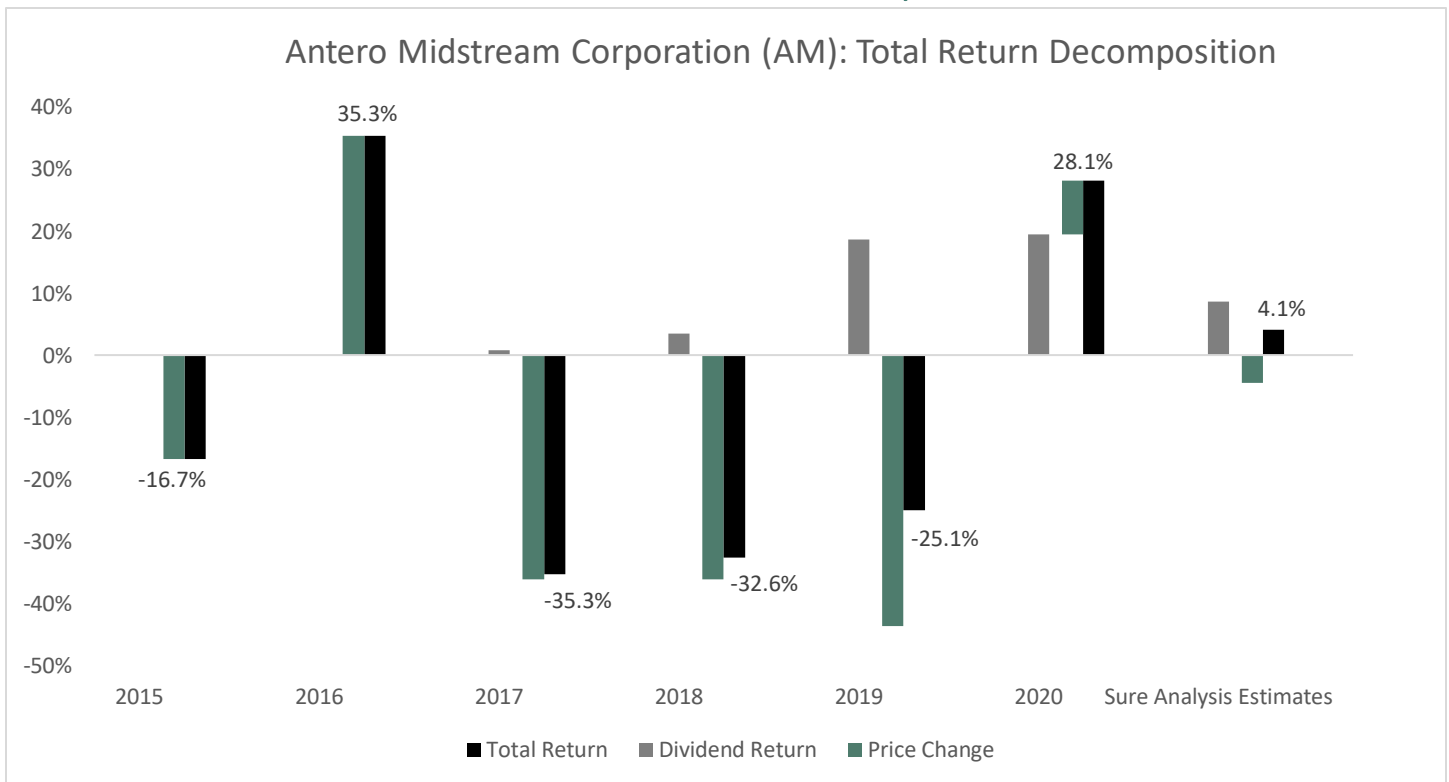
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	107%	121%	94%	93%	69%	72%

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 cut its dividend and focus on paying down debt in order to assure investors that its business model is sustainable and its balance sheet will remain solvent in the challenging current environment. The dividend was cut 27% during the fourth quarter earnings release.

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 sell given high levels of risk, as well as the lackluster total return outlook.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SG&A Exp.	---	---	---	---	0.00	0.81	41.13	43.85	118	118
Operating Profit	---	---	---	---	0.00	-0.81	-41.13	-43.9	372	372
Net Profit	---	---	---	---	0.78	9.71	7.26	66.61	(355)	(355)
Free Cash Flow	---	---	---	---	0.30	9.54	28.08	83.53	230	230
Income Tax	---	---	---	---	0.48	6.42	26.26	32.31	(102)	(102)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	1.04	17.37	29.76	47.71	6,283	6,283
Cash & Equivalents	---	---	---	---	0.07	9.61	5.99	2.82	3,139	3,139
Total Liabilities	---	---	---	---	0.48	7.10	14.15	16.84	10	10
Accounts Payable	---	---	---	---	0.43	0.29	1.17	0.43	2,892	2,892
Shareholder's Equity	---	---	---	---	0.56	10.27	15.61	30.86	3,143	3,143
D/E Ratio	---	---	---	---	85.7%	69.1%	90.6%	54.6%	0.92	0.92

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	75.0%	55.9%	24.4%	139%	---	-2.1%
Return on Equity	---	---	---	---	139%	94.5%	46.5%	216%	-22.4%	-4.4%
Shares Out.	---	---	---	---	186	186.17	186.1	186.2	506.4	476.8
FCF/Share	---	---	---	---	0.00	0.05	0.15	0.45	0.52	1.16

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

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