



Antero Midstream Corporation (AM)

Updated November 4th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$10.6	5 Year CAGR Estimate:	4.6%	Market Cap:	\$5.2B
Fair Value Price:	\$8.8	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	01/26/22 ¹
Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	02/10/22 ²
Dividend Yield:	8.5%	5 Year Price Target	\$9.0	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

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, and trades today with a \$5.2 billion market capitalization.

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 October 27, 2021 Antero Midstream reported Q3 results. Adjusted EBITDA came in at \$219 million, down by 4% year-over-year. Free cash flow before dividends came in at \$94 million, down from \$157.3 million year-over-year. Adjusted net income decreased 4% year-over-year to \$219 million. The company also reported \$185 million of net cash in Q3. Meanwhile, capital expenditures stood at \$81 million, while net debt to adjusted EBITDA declined to 3.6x.

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	\$1.25	\$1.25
DPS	---	---	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.90	\$0.90
Shares³	---	---	---	---	---	---	186.2	186.2	484.1	476.9	477.5	450.0

Given the challenges faced by the energy sector since the COVID-19 outbreak, 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 before COVID-19 hit. 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 no growth in DCF/share as the company grapples with headwinds from the aggressive shift towards renewable energy which virtually eliminates growth investment opportunities.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCF	---	---	---	---	---	---	138.3	34.4	5.0	4.7	8.5	7.0
Avg. Yld.	---	---	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	10.3%

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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The Price to DCF multiples for 2017 and 2018 are not meaningful for comparison purposes, since we had to use cash from operations as a proxy to DCFs. That said, compared to 2019-2020 multiples, its current multiple of 8.5 makes the stock look over valued. Furthermore, even our assumption of 7 times distributable cash flow (reduced from 10 previously due to the challenging environment for fossil fuels) as a fair value estimate is beneath the current Price to DCF multiple. As a result, we forecast a headwind to total returns moving forward from multiple compression.

Safety, Quality, Competitive Advantage, & Recession Resiliency

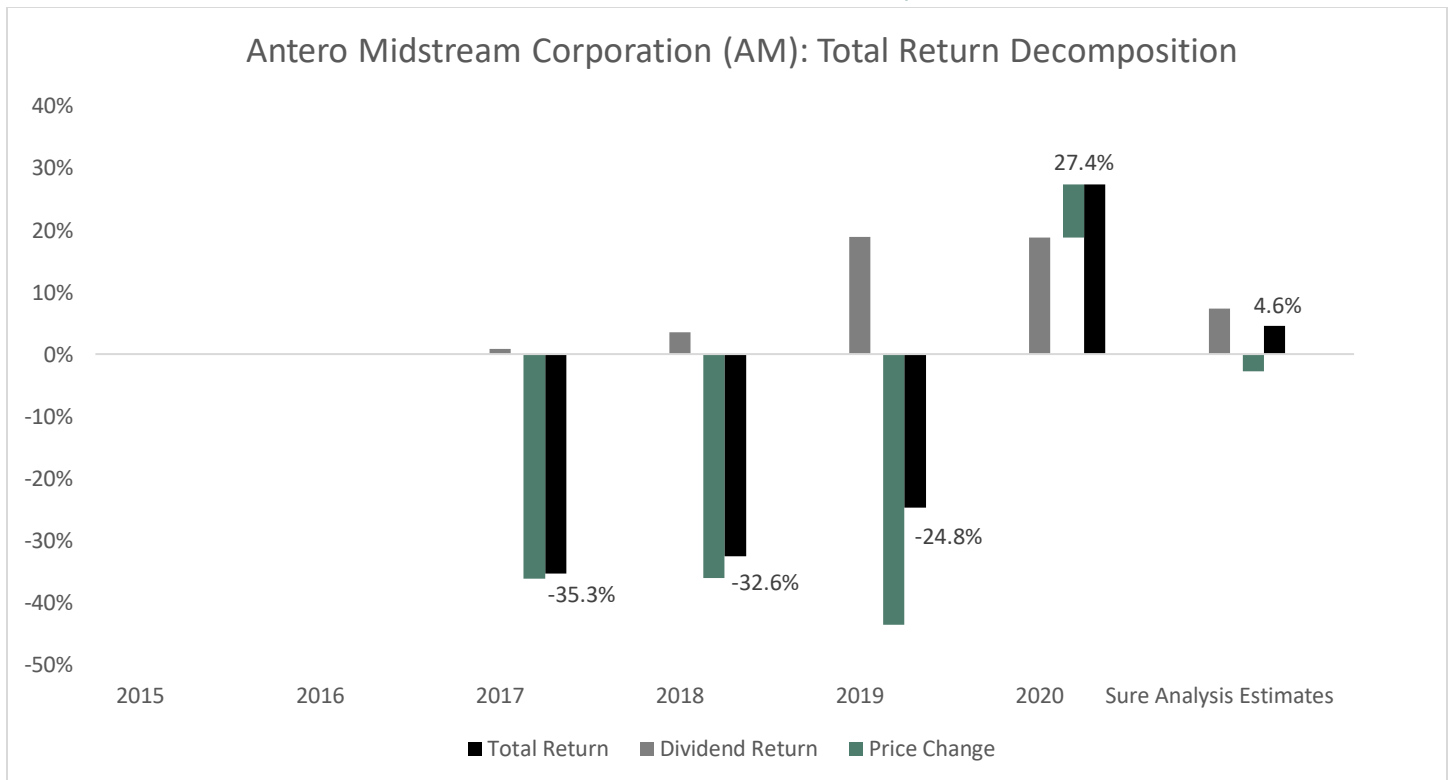
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	107%	120%	94%	89%	72%	72%

After the distribution cut, management projects a strong coverage ratio which should enable it to improve its balance sheet and eventually warrant a higher valuation multiple. While the balance sheet metrics are solid for now, the debt market's recent pricing of the debt at discounts to par value in traded markets tells another story. As a result, management has cut its dividend and has as its primary focus paying down debt to assure investors that its business model is sustainable, and its balance sheet will remain solvent in the uncertain current environment.

Final Thoughts & Recommendation

AM looks cheap on a dividend yield and distributable cash flow basis. That said, the main challenge to the investment thesis is assuring investors that its equity and debt securities are covered by dependable cash flows, 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 particularly attractive income investment for investors, so it is a hold given higher levels of risk as well as the lackluster annualized total return outlook of 4.6%.

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.

Disclaimer

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