Antero Midstream Corporation (AM)

Updated July 31st, 2022 by Samuel Smith

Key Metrics

Current Price:	$10.1	**5 Year CAGR Estimate:**	5.6%	**Market Cap:**	$4.8B
Fair Value Price:	$9.7	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	10/26/22[1]
Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	11/10/22[2]
Dividend Yield:	8.9%	**5 Year Price Target**	$9.0	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $4.8 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 July 27, 2022 Antero Midstream reported Q2 results. Non-GAAP earnings per share stood at $0.20. Revenue decreased 1.7% to $228.91 million year-over-year. Net income remains the same year-over-year at $0.17 per share. Adjusted EBITDA stood at $221 million while capital expenditures stood at $70 million.

Meanwhile, the company's net cash provided by operating activities stood at $170 million. Antero Midstream also reported free cash flow before dividends of $105 million. Fresh water delivery volumes grew by 6% year-over-year. Finally, Antero also reported that during the quarter they have successfully placed on line the Castle Peak compressor station which added 160 MMcf/d of capacity in the liquids-rich Marcellus shale.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCF/S	---	---	---	---	---	$0.15	$0.45	$1.30	$1.39	$1.25	***$1.38***	***$1.25***
DPS	---	---	---	---	---	$0.16	$0.54	$1.23	$1.23	$0.98	***$0.90***	***$0.90***
Shares[3]	---	---	---	---	---	186.2	186.2	484.1	476.9	477.7	***478.5***	***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 cut its dividend in the wake of COVID-19 headwinds so that the company 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 dramatically reduces growth investment opportunities.

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[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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCF	---	---	---	---	---	138.3	34.4	5.0	4.7	8.5	***7.3***	***7.0***
Avg. Yld.	---	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	***8.9%***	***10.3%***

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 7.3 makes the stock look slightly 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 slight headwind to total returns moving forward from multiple compression.

Safety, Quality, Competitive Advantage, & Recession Resiliency

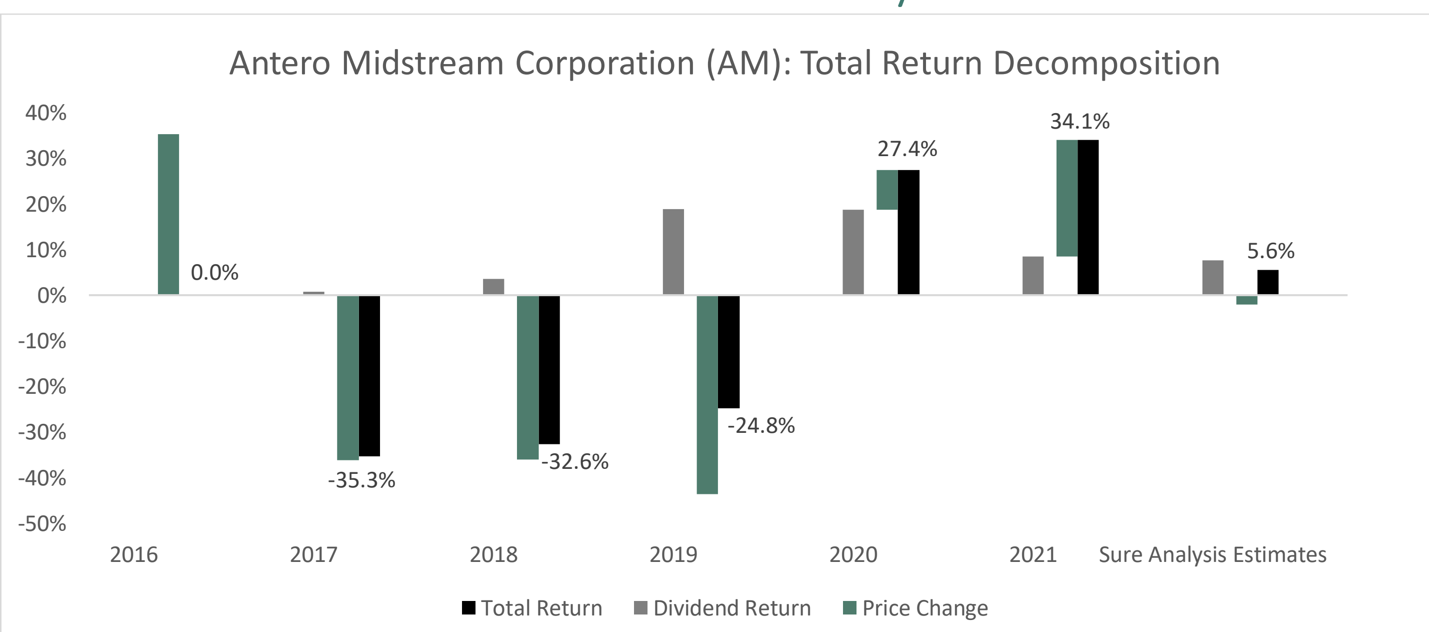
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	107%	120%	94%	89%	72%	***65%***	***72%***

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 5.6%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SG&A Exp.	---	---	---	0.00	0.81	41.13	43.85	118	118	64
Operating Profit	---	---	---	0.00	-0.81	-41.13	-43.9	372	372	564
Net Profit	---	---	---	0.78	9.71	7.26	66.61	(355)	(355)	332
Free Cash Flow	---	---	---	0.30	9.54	28.08	83.53	230	230	523
Income Tax	---	---	---	0.48	6.42	26.26	32.31	(102)	(102)	117

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	---	1.04	17.37	29.76	47.71	6,283	6,283	5,544
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	3,257
Accounts Payable	---	---	---	0.43	0.29	1.17	0.43	2,892	2,892	29
Shareholder's Equity	---	---	---	0.56	10.27	15.61	30.86	3,143	3,143	2,287
LTD/E Ratio	---	---	---	0.86	0.69	0.91	0.55	0.92	0.92	1.37

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	75.0%	55.9%	24.4%	139%	---	-2.1%	5.9%
Return on Equity	---	---	---	139%	94.5%	46.5%	216%	-22.4%	-4.4%	14.1%
Shares Out.	---	---	---	186	186.1	186.1	186.2	506.4	476.8	477.7
FCF/Share	---	---	---	0.00	0.05	0.15	0.45	0.52	1.16	1.09

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