



# Antero Midstream Corporation (AM)

Updated October 31<sup>st</sup>, 2022 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$10.5	<b>5 Year CAGR Estimate:</b>	11.5%	<b>Market Cap:</b>	\$4.9B
<b>Fair Value Price:</b>	\$9.6	<b>5 Year Growth Estimate:</b>	7.2%	<b>Ex-Dividend Date:</b>	01/26/23 <sup>1</sup>
<b>Fair Value:</b>	109%	<b>5 Year Valuation Multiple Estimate:</b>	-1.8%	<b>Dividend Payment Date:</b>	02/10/23 <sup>2</sup>
<b>Dividend Yield:</b>	8.6%	<b>5 Year Price Target</b>	\$14	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## 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 5<sup>th</sup> largest natural gas producer and 2<sup>nd</sup> 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 \$4.9 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 26, 2022 Antero Midstream reported Q3 results. Non-GAAP earnings per share stood at \$0.20. Revenue increased 2.8% to \$231.03 million year-over-year. Net income remains the same year-over-year at \$0.17 per share. Adjusted EBITDA stood at \$223 million while capital expenditures stood at \$37 million.

Meanwhile, the company's net cash provided by operating activities stood at \$177 million. Antero Midstream also reported free cash flow before dividends of \$138 million. Fresh water delivery volumes grew by 13% year-over-year. We now expect \$1.37 in DCF/S for this year after Q3 results.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>DCF/S</b>	---	---	---	---	---	\$0.15	\$0.45	\$1.30	\$1.39	\$1.25	<b>\$1.37</b>	<b>\$1.94</b>
<b>DPS</b>	---	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.98	<b>\$0.90</b>	<b>\$0.90</b>
<b>Shares<sup>3</sup></b>	---	---	---	---	---	186.2	186.2	484.1	476.9	477.7	<b>478.5</b>	<b>450.0</b>

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 growth in DCF/share increasing as the company has numerous capital investment projects coming online in the coming years.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> 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	7.7	7.0
Avg. Yld.	---	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	6.6%

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 7.7 makes the stock look slightly over valued. Furthermore, even our assumption of 7 times distributable cash flow 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

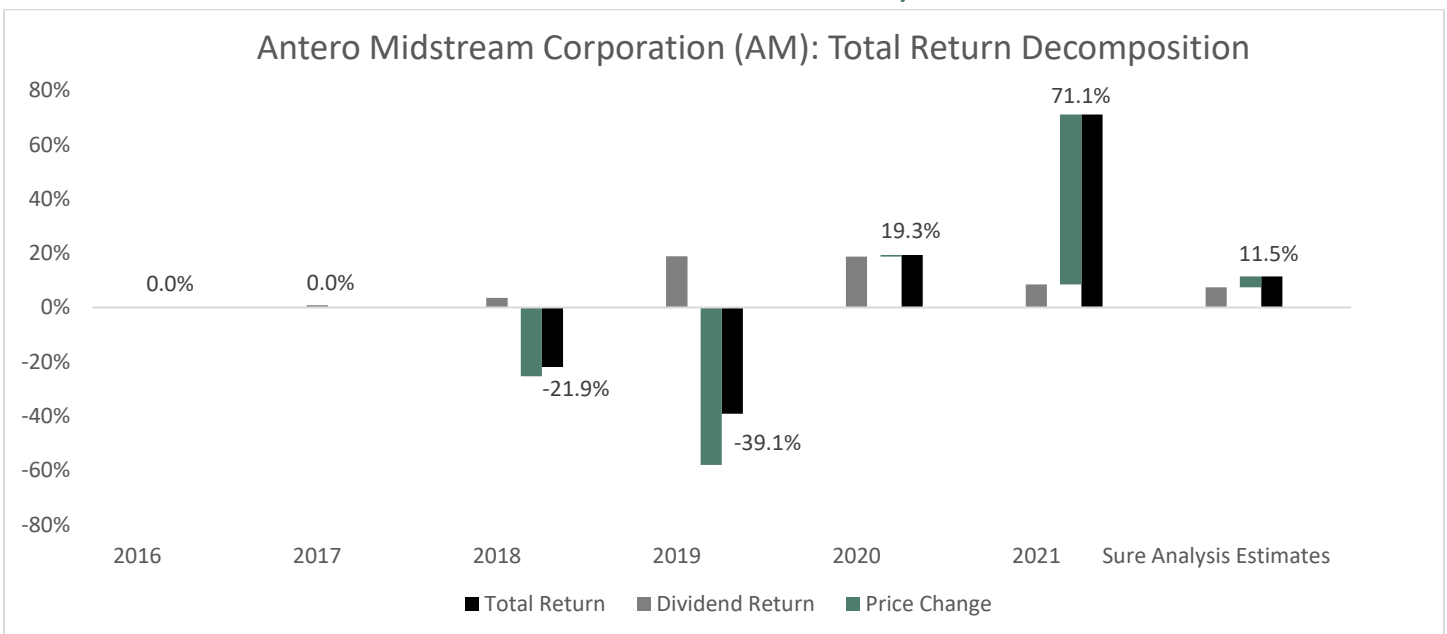
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	107%	120%	94%	89%	78%	65%	46%

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. That said, growth is expected accelerate in the coming years, combining with the attractive current dividend yield to generate 11.5% expected annualized total returns, making the stock a Buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>SG&amp;A Exp.</b>	---	---	---	0.00	0.81	41.13	43.85	118	118	64
<b>Operating Profit</b>	---	---	---	0.00	-0.81	-41.13	-43.9	372	372	564
<b>Net Profit</b>	---	---	---	0.78	9.71	7.26	66.61	(355)	(355)	332
<b>Free Cash Flow</b>	---	---	---	0.30	9.54	28.08	83.53	230	230	523
<b>Income Tax</b>	---	---	---	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
<b>Total Assets</b>	---	---	---	1.04	17.37	29.76	47.71	6,283	6,283	5,544
<b>Cash &amp; Equivalents</b>	---	---	---	0.07	9.61	5.99	2.82	3,139	3,139	-
<b>Total Liabilities</b>	---	---	---	0.48	7.10	14.15	16.84	10	10	3,257
<b>Accounts Payable</b>	---	---	---	0.43	0.29	1.17	0.43	2,892	2,892	29
<b>Shareholder's Equity</b>	---	---	---	0.56	10.27	15.61	30.86	3,143	3,143	2,287
<b>LTD/E Ratio</b>	---	---	---	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
<b>Return on Assets</b>	---	---	---	75.0%	55.9%	24.4%	139%	---	-2.1%	5.9%
<b>Return on Equity</b>	---	---	---	139%	94.5%	46.5%	216%	-22.4%	-4.4%	14.1%
<b>Shares Out.</b>	---	---	---	186	186.1	186.1	186.2	506.4	476.8	477.7
<b>FCF/Share</b>	---	---	---	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.

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