



Antero Midstream Corporation (AM)

Updated February 19th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$10.6	5 Year CAGR Estimate:	4.9%	Market Cap:	\$5.0B
Fair Value Price:	\$10.2	5 Year Growth Estimate:	-2.6%	Ex-Dividend Date:	04/26/23 ¹
Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	05/08/23 ²
Dividend Yield:	8.5%	5 Year Price Target	\$9	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	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 \$5.0 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 February 15, 2023, Antero Midstream reported fourth quarter 2022 financial and operational results. Net Income was \$83 million, or \$0.17 per diluted share, a 6% per share increase compared to the prior year quarter. Adjusted Net Income was \$96 million, or \$0.20 per share. Adjusted EBITDA was \$231 million, a 9% increase compared to the prior year quarter. Capital expenditures were \$63 million, a 22% decrease compared to the prior year quarter. Free Cash Flow after dividends was \$8 million compared to a \$19 million deficit in the prior year quarter. It acquired bolt-on compression assets for \$10 million in the Utica Shale.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCF/S	---	---	---	---	\$0.15	\$0.45	\$1.30	\$1.39	\$1.25	\$1.37	\$1.46	\$1.28
DPS	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.98	\$0.90	\$0.90	\$0.90
Shares³	---	---	---	---	186.2	186.2	484.1	476.9	477.7	478.6	478.6	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 growth in DCF/share increasing as the company has numerous capital investment projects coming online in the coming years.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/DCF	---	---	---	---	138.3	34.4	5.0	4.7	8.5	7.7	7.3	7.0
Avg. Yld.	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	8.5%	10.0%

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 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

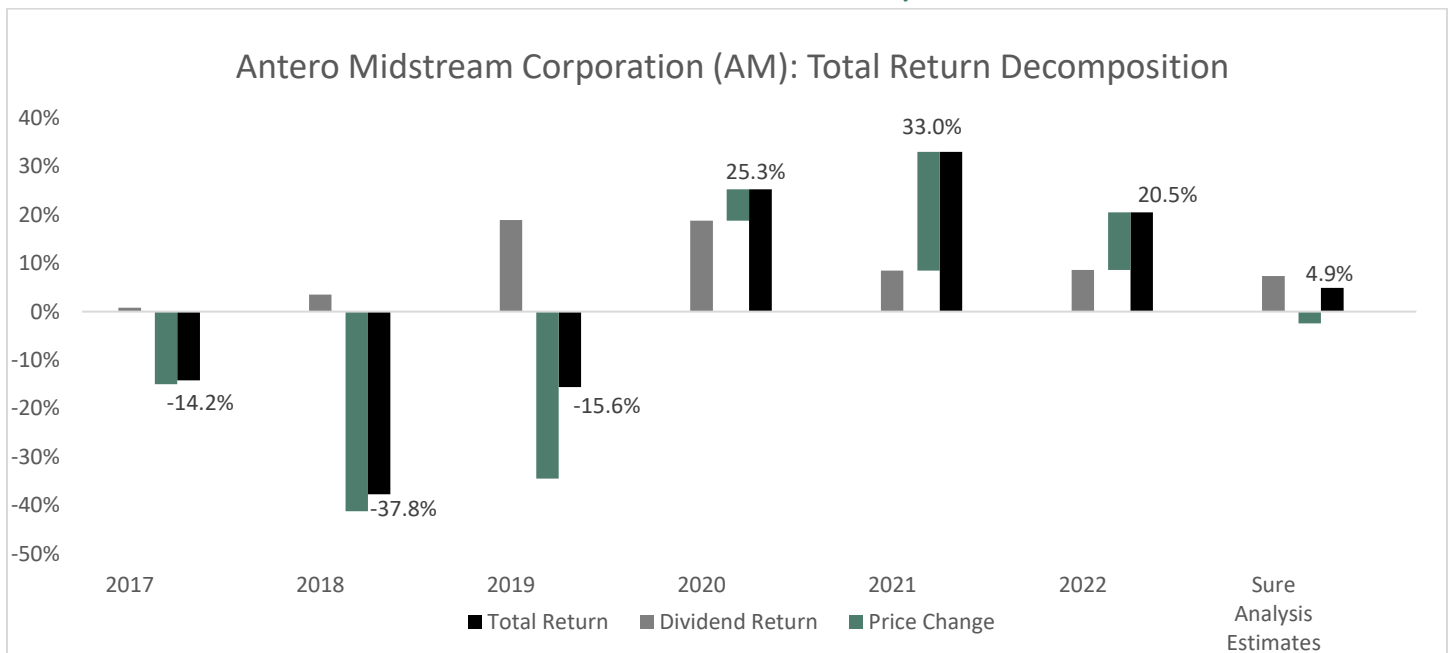
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	107%	120%	95%	88%	78%	66%	62%	70%

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, growth over the long-term may prove to be challenging. That said, free cash flow is expected to increase in the coming years, enabling it to pay down debt and invest in the long-term sustainability of the business. As of now, we expect the company to generate 4.9% annualized total returns over the next half decade, and rate it a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
SG&A Exp.	---	---	0.00	0.81	41.13	43.85	118	118	64	62
Operating Profit	---	---	0.00	-0.81	-41.13	-43.9	372	372	564	541
Net Profit	---	---	0.78	9.71	7.26	66.61	(355)	(355)	332	326
Free Cash Flow	---	---	0.30	9.54	28.08	83.53	230	230	523	184
Income Tax	---	---	0.48	6.42	26.26	32.31	(102)	(102)	117	117

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	1.04	17.37	29.76	47.71	6,283	6,283	5,544	5,791
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	3,599
Accounts Payable	---	---	0.43	0.29	1.17	0.43	2,892	2,892	29	28
Shareholder's Equity	---	---	0.56	10.27	15.61	30.86	3,143	3,143	2,287	2,192
LTD/E Ratio	---	---	0.86	0.69	0.91	0.55	0.92	0.92	1.37	1.53

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	75.0%	55.9%	24.4%	139%	---	-2.1%	5.9%	5.8%
Return on Equity	---	---	139%	94.5%	46.5%	216%	-22.4%	-4.4%	14.1%	14.6%
Shares Out.	---	---	186	186.1	186.1	186.2	506.4	476.8	477.7	478.6
FCF/Share	---	---	0.00	0.05	0.15	0.45	0.52	1.16	1.09	0.38

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

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