



Antero Midstream Corporation (AM)

Updated May 11th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$10.5	5 Year CAGR Estimate:	9.9%	Market Cap:	\$5.1B
Fair Value Price:	\$11.7	5 Year Growth Estimate:	0.5%	Ex-Dividend Date:	07/25/23 ¹
Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	08/10/23 ²
Dividend Yield:	8.6%	5 Year Price Target	\$12	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	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 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 \$5.1 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 April 26, 2023, Antero Midstream reported first quarter 2023 financial and operational results. Adjusted EBITDA reached \$242 million, representing a 16% increase. On the other hand, capital expenditures decreased by 64% to \$34 million, and Free Cash Flow after dividends amounted to \$46 million, compared to a \$38 million shortfall in the prior year quarter. For the full year 2023, the company updated its guidance as follows: Net Income is projected to increase by \$15 million, falling within the \$355 to \$395 million range. Adjusted EBITDA is expected to increase by \$20 million, within the \$950 to \$990 million (non-GAAP measure) range. Capital expenditures are anticipated to decrease by \$15 million, within the \$180 to \$200 million range. Additionally, Free Cash Flow after dividends is projected to increase by \$35 million, within the \$125 to \$155 million (non-GAAP measure) range. Looking ahead, the company foresees that higher Adjusted EBITDA guidance and lower capital budget guidance will result in a \$35 million increase to their Free Cash Flow after dividends, reflecting a 33% increase to the midpoint of the previous guidance range. This increase will enable the company to continue reducing absolute debt and leverage, further mitigating risks for Antero Midstream.

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	\$1.50
DPS	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.98	\$0.90	\$0.90	\$1.00
Shares³	---	---	---	---	186.2	186.2	484.1	476.9	477.7	478.6	479.7	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.

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.



Antero Midstream Corporation (AM)

Updated May 11th, 2023 by Samuel Smith

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.

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	7.2	8.0
Avg. Yld.	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	8.6%	8.3%

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 7.2 makes the stock look slightly undervalued relative to our fair value estimate of 8x DCF. As a result, we forecast a slight tailwind to total returns moving forward from multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

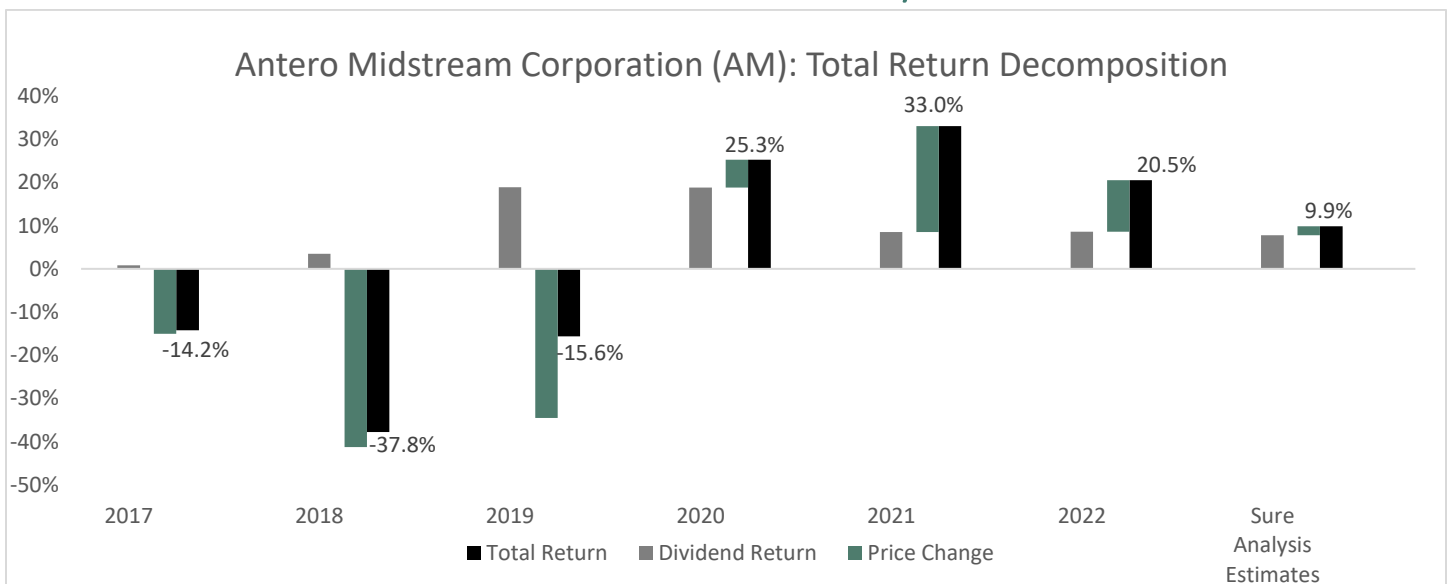
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	107%	120%	95%	88%	78%	66%	62%	67%

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. 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 9.9% annualized total returns over the next half decade, and rate it a Buy.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Antero Midstream Corporation (AM)

Updated May 11th, 2023 by Samuel Smith

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.