



# Antero Midstream Corporation (AM)

Updated July 31<sup>st</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$11.9	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Market Cap:</b>	\$5.7B
<b>Fair Value Price:</b>	\$11.7	<b>5 Year Growth Estimate:</b>	0.5%	<b>Ex-Dividend Date:</b>	10/25/23 <sup>1</sup>
<b>Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.4%	<b>Dividend Payment Date:</b>	11/10/23 <sup>2</sup>
<b>Dividend Yield:</b>	7.6%	<b>5 Year Price Target</b>	\$12	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 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 \$5.7 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 26, 2023, Antero Midstream reported second quarter 2023 financial and operational results. Gathering and compression volumes increased by 11% and 17% respectively compared to the same period last year. Net Income was \$87 million, or \$0.18 per diluted share, representing a 6% per share increase from the prior year. Adjusted Net Income was \$105 million, or \$0.22 per diluted share, indicating a 10% per share increase from the prior year (non-GAAP measure). Adjusted EBITDA was \$243 million, marking a 10% increase from the prior year (non-GAAP measure). Capital expenditures were \$49 million, showing a 31% decrease from the prior year quarter. Free Cash Flow before dividends was \$139 million, a 31% increase from the prior year quarter (non-GAAP measure). Free Cash Flow after dividends was \$31 million compared to a \$2 million deficit in the prior year quarter (non-GAAP measure).

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>DCF/S</b>	---	---	---	---	\$0.15	\$0.45	\$1.30	\$1.39	\$1.25	\$1.37	<b>\$1.46</b>	<b>\$1.50</b>
<b>DPS</b>	---	---	---	---	\$0.16	\$0.54	\$1.23	\$1.23	\$0.98	\$0.90	<b>\$0.90</b>	<b>\$1.00</b>
<b>Shares<sup>3</sup></b>	---	---	---	---	186.2	186.2	484.1	476.9	477.7	478.6	<b>479.7</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	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	<b>8.2</b>	<b>8.0</b>
Avg. Yld.	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	<b>7.6%</b>	<b>8.3%</b>

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

## Safety, Quality, Competitive Advantage, & Recession Resiliency

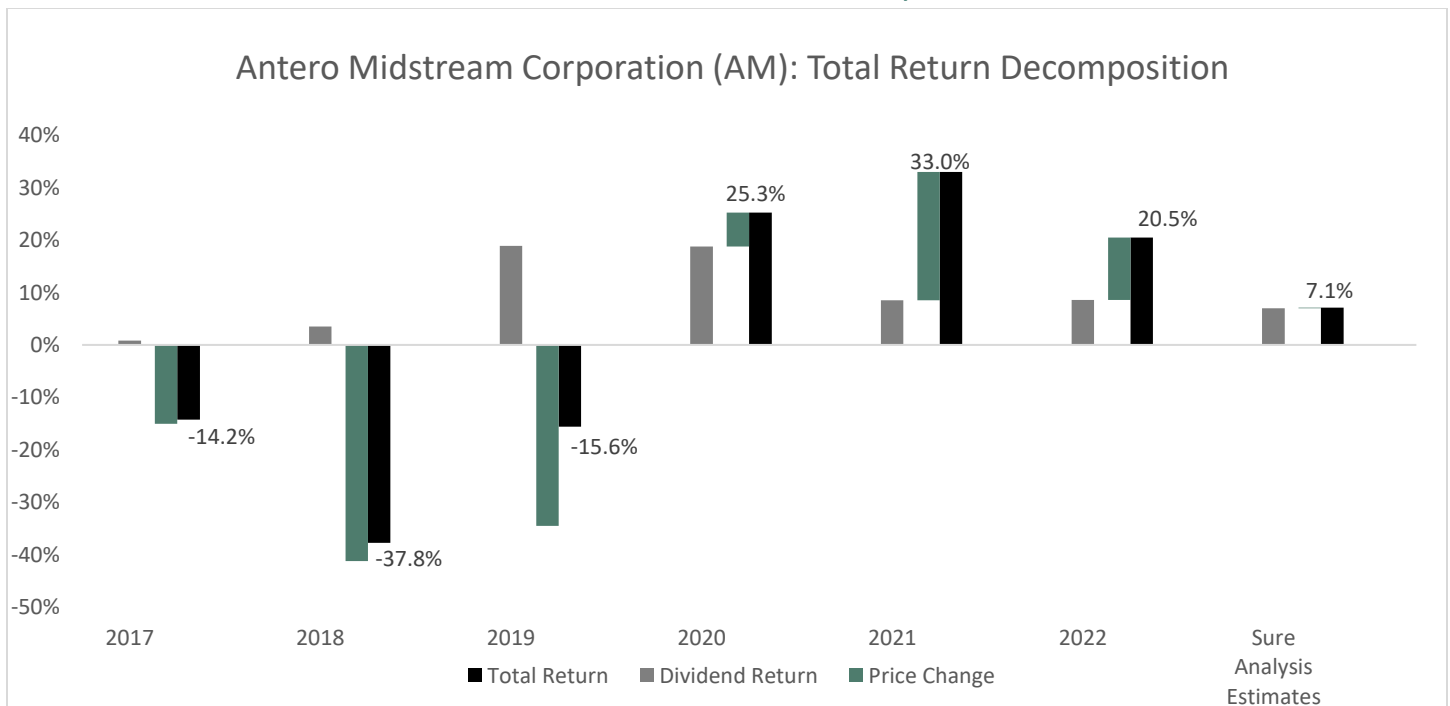
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	107%	120%	95%	88%	78%	66%	<b>62%</b>	<b>67%</b>

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 7.1% 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
<b>SG&amp;A Exp.</b>	---	---	0.00	0.81	41.13	43.85	118	118	64	62
<b>Operating Profit</b>	---	---	0.00	-0.81	-41.13	-43.9	372	372	564	541
<b>Net Profit</b>	---	---	0.78	9.71	7.26	66.61	(355)	(355)	332	326
<b>Free Cash Flow</b>	---	---	0.30	9.54	28.08	83.53	230	230	523	184
<b>Income Tax</b>	---	---	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
<b>Total Assets</b>	---	---	1.04	17.37	29.76	47.71	6,283	6,283	5,544	5,791
<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	3,599
<b>Accounts Payable</b>	---	---	0.43	0.29	1.17	0.43	2,892	2,892	29	28
<b>Shareholder's Equity</b>	---	---	0.56	10.27	15.61	30.86	3,143	3,143	2,287	2,192
<b>LTD/E Ratio</b>	---	---	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
<b>Return on Assets</b>	---	---	75.0%	55.9%	24.4%	139%	---	-2.1%	5.9%	5.8%
<b>Return on Equity</b>	---	---	139%	94.5%	46.5%	216%	-22.4%	-4.4%	14.1%	14.6%
<b>Shares Out.</b>	---	---	186	186.1	186.1	186.2	506.4	476.8	477.7	478.6
<b>FCF/Share</b>	---	---	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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