Antero Midstream Corporation (AM)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	$13.6	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$6.4 B
Fair Value Price:	$13.7	**5 Year Growth Estimate:**	-2.6%	**Ex-Dividend Date:**	4/24/24[1]
Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	5/8/24[2]
Dividend Yield:	6.6%	**5 Year Price Target**	$12	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**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 $6.4 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 14, 2024, Antero Midstream Corporation (AM) reported its results for the fourth quarter of 2023. In the fourth quarter of 2023, the company reported significant growth in key financial metrics, with net income reaching $100 million, or $0.21 per diluted share, marking a 24% per share increase compared to the previous year's quarter. Adjusted net income stood at $114 million, or $0.24 per diluted share, reflecting a robust 20% per share increase year-over-year. Notably, low-pressure gathering and processing volumes saw substantial increases of 10% and 12%, respectively, compared to the same period in the prior year. Adjusted EBITDA also showed strong growth, reaching $254 million, a 10% increase year-over-year, while capital expenditures decreased by 27% to $46 million. Free cash flow after dividends surged to $48 million, a significant improvement from $8 million in the prior year quarter. For the full year 2023, net income amounted to $372 million, or $0.77 per diluted share, with adjusted EBITDA reaching $989 million, at the high end of the guidance range. Capital expenditures were reported at $185 million, at the lower end of the guidance range, while free cash flow after dividends reached $155 million, compared to a deficit in 2022. Leverage declined to 3.3x, and return on invested capital increased to 18%, compared to the previous year. Looking ahead to 2024, the company provided guidance forecasting net income of $405 to $445 million and adjusted EBITDA of $1,020 to $1,060 million, representing a 5% increase compared to 2023 at the midpoint. Additionally, the capital budget is expected to decrease by 14% compared to 2023 at the midpoint, while free cash flow after dividends is anticipated to rise to $235 to $275 million, assuming an annualized dividend of $0.90 per share. Furthermore, the company announced a $500 million share repurchase program, indicating confidence in its future performance and commitment to delivering shareholder value.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCF/S	---	---	---	$0.15	$0.45	$1.30	$1.39	$1.25	$1.37	$1.46	***$1.71***	***$1.50***
DPS	---	---	---	$0.16	$0.54	$1.23	$1.23	$0.98	$0.90	$0.90	***$0.90***	***$1.00***
Shares[3]	---	---	---	186.2	186.2	484.1	476.9	477.7	478.6	479.7	***479.7***	***450.0***

[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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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 DCF/share slightly decreasing as the company's small size restricts its growth opportunities.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	*Now*	2029
P/DCF	---	---	---	138.3	34.4	5	4.7	8.5	7.7	8.3	***8.0***	***8.0***
Avg. Yld.	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	***6.6%***	***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 8.0 makes the stock look fairly valued relative to our fair value estimate of 8x DCF.

Safety, Quality, Competitive Advantage, & Recession Resiliency

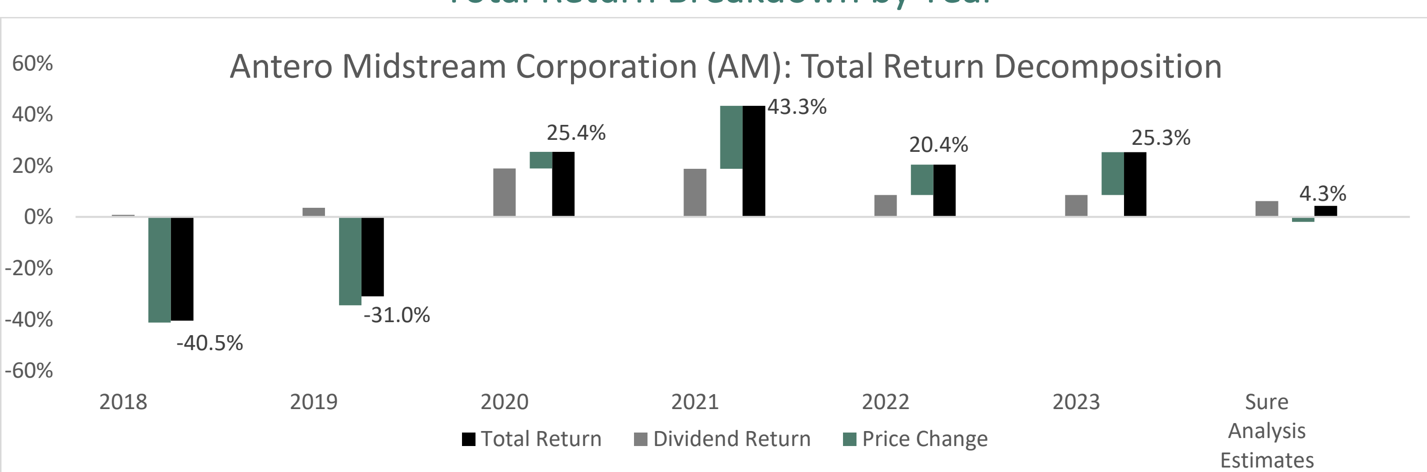
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	107%	120%	95%	88%	78%	66%	62%	***53%***	***67%***

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 relatively attractive 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 4.3% 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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