Antero Midstream Corporation (AM)

Updated May 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	$14.4	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$6.9 B
Fair Value Price:	$13.7	**5 Year Growth Estimate:**	-2.6%	**Ex-Dividend Date:**	7/24/24[1]
Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	8/8/24[2]
Dividend Yield:	6.3%	**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 $6.9 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.

Antero Midstream Corporation (AM) reported its first quarter 2024 financial and operational results, revealing several notable highlights. Gathering and processing volumes experienced increases of 4% and 6% respectively compared to the prior year quarter. The company placed the Grays Peak compressor station into service with an initial capacity of 160 MMcf/d. Net income reached a company record of $104 million, or $0.21 per diluted share, marking a 17% per share increase from the previous year quarter. Adjusted net income was $117 million, or $0.24 per diluted share, reflecting a 14% per share increase from the prior year quarter as a non-GAAP measure. Adjusted EBITDA also increased by 10% compared to the prior year quarter. Capital expenditures decreased by 11% from the prior year quarter, and leverage declined from 3.3x to 3.1x from year-end 2023 to March 31, 2024, respectively. The company's management expressed satisfaction with the results, attributing them to Antero's integrated planning and development program in Appalachia, and anticipates further progress towards its leverage target in 2024. Revenues for the first quarter were $279 million, with significant contributions from the Gathering and Processing segment and the Water Handling segment. Operating expenses, including direct operating expenses and general and administrative expenses, totaled $54 million and $12 million, respectively. Net income, adjusted for certain items, amounted to $117 million, resulting in adjusted net income per share of $0.24, a 14% increase from the prior year quarter.

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	***481.2***	***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

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[1] Estimate

[2] Estimate

[3] Average Weighted Share count is in millions.

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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	***8.4***	***8.0***
Avg. Yld.	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	***6.3%***	***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 8.4 makes the stock look slightly overvalued relative to our fair value estimate of 8x DCF.

Safety, Quality, Competitive Advantage, & Recession Resiliency

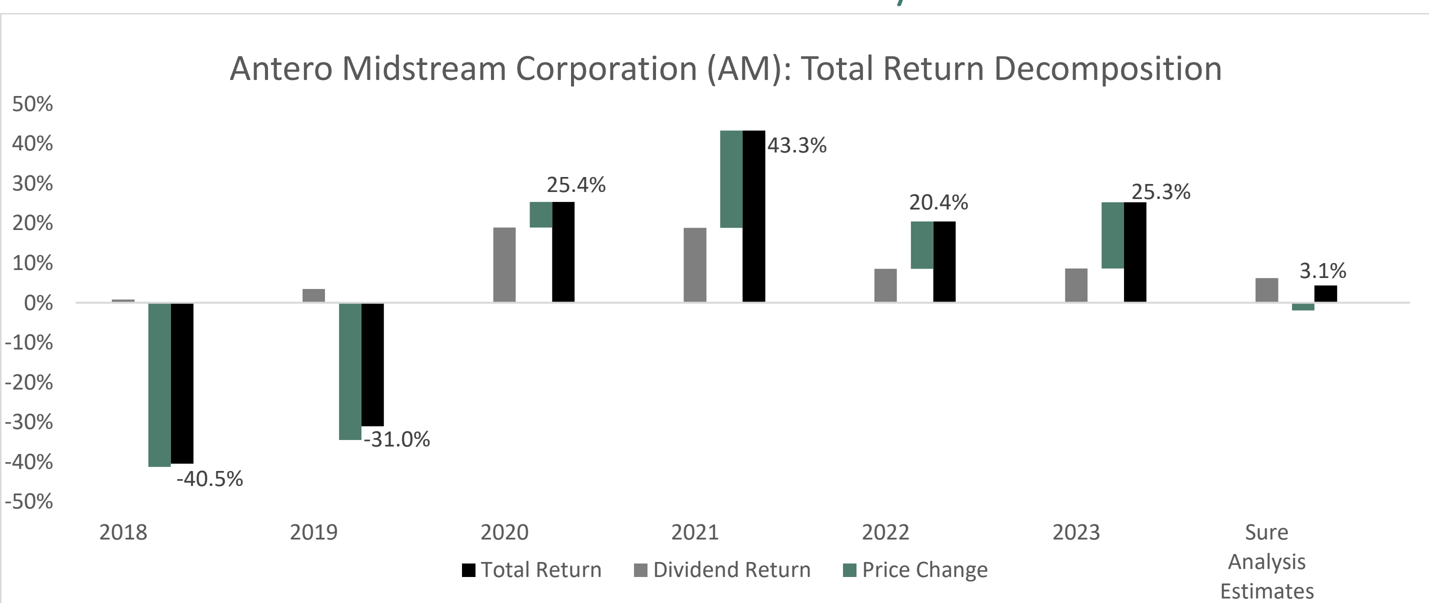
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	107%	120%	95%	88%	78%	66%	62%	***53%***	***67%***

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 3.1% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SG&A Exp.	---	0.00	0.81	41.13	43.85	118	118	64	62	71
Operating Profit	---	0.00	-0.81	-41.13	-43.9	372	372	564	541	618
Net Profit	---	0.78	9.71	7.26	66.61	(355)	(355)	332	326	372
Free Cash Flow	---	0.30	9.54	28.08	83.53	230	230	523	184	595
Income Tax	---	0.48	6.42	26.26	32.31	(102)	(102)	117	117	128

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	1.04	17.37	29.76	47.71	6,283	6,283	5,544	5,791	5,738
Cash & Equivalents	---	0.07	9.61	5.99	2.82	3,139	3,139	-	-	0
Total Liabilities	---	0.48	7.10	14.15	16.84	10	10	3,257	3,599	3,586
Accounts Payable	---	0.43	0.29	1.17	0.43	2,892	2,892	29	28	15
Shareholder's Equity	---	0.56	10.27	15.61	30.86	3,143	3,143	2,287	2,192	2,152
LTD/E Ratio	---	0.86	0.69	0.91	0.55	0.92	0.92	1.37	1.53	1.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	75.0%	55.9%	24.4%	139%	---	-2.1%	5.9%	5.8%	6.4%
Return on Equity	---	139%	94.5%	46.5%	216%	-22.4%	-4.4%	14.1%	14.6%	17.1%
Shares Out.	---	186	186.1	186.1	186.2	506.4	476.8	477.7	478.6	479.7
FCF/Share	---	0.00	0.05	0.15	0.45	0.52	1.16	1.09	0.38	2.31

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