Antero Midstream Corporation (AM)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	$14.6	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$7.0 B
Fair Value Price:	$13.7	**5 Year Growth Estimate:**	-2.6%	**Ex-Dividend Date:**	10/24/24[1]
Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	11/8/24[2]
Dividend Yield:	6.2%	**5 Year Price Target**	$12	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Sell

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 $7 billion market capitalization.

Antero Midstream Corporation (AM) reported its second-quarter 2024 financial and operating results. Net income was $86 million, or $0.18 per diluted share, consistent with the previous year on a per share basis. Adjusted net income increased by 5% to $110 million, or $0.23 per diluted share, compared to the prior year. Adjusted EBITDA also rose by 5% to $255 million. Capital expenditures for the quarter were $51 million, and free cash flow after dividends saw a significant increase of 41% to $43 million. The company made a strategic acquisition of Marcellus gathering and compression assets for $70 million, enhancing throughput volumes from its primary customer, Antero Resources. This acquisition complements Antero Midstream's organic growth model, contributing to a 41% year-over-year increase in free cash flow after dividends. Additionally, Antero Midstream improved its balance sheet by refinancing its highest coupon senior notes and extending its credit facility to 2029, maintaining commitments of $1.25 billion. The company's leverage decreased from 3.5x to 3.1x, with net debt reduced by $120 million over the past year. S&P Global Ratings upgraded the company's corporate and issuer credit ratings to BB+. Operating metrics for the second quarter included a slight decrease in low pressure gathering volumes to 3,258 MMcf/d, compression volumes remaining steady at 3,246 MMcf/d, and a 2% increase in high pressure gathering volumes to 2,994 MMcf/d. Fresh water delivery volumes decreased by 23% to 81 MBbl/d due to a reduction in completion crews by Antero Resources. Gross processing volumes from the joint venture with MPLX, LP averaged 1,588 MMcf/d, with fractionation volumes increasing by 3% to 40 MBbl/d. Revenues for the quarter were $270 million, with $229 million from the Gathering and Processing segment and $59 million from the Water Handling segment. Direct operating expenses totaled $56 million, and general and administrative expenses excluding equity-based compensation were $10 million. Antero Midstream connected 11 wells to its gathering system and serviced 19 wells with its fresh water delivery system during the quarter. The company remains focused on strategic investments and efficient operations to drive consistent free cash flow and maintain a strong balance sheet.

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	***481.3***	***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	***8.5***	***8.0***
Avg. Yld.	---	---	---	---	0.8%	3.5%	18.9%	18.8%	8.5%	8.6%	***6.2%***	***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 8.5 makes the stock look slightly overvalued relative to our fair value estimate of 8x DCF.

Safety, Quality, Competitive Advantage, & Recession Resiliency

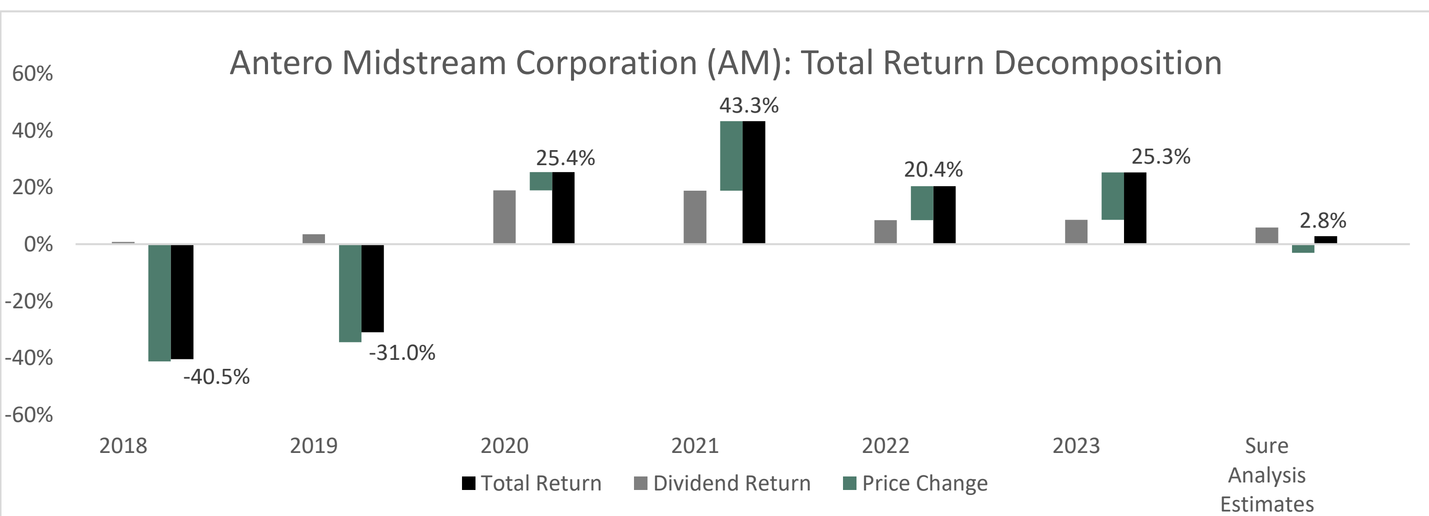
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	107%	120%	95%	88%	78%	66%	62%	***53%***	***67%***

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 2.8% annualized total returns over the next half-decade, and rate it a Sell.

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.