



Targa Resources (TRGP)

4Q21 Earnings Preview

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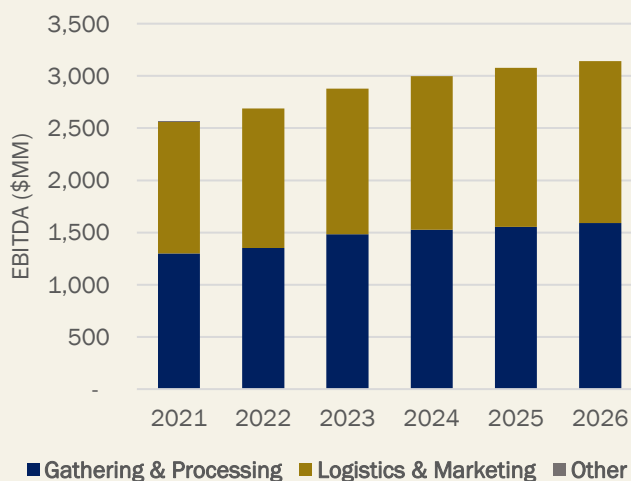
Symbol	TRGP
Price, \$	55.55
Fully diluted units outstanding, MM	228
Market capitalization, \$MM	12,719
Net Debt, \$MM	7,571
Preferred Debt & Minority Int., \$MM	4,169
Enterprise value, \$MM	24,459
Credit Rating (Moody's/S&P/Fitch)	Ba1/BB+/BB+

(1) Above metrics from Bloomberg, as of 1/6/2022.

	4Q21E	2021E	2022E
EBITDA (\$MM)	\$559	\$2,041	\$2,259
Consensus	\$549	\$2,033	\$2,301
Delta (%)	2%	0%	-2%
EV/EBITDA	12.0x	12.0x	10.8x
FCFPS	\$1.39	\$5.28	\$5.49
FCF Yield	3%	10%	10%
FCFE/Dist	4.0x	8.1x	3.9x
DPS	\$0.35	\$0.65	\$1.40
Leverage	3.1x	3.6x	3.3x
Operating Margin (\$MM)	4Q21E	2021E	2022E
WestTX (Atlas)	\$152	\$508	\$556
Fractionation	\$121	\$448	\$490
Grand Prix	\$111	\$404	\$470
Sand Hills	\$70	\$246	\$268
LPG Exports	\$60	\$222	\$239
SAOU	\$41	\$148	\$141
Badlands Crude Gath.	\$26	\$104	\$116
Versado	\$23	\$79	\$98
North Texas	\$18	\$69	\$63
WestOK	\$11	\$38	\$34

(*) See Appendix.

Figure 1 - Segment Operating Margin



4Q21 Earnings Preview: East Daley forecasts Targa 4Q21 Adj. EBITDA of \$559 million, up \$53 million (10%) Q-o-Q and \$10 million (2%) above consensus. We expect continued growth in G&P volumes, exports, fractionation, and Grand Prix volumes. Additionally, we model an uplift from commodity prices and marketing revenues.

Key Data, Risks & Assets (4Q21):

- We estimate modest 4Q21 volume growth in the Permian based on producer commentary from Endeavor and Pioneer. We currently model ~3% growth Q-o-Q for the Midland and Delaware systems.
- The estimated average realized natural gas prices increased Q-o-Q from \$3.51 to \$4.74/MMBtu. We model NGL prices remained flat and condensate avg. realized prices declined Q-o-Q. This is based on TRGP's disclosed hedging position but could mean upside to our forecasts if hedging risks are less severe than anticipated.
- We model Grand Prix volumes increased 5% Q-o-Q, from 417 Mb/d to 438 Mb/d, partly due to modeled increases on TRGP's G&P footprint but also increased volumes from Eagle Claw and Sendero Midstream. We also forecast additional volumes from the Blue Stem pipeline.
- Fractionation volumes are modeled to increase by 15.1 Mb/d Q-o-Q (for a total of 677.1 Mb/d). We previously anticipated contract roll-offs during 2H2021. However, we no longer believe this to be the case – DCP's contract with the Cedar Bayou facility, though announced in 2011, is believed to have taken effect in 2013. Assuming a 10-year term, we anticipate minimal risk in 2023.
- We forecast exports to recover from maintenance events and weather disruptions in 3Q21. EIA's propane, butane, and Isobutane Gulf Coast export data indicates a 5% increase Q-o-Q. Previously, we referenced EIA's total LPG exports (which includes ethane in its dataset) but have modified our forecast to better reflect TRGP's export profile.

Key Data, Risks & Assets (Long-Term):

- Midland gas processing capacity appears to be constrained. TRGP can shift volumes to its Delaware processing plants and other third parties if needed, but more infrastructure is required. We currently forecast an additional plant will be required after Legacy (2022). Depending on how much natural gas from the Midland can be processed at TRGP's Delaware plants, there may be a need for another processing plant on top of the additional plant already forecasted in our model.
- Currently, some TRGP plants feed other NGL pipelines. We anticipate TRGP will eventually shift these volumes to Grand Prix. Some of these NGLs, along with Permian volume growth, drive increased transportation, fractionation, and export volumes in our forecast.

Uses of FCF / Strategy:

- EBITDA outlook:** We are 2% below consensus for 2022, likely because of G&P inflation caps and a more bearish view on operating expenses. East Daley is in line with consensus in 2023 but is 3% above the Street for 2024-2026. This is likely due to our rig and volume forecasts overall.
- Outlook Change:** We increased our fractionation volumes considerably based on the above commentary, linking volumes more closely with Grand Prix. We also included inflation rate escalators in G&P rates.

Relevant Data Considerations:

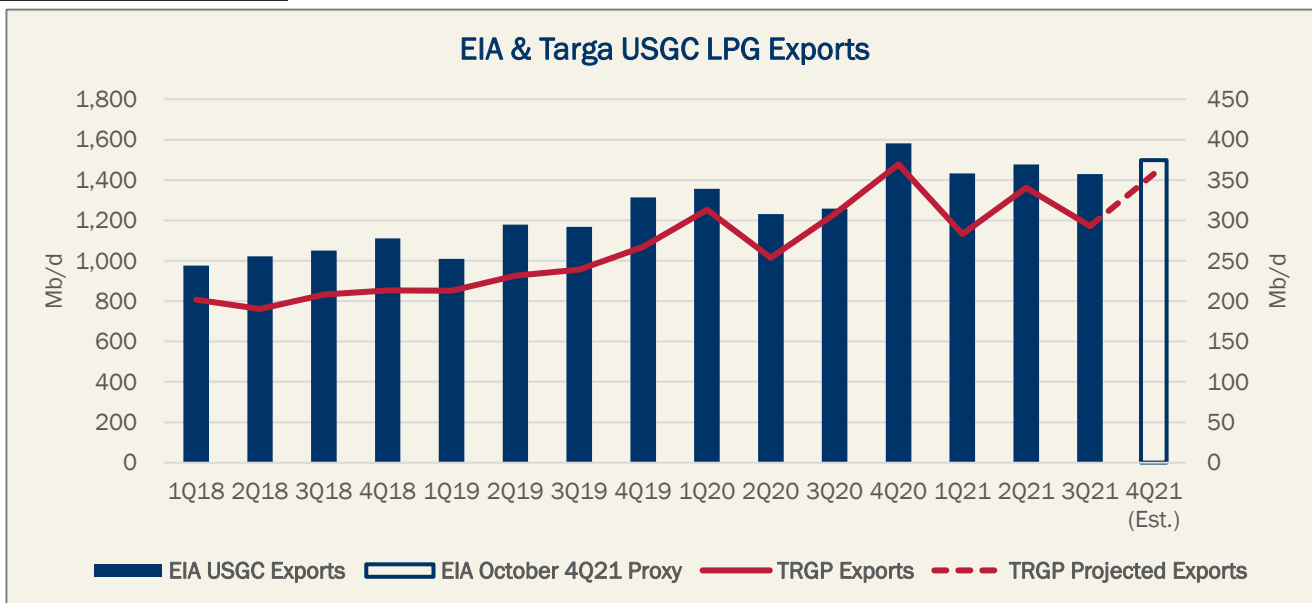


Figure 2 – EIA and TRGP USGC Exports – (EIA USGC Propane, Butane, & Isobutane Export Data. TRGP’s Investor Presentations)

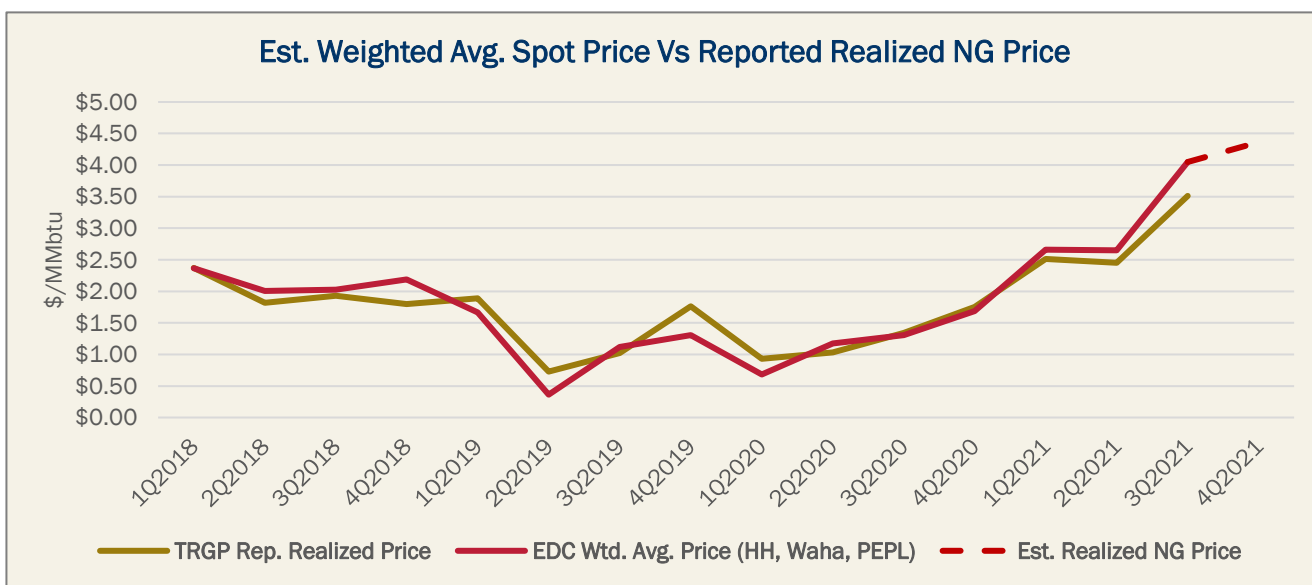


Figure 3–Est. Wtd. Avg. Spot Price Vs Rep. Realized NG Price (East Daley Blueprint Models, TRGP SEC filings and Presentations)

TRGP G&P Volumes (MMcf/d)	3Q21 Rep.	4Q21 Est.	Delta	% Delta
Permian Midland	2,109	2,167	58	3%
Permian Delaware	843	869	27	3%
SouthTX	181	178	-2	-1%
North Texas	181	176	-5	-3%
SouthOK	421	421	1	0%
WestOK	219	218	-2	-1%
Badlands	135	140	5	4%
Coastal	527	594	67	13%
Total G&P volumes	4,615	4,764	149	3%

Table 3–TRGP G&P Volumes (East Daley Blueprint Models, TRGP’s 10-Q dated September 30, 2021)

Asset	EBITDA Change 2021-2025	Segment	BBR Classification
SAOU	(\$16)	G&P	NG G&P
North Texas G&P	(\$12)	G&P	NG G&P
West Ok G&P	(\$9)	G&P	NG G&P
Badlands	(\$8)	G&P	NG G&P
Fractionation	\$75	L&M	NGL T&S
Exports	\$24	L&M	NGL T&S
Total	\$53		
2021E EBITDA	\$2,041		
Base Business Risk Score	3%		

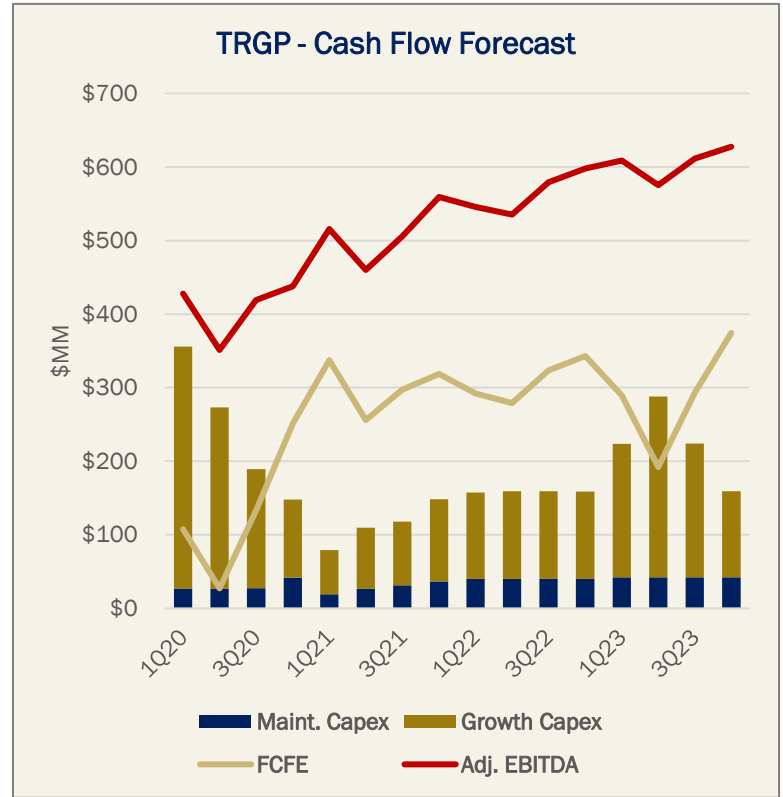


Figure 4 - Adj. EBITDA, FCF to Equity (FCFE), Maintenance and Growth Capital Forecasts for TRGP

Table 4 - Base Business Risk: East Daley defines legacy cash flow risk as follows: (the sum of EBITDA change on legacy assets from 2020 to 2024) / (2020 EBITDA).

Table 5 - Midstream Comparables, Annual

East Daley Estimate Summary	Price	EV/EBITDA			FCFPS			Leverage			Dividends/unit		
		2021E	2022E	y/y	2021E	2022E	y/y	2021E	2022E	y/y	2021E	2022E	y/y
Targa Resources (TRGP)	\$55.55	12.0x	10.8x	-10%	\$5.28	\$5.49	4%	3.6x	3.3x	-7%	\$0.65	\$1.40	115%
<i>Bloomberg Consensus, Annual</i>													
Enterprise (EPD)	\$23.32	9.5x	9.6x	1%	\$2.54	\$2.49	-2%	3.5x	3.5x	1%	\$1.81	\$1.86	3%
Energy Transfer (ET)	\$9.07	6.8x	7.6x	12%	\$2.80	\$2.12	-24%	4.0x	4.5x	12%	\$0.61	\$0.64	4%
OneOk Inc. (OKE)	\$61.55	12.2x	11.5x	-6%	\$4.00	\$4.52	13%	4.1x	3.8x	-6%	\$3.74	\$3.81	2%
Williams Companies (WMB)	\$27.20	10.4x	10.3x	-2%	\$1.75	\$2.25	29%	4.0x	4.0x	-2%	\$1.64	\$1.69	3%
Targa Resources (TRGP)	\$55.55	11.5x	10.2x	-12%	\$6.43	\$5.41	-16%	3.7x	3.3x	-12%	\$0.64	\$1.35	112%

Table 6 - Midstream Comparables, Quarterly

East Daley Estimate Summary	Price	EV/EBITDA			FCFPS			Leverage			Dividends/unit		
		3Q21A	4Q21E	q/q	3Q21A	4Q21E	q/q	3Q21A	4Q21E	q/q	3Q21A	4Q21E	q/q
Targa Resources (TRGP)	\$55.55	12.7x	12.0x	-6%	\$1.30	\$1.39	7%	3.4x	3.1x	-9%	\$0.10	\$0.35	250%
<i>Bloomberg Consensus, Quarterly</i>													
Enterprise (EPD)	\$23.32	9.6x	9.5x	0%	\$0.57	\$0.63	10%	3.5x	3.5x	0%	\$0.45	\$0.46	2%
Energy Transfer (ET)	\$9.07	6.9x	6.8x	-1%	\$0.32	\$0.34	8%	4.1x	4.0x	-1%	\$0.15	\$0.15	0%
OneOk Inc. (OKE)	\$61.55	12.7x	12.2x	-4%	\$0.85	\$0.99	17%	4.2x	4.1x	-4%	\$0.94	\$0.94	0%
Williams Companies (WMB)	\$27.20	10.6x	10.4x	-1%	\$0.39	\$0.40	4%	4.1x	4.0x	-1%	\$0.41	\$0.41	0%
Targa Resources (TRGP)	\$55.55	12.2x	11.5x	-5%	\$0.96	\$1.14	18%	3.9x	3.7x	-5%	\$0.10	\$0.35	244%

Prices	FY2020A	Q1'21A	Q2'21A	Q3'21A	Q4'21E	FY2021E	Q1'22E	Q2'22E	Q3'22E	Q4'22E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
WTI CruCe	\$39.31	\$57.84	\$66.09	\$70.58	\$77.34	\$67.96	\$77.43	\$76.47	\$74.69	\$72.83	\$75.36	\$69.04	\$64.77	\$61.90	\$59.94
Wt. Avg. NGL	\$0.41	\$0.69	\$0.70	\$0.91	\$1.00	\$0.83	\$0.93	\$0.85	\$0.82	\$0.81	\$0.85	\$0.71	\$0.65	\$0.65	\$0.65
HH NG	\$2.02	\$3.42	\$2.91	\$4.32	\$4.74	\$3.85	\$3.76	\$3.69	\$3.79	\$3.94	\$3.80	\$3.45	\$3.17	\$3.08	\$3.04
ECC ACj HH NG	\$2.02	\$3.42	\$2.91	\$4.19	\$4.39	\$3.73	\$4.07	\$3.30	\$3.25	\$3.36	\$3.49	\$3.21	\$3.13	\$3.12	\$3.17

OpMargin By Segment (\$ millions)	FY2020A	Q1'21A	Q2'21A	Q3'21A	Q4'21E	FY2021E	Q1'22E	Q2'22E	Q3'22E	Q4'22E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
Gathering & Processing	\$1,018	\$275	\$301	\$361	\$363	\$1,301	\$330	\$323	\$345	\$354	\$1,352	\$1,484	\$1,528	\$1,555	\$1,590
Logistics & Marketing	\$1,128	\$349	\$291	\$290	\$336	\$1,266	\$323	\$317	\$343	\$353	\$1,337	\$1,396	\$1,470	\$1,523	\$1,551
Other	\$230	\$2	\$0	\$0	\$0	\$2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total OpMargin	\$2,375	\$625	\$593	\$651	\$698	\$2,568	\$653	\$640	\$688	\$707.1	\$2,689	\$2,880	\$2,998	\$3,077	\$3,141

Financial Performance	FY2020A	Q1'21A	Q2'21A	Q3'21A	Q4'21E	FY2021E	Q1'22E	Q2'22E	Q3'22E	Q4'22E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
EDC Adj. EBITDA	\$1,637	\$516	\$460	\$506	\$559	\$2,041	\$546	\$536	\$579	\$598	\$2,259	\$2,424	\$2,518	\$2,580	\$2,636
TRGP Adj. EBITDA Guidance						\$1,950									
Consensus Adj. EBITDA					\$549	\$2,033	\$580	\$562	\$563	\$582	\$2,301	\$2,394	\$2,443	\$2,513	\$2,550
East Daley Variance vs. Consensus (\$)					\$10	\$8	(\$34)	(\$27)	\$16	\$17	(\$42)	\$30	\$75	\$67	\$86
East Daley Variance vs. Consensus (%)					2%	0%	-6%	-5%	3%	3%	-2%	1%	3%	3%	3%
East Daley DCF	\$1,164	\$397	\$340	\$384	\$430	\$1,551	\$410	\$398	\$443	\$462	\$1,712	\$1,876	\$1,966	\$2,023	\$1,929
TRGP DCF Guidance															
Dist/Unit	\$0.40	\$0.10	\$0.10	\$0.10	\$0.35	\$0.65	\$0.35	\$0.35	\$0.35	\$0.35	\$1.40	\$2.80	\$5.60	\$7.00	\$8.75
Coverage	12.53x	17.38x	14.83x	16.77x	5.37x	13.58x	5.11x	5.01x	5.62x	5.96x	5.43x	3.04x	1.60x	1.32x	1.00x
East Daley FCF Available to Equity*	\$519	\$337	\$256	\$297	\$319	\$1,209	\$292	\$279	\$324	\$343	\$1,238	\$1,149	\$1,433	\$1,605	\$1,670
East Daley FCF Available to Equity after Distributions*	\$426	\$314	\$233	\$274	\$238	\$1,060	\$212	\$200	\$245	\$265	\$922	\$533	\$204	\$69	(\$250)
East Daley FCFPS Available to Equity	\$1.84	\$1.47	\$1.12	\$1.30	\$1.39	\$5.28	\$1.28	\$1.23	\$1.44	\$1.55	\$5.49	\$5.22	\$6.53	\$7.32	\$7.61
East Daley FCFPS Available to Equity after Distributions	\$1.39	\$1.37	\$1.02	\$1.20	\$1.04	\$4.63	\$0.93	\$0.88	\$1.09	\$1.20	\$4.09	\$2.42	\$0.93	\$0.32	(\$1.14)
Net Debt	\$7,513	\$7,124	\$6,767	\$6,558	\$6,341	\$6,341	\$7,126	\$7,370	\$7,247	\$7,196	\$7,196	\$6,771	\$6,567	\$6,498	\$6,748
Leverage	4.80x	4.13x	3.69x	3.42x	3.11x	3.59x	3.44x	3.43x	3.26x	3.19x	3.33x	2.94x	2.70x	2.56x	2.57x

Capital Expenditures	FY2020A	Q1'21A	Q2'21A	Q3'21A	Q4'21E	FY2021E	Q1'22E	Q2'22E	Q3'22E	Q4'22E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
EDC Growth Capex	\$843	\$60	\$83	\$87	\$112	\$342	\$118	\$119	\$119	\$119	\$475	\$727	\$534	\$418	\$613
TRGP Growth Capex Guidance						\$400									
Consensus Capex						\$508					\$825	\$676	\$539	\$499	\$642
East Daley Variance vs. Consensus (\$)						\$53					\$190	(\$219)	(\$171)	(\$104)	(\$302)
EDC Maintenance Capex	\$123	\$19	\$26	\$31	\$37	\$113	\$40	\$40	\$40	\$40	\$160	\$168	\$176	\$185	\$331
Total EDC Capex	\$966	\$79	\$110	\$118	\$148	\$455	\$158	\$159	\$159	\$159	\$635	\$895	\$710	\$603	\$944

(1) Consensus as of 1/6/22

(1) Prices as of 1/6/22

Definitions:

- **FCF: Free Cash Flow and is calculated as:** EBITDA – interest expense – preferred distributions – total capital spend + asset sales.
- **FCFPS: Free Cash Flow Per Share and is calculated as:** FCF / shares outstanding
- **FCF Yield:** Free Cash Flow Yield and is calculated as: FCFPS / share price
- **FCF/Dist:** Free Cash Flow divided by distributions paid to equityholders
- **DPS:** Distributions per share
- **Leverage:** Calculated as: net debt / LTM EBITDA

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