

Targa Resources Corp.

4Q beat, '24 guide in-line and '25+ capex reasonable; Reit. Buy on FCF inflection

Reiterate Rating: BUY | PO: 104.00 USD | Price: 88.34 USD

4Q beats, '24 EBITDA in-line & '25+ capex reasonable

TRGP's 4Q EBITDA of \$960mm beat Cons/BofA estimates by 3% each due to record pipeline transportation, fractionation, and LPG export volumes (essentially the L&T segment). In L&T, operating margin beat consensus by 11% and operating margin for G&P missed consensus by 5%. Like EPD & ET, TRGP saw record volumes across its L&T segment. The '24 EBITDA guide and '25 capex guide are in-line with expectations w/ run rate growth capex of \$1.7bn, slightly higher than expectations of \$1.5bn. But we believe \$300mm embedded in that number is discretionary for NGL transport and LPG export growth. And in a no growth scenario, TRGP can pull back growth capex to \$300mm. So overall, we view this print positively as many were cautious ahead of earnings. We reiterate our Buy rating and \$104 PO, as TRGP becomes a FCF story in '25+, while benefiting from best-in-class Permian rich gas growth across its integrated system.

'24 guide: \$3.8bn EBITDA and \$2.4bn growth capex

TRGP provided '24 EBITDA expectations of \$3.8bn at the midpoint, which is in line with Cons/BofA at \$3,793mm/\$3,774mm and also expects a meaningful step up in '25. It provided a growth capex forecast of \$2.4bn at the midpoint, higher than '23, but expects a step down in '25 to ~\$1.4bn (detailed in next section). There are 6 projects with '24 in-service dates, including Wildcat II Plant, Roadrunner II Plant, Greenwood II Plant, GCF Restart, Train 9 Fractionator and Daytona NGL pipeline. '25 in-service projects include the Bull Moose Plant and Train 10 Fractionator.

'25+ Capex: The most material guide from the release

The stock trended down in Jan. with '24 EBITDA revisions, mostly due to a reset of G&P inlet volume expectations to exit '23, causing '24 to be revised downwards. TRGP is not providing '25 EBITDA guidance, but we feel most are now comfortable with a '25 EBITDA estimate of ~\$4.2bn. So, the most important disclosures for this call are '25 growth capex and run-rate '25+ growth capex. TRGP expects '25 growth capex to trough at \$1.4bn with a run-rate of \$1.7bn. While this certainly is positive, as TRGP undergoes an inflection in '25+, becoming a FCF story with material ability to continue to raise its dividend and repurchase shares. But we think most investors were expecting '25 to be around \$1.4bn in growth capex, so it met expectations (although we thought it could go as low as \$1bn-\$1.2bn but underestimated compression spend). Run-rate capex of \$1.7bn is slightly higher than our estimates and that of investors we spoke with results of \$1.5bn. Note the \$1.7bn includes a large \$550mm bucket for L&T spend. We think that a large portion of this is discretionary. If TRGP invests in half a frac per year (\$250mm), it leaves \$300mm per year for transport and export capacity additions. And we don't believe that TRGP needs to spend a material amount for NGL transportation in '25-'30, as new pipelines are likely to [lower rates](#) for new T&F contracts. And since TRGP has the highest G&P/transport volume ratio in the group, it does not need to chase volumes, like its peers. Lastly, any Galena Park export expansions would be viewed positively.

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Stock Data

Price	88.34 USD
Price Objective	104.00 USD
Date Established	05-Jan-2024
Investment Opinion	C-1-7
52-Week Range	64.85 USD - 91.44 USD
Mkt Val / Units Out (mn)	19,822 USD / 224.4
Free Float	98.3%
Average Daily Value	134.22 USD
BofA Ticker / Exchange	TRGP / NYS
Bloomberg / Reuters	TRGP US / TRGP.N
DPU Growth	NA
Net Dbt to Eqty (Dec-2022A)	227.2%
ESGMeter™	High

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L48 – Lower 48

CFFO – cash flow from operating

GCF – Gulf Coast Fractionators

NGL – Natural Gas Liquids

GOR – gas-oil ratio

L&T: Logistics and Transportation

TRGP: Targa Resources Corp.

ET: Energy Transfer LP

EPD: Enterprise Products Partners LP

T&F: Transportation & Fractionation

G&P: Gathering & Processing

Capex: Capital expenditures

Cons: Consensus

Exhibit 1: TRGP 4Q variance

L&T beat consensus expectations

Earnings Variance (\$mm)	4Q23			% Beat (Miss)		% Change vs. Actual	
	Actual	Consensus	BofA	Consensus	BofA	Q/Q	Y/Y
Operating Margin - G&P	536	564	519	-5%	3%	6%	-1%
Operating Margin - L&T	554	499	548	11%	1%	21%	25%
Adj. Operating Margin	1,084	1,064	1,068	2%	2%	17%	11%
General and administrative expense	95	88	90	8%	6%	6%	3%
Depreciation and amortization expense	341	331	326	3%	5%	3%	4%
Other operating (income) expense	-1	2	0				
Other	13	-4	0				
Operating income	635	645	652	-2%	-3%	26%	15%
Adjusted EBITDA	960	936	931	3%	3%	14%	14%
Distributable cash flow	710	705	681	1%	4%	18%	8%
SEGMENT DETAILS							
Gathering and Processing							
Natural gas sales, BBTu/d	2,737	2,931	2,832	-7%	-3%	-1%	13%
Permian - Midland inlet throughput volume (net) (MMcf/d)	2,717	2,674	2,670	2%	2%	6%	14%
Permian - Delaware inlet throughput volume (net) (MMcf/d)	2,564	2,581	2,585	-1%	-1%	3%	8%
Central inlet throughput volume (MMcf/d)	1,129	1,207	1,191	-6%	-5%	-6%	1%
Badlands total wellhead gathered volume (MMcf/d)	131	130	128	1%	2%	2%	-6%
Coastal inlet throughput volume (MMcf/d)	567	533	536	6%	6%	6%	24%
Total Gross natural gas inlet (MMcf/d)	7,108	7,126	7,110	0%	0%	3%	10%
Permian - Midland NGL production	398	386	387	3%	3%	7%	16%
Permian - Delaware NGL production	311	348	345	-11%	-10%	-4%	7%
Central NGL Production	114	127	137	-10%	-17%	-9%	6%
Badlands NGL production	16	16	16	0%	1%	1%	-8%
Coastal NGL production	43	37	38	16%	13%	6%	89%
Gross NGL production (Mbbpd)	882	911	923	-3%	-4%	1%	13%
Logistics and Transportation							
Throughput (MBbl/d)	722	676	693	7%	4%	9%	44%
Fractionation volumes (MBbl/d)	845	826	833	2%	1%	6%	13%
Export volumes (MBbl/d)	435	389	419	12%	4%	24%	45%
NGL sales (MBbl/d)	1,126	998	1,000	13%	13%	13%	31%

Source: Bloomberg, Visible Alpha, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Targa Resources Corp. (TRGP)**

Our PO of \$104 is derived from our discounted cash flow valuation, which implies an 9.6x 2024E EV/EBITDA multiple. We forecast a ten year outlook, which we believe is the limit of market recognition, and then forecast terminal growth of 1% while using a 8% WACC.

Downside risks are: 1) another downturn in commodity prices and producer activity in TRGP's core basins, 2) slower-than-expected volume ramp on TRGP's assets, 3) sustained weakness in commodity prices leading to deterioration of counterparty credit quality and (4) reduced oil & gas producer capital spending.

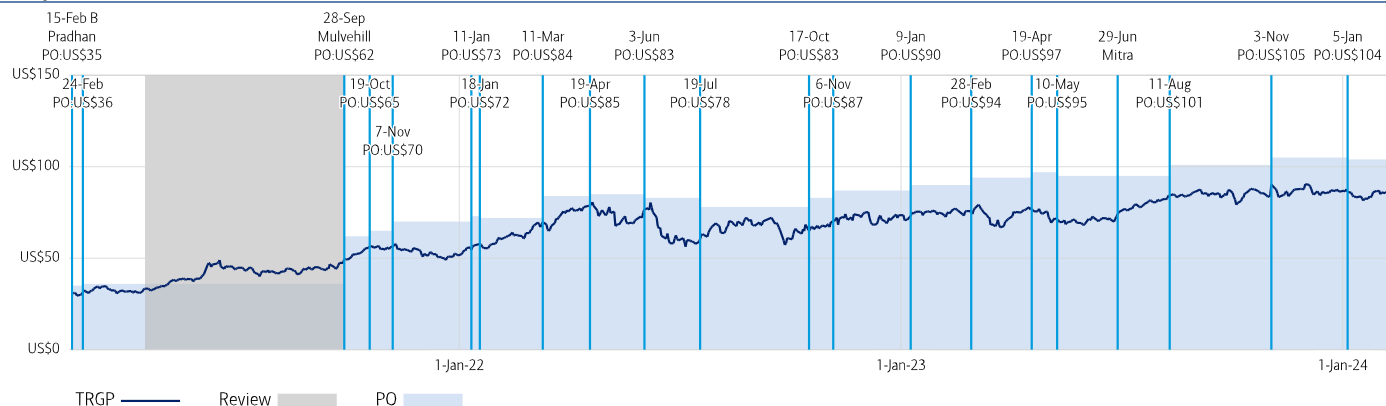
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Targa Corp. (TRGP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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