



A joint venture of **RBN Energy** and **East Daley**

Targa Resources

After the unprecedented plunge in demand and commodity prices at the onset of the pandemic, the upstream and midstream sectors appeared to face a lengthy disruption in markets and prolonged financial instability. That's why it's hard to believe that just 30 months later the industry is basking in record earnings and cash flows. One notable example is Targa Resources, which has become the largest gatherer and processor of associated natural gas in the Permian Basin. Targa's bold decision to build an integrated gas and NGL business, its timely infrastructure expansions through and after the pandemic, and a recent, accretive acquisition have resulted in a massive footprint where a stunning 25% of forecast Permian gas production growth is expected to take place.

The dominant post-pandemic theme for the midstream sector has been the scramble to develop the gathering systems, processing plants, and other infrastructure needed to support continued growth in Permian production. As RBN discussed in a recent blog series, crude oil production there has climbed by more than 700 Mb/d since 2020 to a new record, driving gas volumes to about 22 Bcf/d. RBN's Mid-Case scenario projects gross gas volumes in West Texas and southeastern New Mexico will grow by another 6 Bcf/d, or 27%, to over 28 Bcf/d by the end of 2025.

Targa Resources ascendance to the top of Permian gas processors with 5.4 Bcf/d of capacity stems from a critical strategic decision the midstreamer made in the spring of 2017. Formed in 2003, Targa Resources acquired natural gas midstream assets in North Texas, the Permian Basin and Louisiana as well as NGLs fractionation and storage facilities in Mont Belvieu. A major obstacle to Targa's ability to generate maximum earnings from its growing Permian gathering and processing volumes was its dependence on pricing decisions and capacity restraints by third parties to transport mixed NGLs from its major gathering systems to its downstream assets. In May 2017, the company announced the strategic decision to become an integrated natural gas and NGL company by building the \$1.3 billion Grand Prix NGL pipeline, which allows the company to maximize the value of hydrocarbons from wellhead to sale or export and coordinate the expansion of its gathering and processing systems with the build-out of fractionation trains and other downstream infrastructure serving growing petrochemical and export markets.

Like other midstreamers, Targa was forced to slash dividends and growth capex after the plunge in commodity prices at the onset of the pandemic. But the completion of Grand Prix and its surprisingly resilient Permian volumes allowed on-time completion of key Permian system infrastructure through the balance of 2020, including two processing plants, two fractionation trains at Mont Belvieu, the phased expansion of LPG export capabilities, and the extension of the Grand Prix NGL pipeline into Central Oklahoma. By June 2022, soaring profits from Grand Prix, the system expansions, and rapid Permian output growth allowed the company to fund the third strategic move that solidified its position as the top Permian gas processor: the \$3.55 billion acquisition of Lucid Energy, the largest private gas gathering and processing system in the Delaware Basin. The Lucid deal allows Targa to leverage its Permian midstream footprint while steering more y-grade (mixed NGLs) to its Grand Prix NGL pipeline and on to its fractionators and export facility. With the closing of the Lucid deal on August 1, 2022, the company also hiked its 2022 adjusted EBITDA target to near \$3 billion.

Targa has made several critical — and, as it turned out, uniformly successful — strategic decisions over the past 5-plus years, but it needs to make one more soon, namely, how to allocate the substantially higher cash flows filling its coffers from volume growth. The company's dividend is notably low at a time when most upstream and midstream companies are prioritizing shareholder returns. Despite an increase in quarterly dividend from \$0.10/share to \$0.35/share in Q1 2022, Targa is currently yielding a little over 2%, well below the yields of most peer group companies such as Energy Transfer (7.7%), Kinder Morgan

(6.3%), Plains All American (7.5%), Enbridge (7.0%), and Enterprise Products Partners (7.6%). Targa did add \$3.55 billion in debt from the Lucid acquisition but forecast that the significant boost in Adjusted EBITDA and higher cash flows would keep its leverage ratio in its target range at 3.5x by year-end 2022.

Targa faces no near-term major operational challenges in a macro environment that features continued growth in global demand for natural gas. But the company has aggressive competitors such as Enterprise, DCP Midstream and Energy Transfer eager to erode its current market share, especially as volumes on its vital Grand Prix NGL pipeline and its export facilities reach capacity. Targa could be keeping its powder dry for major expansion projects and future potential acquisitions.

Our new Spotlight report provides an asset-by-asset analysis of Targa's industry-leading integrated Permian natural gas and NGL system and provides detailed forecasts of the substantial growth in volumes, operating margins, and Adjusted EBITDA. The report also delves further into the company's strategic challenges and future cash flow allocation.



RBN Backstage Pass subscribers and East Daley guests are invited to join the Spotlight Live Session on Targa Resources.

Spotlight Live Sessions are 30-minute live webinars, with senior members from RBN and East Daley who present key take-aways from the latest Spotlight report.

Monday, November 7th @ 10:30 AM CT

For more information, please visit: <https://rbnenergy.com/spotlight/live-sessions/targa>

RBN Backstage Pass subscribers and East Daley guests are also invited to our Spotlight Happy Hour!

We will have a live, in-person Q&A to answer questions about the Spotlight Report & Live Session, followed by drinks and appetizers.

Wednesday, November 9th @ 5:30-7 PM CT

Houston, TX

To RSVP, please visit: <https://rbnenergy.com/events/get-togethers/spotlight-happy-hour>

Please email [Drew Kicey](mailto:Drew.Kicey@rbnenergy.com) or [Nigel Gorbold](mailto:Nigel.Gorbold@rbnenergy.com) with any questions.



This Spotlight Report from RBN Energy and East Daley is available for individual purchase or as part of RBN's Backstage Pass premium content service at rbnenergy.com.

For more information on individual or group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

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1. Spotlight Reports from RBN Energy and East Daley Analytics

1.1 *What Is Spotlight?*

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. Our goal is to provide a comprehensive, fundamentals-based view of selected companies based on a bottoms-up analysis of their assets and operations. We break down their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today's extremely volatile energy marketplace.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Analytics. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of a high-level approach, we dig into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clearer picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

1.2 *How Can I Get Spotlight?*

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.