

Targa Resources (TRGP)

\$18.36 (As of 08/19/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Targa Resources boasts an attractive portfolio of energy infrastructure assets, including a leading position in the Mont Belvieu NGL hub that generates stable and recurring fee and tariff-based revenues. The company's integrated business model and downstream presence offers attractive upside opportunity compared to most of its peers. Meanwhile, Targa Resources' sizeable presence in the Permian Basin enhances its growth potential. The company's lower commodity price risk is another positive. However, it hasn't been immune to the coronavirus-led downturn and faces a potential decline in volumes. The firm's high debt levels remain a cause of worry too, while the recent dividend cut means that Targa Resources has lost its appeal to income investors. Hence, investor are advised to wait for a better entry point.

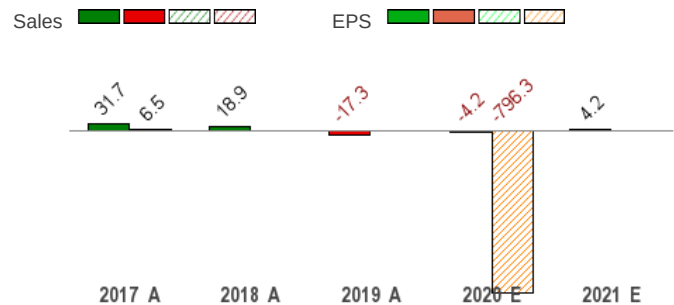
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.47 - \$3.66
20 Day Average Volume (sh)	2,284,406
Market Cap	\$4.3 B
YTD Price Change	-55.0%
Beta	3.15
Dividend / Div Yld	\$0.40 / 2.2%
Industry	Oil and Gas - Refining and Marketing - Master Limited Partnerships
Zacks Industry Rank	Top 44% (110 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	250.0%
Last Sales Surprise	-6.7%
EPS F1 Est- 4 week change	150.3%
Expected Report Date	11/05/2020
Earnings ESP	193.8%
P/E TTM	26.6
P/E F1	19.0
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,000 E	1,934 E	2,010 E	2,124 E	8,654 E
2020	2,049 A	1,524 A	1,901 E	1,979 E	8,304 E
2019	2,299 A	1,995 A	1,903 A	2,474 A	8,671 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.02 E	-\$0.03 E	\$0.01 E	\$0.05 E	\$0.21 E
2020	\$0.68 A	\$0.21 A	\$0.03 E	\$0.13 E	-\$7.26 E
2019	-\$0.30 A	-\$0.18 A	-\$0.34 A	\$0.14 A	-\$0.81 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/19/2020. The reports text is as of 08/20/2020.

Overview

Targa Resources Corp. is a premier energy infrastructure company. A leading provider of integrated midstream services in North America, the Houston, TX based operator primarily derives its revenues from gathering, compressing, treating, processing and selling natural gas. Targa Resources also provides services associated with natural gas liquids ("NGL"), including those to liquefied petroleum gas ("LPG") exporters - and crude oil.

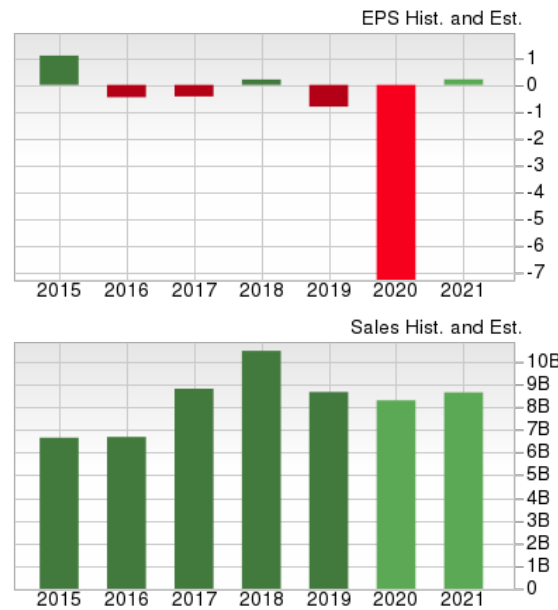
The thing that stands out is the company's formidable position in the world's largest NGL hub - Mont Belvieu, TX. Targa Resources has a gross fractionation capacity for processing approximately 938 thousand barrels per day of NGL. Further, the company owns state-of-the-art LPG export facilities on the Gulf Coast at its Galena Park Marine Terminal, which is interconnected to Mont Belvieu.

The company also has a formidable presence in the Permian basin – the region at the forefront of American energy growth. Targa Resources' Grand Prix NGL pipeline out of the Permian helps it to bring gathering and processing volumes to Mont Belvieu fractionation and export facilities.

Targa Resources has two main business segments in Gathering and Processing, and Logistics and Transportation.

The Gathering and Processing unit (accounting for 54% of the company's 2019 operating margin) operates close to natural gas wellheads (in the Permian Basin, the Eagle Ford Shale, the Barnett Shale and several other regions), connecting them with large pipelines and processing the commodity into a usable form by separating NGLs and removing impurities. The segment also consists of assets used for crude oil gathering and terminaling.

The Logistics and Transportation (or Downstream) business (46%) is engaged in converting the mixed NGLs sourced from natural gas processing plants into NGL products. The unit also includes other value-added services like transporting, storing, fractionating, terminaling, and marketing of NGLs and NGL products, including services to LPG exporters. The Grand Prix pipeline and Targa Resources' equity interest in Gulf Coast Express Pipeline LLC – a natural gas pipeline from West Texas to the Gulf Coast - are also part of this segment.



Reasons To Buy:

- ▲ With its integrated system of assets, Targa Resources is active in almost every point in the midstream value chain. The company is also well diversified geographically with its assets serving some of the most attractive oil and gas formations across the United States, and linked with major NGL hubs and logistics centers. In particular, Targa Resources operates gathering and processing assets in a number of shale and natural resource plays including the Permian Basin, Bakken Shale, Barnett Shale, Eagle Ford Shale, Anadarko Basin etc.
- ▲ Targa Resources' fractionation ownership position in Mont Belvieu is among the company's best midstream assets. The facility has connectivity to supply, storage, terminaling infrastructure, as well as to end markets through petrochemical complex and exports. The company also has state-of-the-art LPG export facilities on the Gulf Coast at its Galena Park Marine Terminal, which is interconnected to Mont Belvieu.
- ▲ Targa Resources has a large presence in the booming Permian Basin. Despite occasional hiccups, growing production in the area has significantly boosted demand for NGL processing. As such, the possession of one of the largest gathering and processing positions in the Permian Basin stands it in good stead. Moreover, the company's Grand Prix pipeline out of the Permian helps it to direct a major portion of NGL production to its fractionation complex in Mont Belvieu, leading to impressive volume growth.
- ▲ Targa Resource earns around 80% of its gross margins from fee-based contracts. As such, the company is largely insulated to fluctuations in commodity prices. Moreover, in the longer term, fee-based agreements (mostly depending on volumes and with investment-grade customers) result in steady cash flow through the boom and bust cycle. Even within fee-based contracts, a significant portion is of take-or-pay type, meaning Targa Resources gets paid irrespective of the volume of commodities that gets transported.

Targa Resources' fractionation ownership position in Mont Belvieu is among the company's best midstream assets.

Reasons To Sell:

- ▼ While midstream entities like Targa Resources have a lower correlation to oil and gas prices compared to its other energy peers, this sector hasn't been immune to the coronavirus-induced downturn. With E&P operators pulling back activities and curtailing production in response to sharply lower commodity pricing and demand, Targa Resources faces a potential decline in volumes through its facilities, contributing to expectations for lower profits.
- ▼ Energy infrastructure being a capital-intensive business, Targa Resources' high debt levels remain a cause of worry, which restricts its financial freedom to tap into growth opportunities. The company's total debt is currently around \$7.8 billion. Importantly, Targa Resources' debt-to-capitalization as of the end of the second quarter was 54.4%, reflecting slight deterioration from 54.3% three months ago.
- ▼ Investors are typically attracted to the midstream companies thanks to their reliable dividends and defensive characteristics. But this time things seem to be different as the plunge in global commodity prices is forcing them to realign their strategy. A reliable high-yield income choice till recently, Targa Resources slashed its quarterly dividend to 10 cents per share from 91 cents to weather the historic price crash and preserve cash. The cut is set to deal a heavy blow to income investors who held the stock for its above-average dividend yield and the security to sustain its payout.
- ▼ Over the next few quarters, Targa Resources is expected to witness pricing and utilization declines following the adverse effect of soft demand due to the coronavirus pandemic. As the sector's business activity remains under pressure and higher contract rates slowly roll off, customer push for concessions is expected to intensify. This might further impact the company's margins.

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Last Earnings Report

Targa Resources Reports Q2 Earnings

Targa Resources reported second-quarter 2020 adjusted net income per share of 21 cents. The Zacks Consensus Estimate was for a loss of 14 cents and the year-ago loss was of 18 cents per share. The outperformance was led by strong volumes across the company's Permian gathering and processing systems.

The company's adjusted EBITDA climbed from \$306.5 million a year earlier to \$351.2 million in the second quarter of 2020.

However, total revenues of \$1.5 billion were 24% lower than the year-ago quarter and missed the Zacks Consensus Estimate of \$1.6 billion on lower commodity sales, which were down 24% year over year to \$1.3 billion. Lower commodity prices also dragged down revenues.

Operational Performance

The Gathering and Processing segment recorded operating margin of \$237.2 million during the quarter, up 2% from the \$232.1 million achieved in the year-ago period and ahead of the Zacks Consensus Estimate of \$214 million. Permian Basin volumes increased 19% year over year to 2,350.5 million cubic feet per day.

In the Logistics and Transportation (or the Downstream) segment, the company reported operating margin of \$231.5 million, up 26% year over year. Targa Resources saw fractionation volumes rise from 512.5 thousand barrels per day to 579.3 thousand barrels per day, which is a 13% increase year over year. Moreover, export volumes were up 10% year over year. However, segment operating margin missed the Zacks Consensus Estimate of \$261 million due to lower marketing margins and higher operating expenses.

DCF, Capex & Balance Sheet

Second-quarter 2020 distributable cash flow ("DCF") was \$273.7 million, 43% higher than \$192 million in the year-ago period. Targa Resources paid out a dividend of 10 cents per share.

Targa Resources spent \$142.8 million on growth capex, while its maintenance capex totaled \$26.8 million.

As of Jun 30, 2020, the company had \$196.2 million in cash and cash equivalents and \$7.6 billion in long-term debt. Debt-to-capitalization was approximately 54.7%.

Guidance

Targa Resources reiterated its growth capital spending guidance of \$700-\$800 million for 2020. The company is still projecting full-year maintenance capex of approximately \$130 million, while guiding for a reduction in operating and G&A expenses by more than \$100 million.

With the upstream players starting to restore shut-in volumes in response to higher oil prices, Targa Resources now foresees full-year adjusted EBITDA of \$1.5-\$1.625 billion versus the prior guidance of \$1.4-\$1.625 billion.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-6.71%
EPS Surprise	250.00%
Quarterly EPS	0.21
Annual EPS (TTM)	0.69

Valuation

Targa Resources shares are down 55% and 48.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 50.9% and 35.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 46.3% and 31.3%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 11.96X trailing 12-month EV/EBITDA, which compares to 7.4X for the Zacks sub-industry, 4.37X for the Zacks sector and 12.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.67X and as low as 6.14X, with a 5-year median of 12.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$19 price target reflects 0.52X F12M sales.

The table below shows summary valuation data for TRGP

Valuation Multiples - TRGP					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	11.96	7.4	4.37	12.83
	5-Year High	31.67	17.34	10.48	12.85
	5-Year Low	6.14	6.75	3.05	8.25
	5-Year Median	12.37	13.35	6.49	10.91
P/S F12M	Current	0.5	0.64	0.73	3.72
	5-Year High	1.71	1.12	1.47	3.72
	5-Year Low	0.1	0.37	0.59	2.53
	5-Year Median	0.96	0.74	0.99	3.05
P/B TTM	Current	0.68	1.31	1.06	4.55
	5-Year High	2.07	2.4	1.55	4.56
	5-Year Low	0.13	0.61	0.52	2.83
	5-Year Median	1.28	1.58	1.32	3.75

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Top 44% (110 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Calumet Specialty Products Partners, L.P. (CLMT)	Outperform	2
CrossAmerica Partners LP (CAPL)	Neutral	2
MPLX LP (MPLX)	Neutral	3
NGL Energy Partners LP (NGL)	Neutral	5
Sprague Resources LP (SRLP)	Neutral	3
Western Gas Equity Partners, LP (WES)	Neutral	3
Genesis Energy, L.P. (GEL)	Underperform	5
Global Partners LP (GLP)	Underperform	2

Industry Comparison Industry: Oil And Gas - Refining And Marketing - Master Limited Partnerships

Industry Peers

	TRGP	X Industry	S&P 500	GLP	NGL	SRLP
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	5	3
VGM Score	A	-	-	A	A	D
Market Cap	4.28 B	626.72 M	23.61 B	453.49 M	535.69 M	358.06 M
# of Analysts	4	2.5	14	1	1	1
Dividend Yield	2.18%	12.13%	1.65%	13.76%	19.23%	17.09%
Value Score	A	-	-	B	C	B
Cash/Price	0.04	0.02	0.07	0.02	0.05	0.01
EV/EBITDA	9.40	8.23	13.36	8.23	15.33	6.56
PEG Ratio	NA	0.51	2.99	NA	NA	NA
Price/Book (P/B)	0.68	1.42	3.16	1.03	0.41	4.66
Price/Cash Flow (P/CF)	4.66	3.58	12.71	2.84	0.98	5.16
P/E (F1)	18.97	9.68	21.82	5.83	NA	17.95
Price/Sales (P/S)	0.54	0.34	2.47	0.04	0.06	0.12
Earnings Yield	-39.54%	6.49%	4.37%	17.17%	-8.41%	5.57%
Debt/Equity	1.21	2.61	0.76	3.35	2.61	5.22
Cash Flow (\$/share)	3.94	3.07	6.94	4.69	4.22	3.03
Growth Score	B	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	NA%	11.37%	10.44%	46.77%	NA	-14.27%
Proj. EPS Growth (F1/F0)	-795.99%	5.14%	-5.97%	118.10%	-157.38%	-20.91%
Curr. Cash Flow Growth	-23.76%	-6.73%	5.22%	-9.04%	203.56%	-41.02%
Hist. Cash Flow Growth (3-5 yrs)	14.57%	12.58%	8.52%	-5.06%	12.58%	-7.17%
Current Ratio	0.93	0.95	1.33	1.80	1.10	1.00
Debt/Capital	53.58%	73.18%	44.50%	74.38%	70.51%	83.92%
Net Margin	-22.86%	0.88%	10.13%	0.88%	-5.53%	0.68%
Return on Equity	3.89%	13.80%	14.67%	26.44%	6.34%	20.42%
Sales/Assets	0.46	1.01	0.51	4.07	1.35	2.52
Proj. Sales Growth (F1/F0)	-4.23%	-14.02%	-1.54%	-15.65%	-66.70%	-36.72%
Momentum Score	A	-	-	B	A	D
Daily Price Chg	-0.54%	0.00%	-0.38%	0.23%	1.71%	-2.98%
1 Week Price Chg	1.84%	0.50%	1.09%	5.75%	-6.68%	0.56%
4 Week Price Chg	-4.13%	-7.96%	2.23%	36.40%	-7.96%	2.02%
12 Week Price Chg	-0.33%	-0.53%	6.91%	29.01%	-19.69%	4.97%
52 Week Price Chg	-48.82%	-48.82%	2.28%	-31.63%	-68.05%	-5.45%
20 Day Average Volume	2,284,406	352,601	1,899,976	205,978	1,119,606	47,302
(F1) EPS Est 1 week change	17.76%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	150.35%	42.20%	1.70%	651.77%	-127.91%	-51.93%
(F1) EPS Est 12 week change	171.91%	38.42%	3.08%	651.77%	50.00%	-51.93%
(Q1) EPS Est Mthly Chg	129.22%	9.76%	0.83%	357.14%	216.67%	-14.82%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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