



Targa Resources Corp. (TRGP)

Updated February 21st, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$205	5 Year CAGR Estimate:	-0.8%	Market Cap:	\$45.9 B
Fair Value Price:	\$141	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	4/28/2025
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.3%	Dividend Payment Date:	5/14/2025
Dividend Yield:	1.5%	5 Year Price Target	\$179	Years Of Dividend Growth:	3
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Targa Resources is a leading provider of midstream services and one of the largest independent midstream energy companies in North America. The company is primarily engaged in the business of gathering, processing, transporting and selling natural gas and natural gas liquids (NGLs). It also gathers and stores crude oil and refined products. It has the largest gathering and processing position in the Permian Basin and a market capitalization of \$45.9 billion.

Targa was adversely affected by the downturn of the energy market in 2014-2016 and it took the company a whole decade to recover from that downturn. Its distributable cash flow (DCF) per share reached the level it was in 2015 last year. Moreover, its stock price plunged -90% from mid-2014 to early 2016 and it only recently retrieved its losses.

On July 29th, 2022, Targa acquired Lucid Energy for \$3.55 billion in cash. Lucid provides natural gas gathering, treating and processing services in the Delaware Basin, with more than 1,000 miles of natural gas pipelines.

In mid-February, Targa reported (2/20/25) financial results for the fourth quarter of fiscal 2024. Adjusted EBITDA grew 17% over the prior year's quarter thanks to all-time high Permian, NGL transportation and fractionation volumes. The contribution from recently completed projects was significant. Management provided strong guidance for 2025, expecting adjusted EBITDA of \$4.65-\$4.85 billion, thus implying 15% growth at the mid-point. Accordingly, we expect cash flow per share of approximately \$17.80 this year.

Due to the pandemic, Targa cut its quarterly dividend by -89% in 2020 but it has raised its dividend three times since then. Management raised the quarterly dividend from \$0.50 to \$0.75 last year and stated that it expects to keep raising the dividend for many more years. Targa has net debt of \$16.0 billion but it can service its debt thanks to the cash flows from recently completed projects.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
CFPS	\$13.40	\$2.68	\$3.08	\$4.06	\$4.07	\$5.05	\$6.74	\$9.86	\$11.53	\$15.45	\$17.80	\$22.72
DPS	\$3.53	\$3.64	\$3.64	\$3.64	\$3.64	\$1.21	\$0.40	\$1.40	\$1.85	\$2.75	\$3.00	\$4.00
Shares¹	56.0	184.7	217.6	232.1	232.5	229.2	228.6	229.9	224.5	218.3	215.0	220.0

Midstream companies usually have more stable performance than upstream energy stocks. However, this has not been the case for Targa, which has a markedly volatile performance record throughout the last decade. On the bright side, Targa currently has decent growth prospects, as many growth projects have come online in the last five years and the company has a long pipeline of growth projects. These projects will contribute significant, mostly fee-based cash flows.

On the other hand, Targa has greatly diluted its unitholders in the last decade. It also has a material debt load, with its net debt standing at \$16.0 billion or about 3.9 *times last year's EBITDA* and its interest expense consumes 28% of its operating income. In 2019, Targa issued 10-year bonds at a 6.875% rate, which shows the desperation of Targa for funds. Overall, we expect cash flow per share to grow by 5% per year on average over the next five years.

¹ In millions.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/CF	5.7	14.7	16.1	12.1	9.7	4.1	6.2	7.0	6.8	9.1	11.5	7.9
Avg. Yld.	4.6%	9.2%	7.3%	7.4%	9.2%	5.8%	1.0%	2.0%	2.3%	2.0%	1.5%	2.2%

Targa has more than doubled in the last 12 months thanks to the strong growth of its business and thus it is currently trading at a price-to-cash flow ratio of 11.5, which is much higher than the 7-year average of 7.9 of the stock. If Targa trades at its historical average valuation level in five years, it will incur a -7.3% annualized drag due to the contraction of its cash flow multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

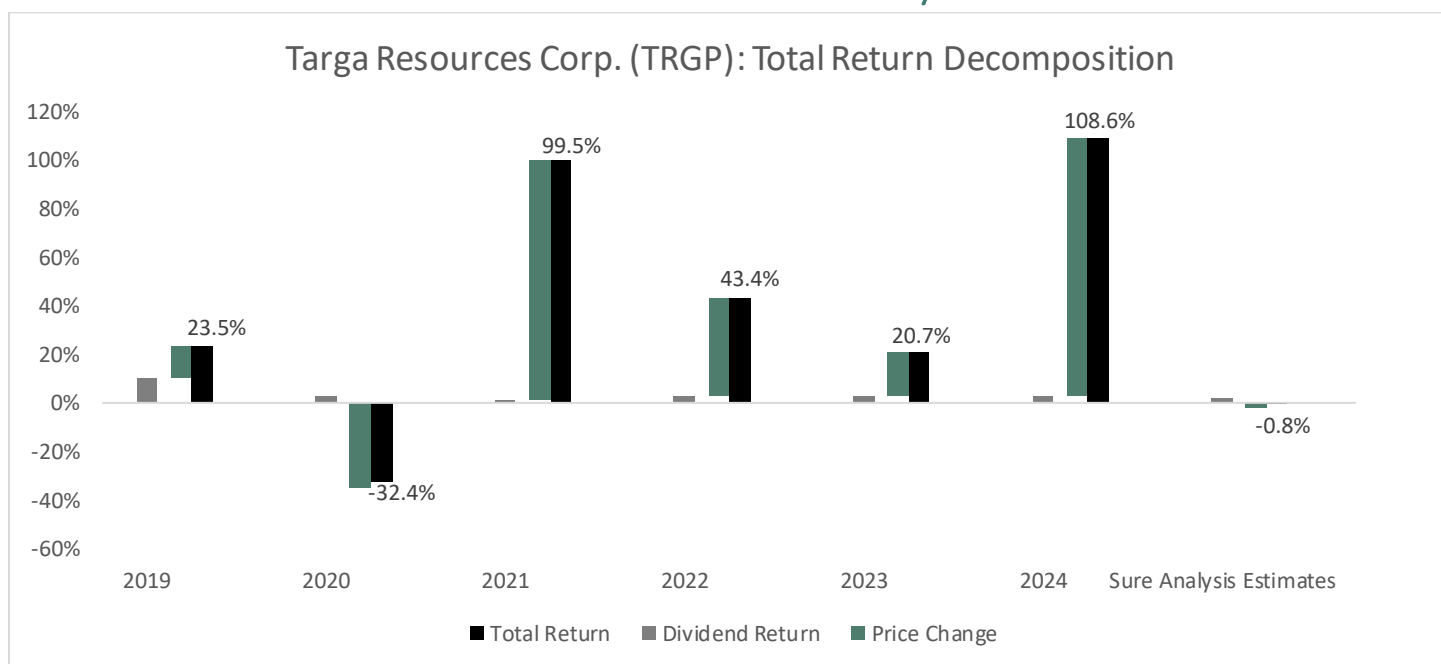
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	33.9%	136%	118%	89.7%	89.3%	24.0%	5.9%	14.2%	16.0%	17.8%	16.9%	17.6%

Thanks to its industry position, Targa benefits from the integration of its assets and some economies of scale. While this is a competitive advantage, the volatile performance record reveals the vulnerability of the company to the gyrations of commodity prices, which are beyond its control. Targa is a risky security with a material debt load. The high leverage and the high operating and interest expenses of the company raise a red flag and help explain the decimation of the dividend in 2020. The -90% plunge of the stock in the first month of the pandemic in 2020 is a testament to the risk of the stock. Whenever the next downturn in the energy sector shows up, Targa is likely to come under pressure.

Final Thoughts & Recommendation

Targa has more than doubled in the last 12 months thanks to its positive business momentum. We are cautious over the rich valuation of the stock. Targa could offer a -0.8% average annual return over the next five years, as 5.0% growth and a 1.5% dividend may be offset by a -7.3% valuation headwind. The stock receives a sell rating. Targa is likely to keep growing its cash flows significantly thanks to its pipeline of growth projects, but we note its volatile performance and its extreme sensitivity to downturns in the energy sector.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	6,659	6,691	8,815	10,484	8,671	8,260	16,950	20,930	16,060	16,382
Gross Profit	1,177	1,010	1,099	1,430	1,581	2,290	2,350	2,952	4,054	4,256
Gross Margin	17.7%	15.1%	12.5%	13.6%	18.2%	27.7%	13.9%	14.1%	25.2%	26.0%
SG&A Exp.	162	187	203	257	281	255	273	310	349	385
D&A Exp.	645	758	810	816	972	865	871	1,096	1,330	1,423
Operating Profit	474	269	256	447	507	1,253	1,329	1,729	2,626	2,695
Operating Margin	7.1%	4.0%	2.9%	4.3%	5.8%	15.2%	7.8%	8.3%	16.4%	16.5%
Net Profit	58	(187)	54	2	(209)	(1,554)	71	1,196	1,346	1,312
Net Margin	0.9%	-2.8%	0.6%	0.0%	-2.4%	-18.8%	0.4%	5.7%	8.4%	8.0%
Free Cash Flow	218	275	(358)	(1,971)	(1,488)	793	1,798	1,047	826	684
Income Tax	40	(101)	(397)	6	(88)	(248)	15	132	363	385

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	13,211	12,871	14,389	16,938	18,815	15,876	15,208	19,560	20,672	22,734
Cash & Equivalents	140	74	137	232	331	243	159	219	142	157
Accounts Receivable	516	675	828	866	855	863	1,332	1,408	1,471	1,618
Inventories	141	138	205	165	162	182	153	394	372	334
Goodwill & Int. Ass.	2,227	1,864	2,422	2,030	1,735	1,382	1,095	2,735	2,351	1,977
Total Liabilities	6,961	7,147	7,633	9,222	10,372	9,973	10,030	14,578	16,062	18,316
Accounts Payable	521	691	1,001	1,201	955	834	1,402	1,449	1,575	2,013
Long-Term Debt	5,938	4,881	5,053	6,660	7,784	7,725	6,571	11,309	12,664	13,877
Shareholder's Equity	1,461	5,249	6,160	6,079	4,921	2,654	2,012	2,666	2,740	2,592
D/E Ratio	4.06	0.93	0.82	1.05	1.58	2.91	3.27	4.24	4.62	5.35

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.6%	-1.4%	0.4%	0.0%	-1.2%	-9.0%	0.5%	6.9%	6.7%	6.0%
Return on Equity	7.1%	-5.6%	0.9%	0.0%	-3.8%	-41.0%	3.1%	51.1%	28.1%	29.1%
ROIC	0.7%	-1.6%	0.5%	0.0%	-1.4%	-10.4%	0.6%	8.3%	8.0%	7.4%
Shares Out.	56.0	184.7	217.6	232.1	232.5	229.2	228.6	231.1	226.0	221.3
Revenue/Share	124.23	43.33	42.60	46.76	37.30	35.57	74.15	90.57	71.06	74.02
FCF/Share	4.06	1.78	-1.73	-8.79	-6.40	3.41	7.86	4.53	3.66	3.09

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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