NEW from East Daley: Consensus Comparison Report

June 2017

Questions?
insight@eastdaley.com

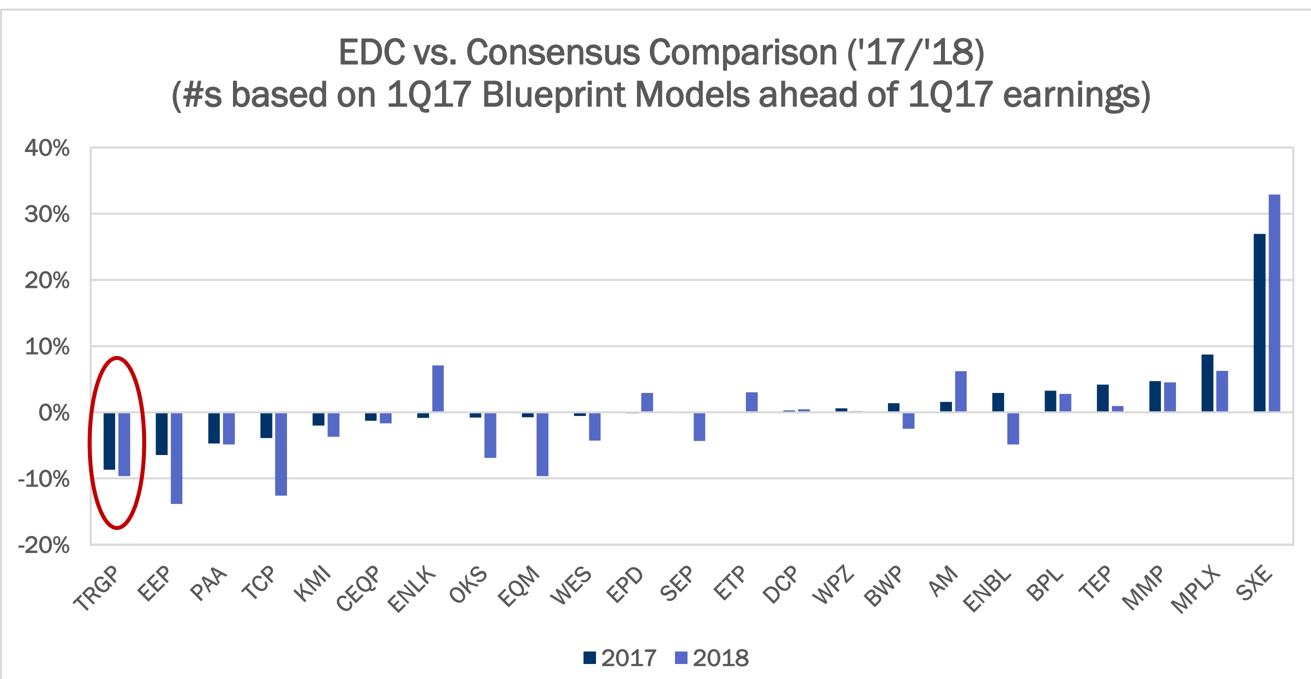
New Report Highlights EDC's Asset-Level, Data-Supported Divergent View

- East Daley's new **Consensus Comparison Report** is a value-added product highlighting where EDC's views on company earnings diverge from market consensus. The new report brings together data from EDC's **Blueprint Models** for companies under coverage into one summary product, making it easy to identify where EDC's EBITDA estimates differ the most from consensus (Figure 1).
- A recent example of a company where EDC has held a contrarian view that has diverged from consensus the most was Targa (TRGP). Targa's share price has been under pressure recently in 2017 down almost 30% YTD (refer to Figure 2, blue line).
- EDC has maintained a conservative view of Targa's 2017 cash flow, as measured by Adjusted EBITDA, since last year. This view was reflected in EDC's Dirty Little Secrets (DLS) report (1st vertical line in Figure 2) published in January 2017 and in EDC's Targa 1Q17 **Blueprint Model** and **Pre-Call Board Report** (2nd vertical line on Figure 2).
- In Targa's latest presentation, Targa management has, for the first time, provided guidance at 12% below 1Q consensus. The new Targa guidance, however, is only 3% below EDC estimates.

Consensus Comparison Report

For each company under coverage at EDC, the Consensus Comparison Report shows EDC's percentage deviation from consensus. The purpose of this new, powerful comparison is to clearly communicate to clients where EDC has a divergent view relative to consensus and allows them to analyze potential opportunities using EDC data sets that go down to an asset level at the company in question.

Figure 1 - EDC vs. Consensus Adjusted EBITDA for Companies Under Coverage



The Consensus Comparison Report contains information presented in three ways:

1. Adjusted EBITDA forecasts for all companies under coverage from 2016-2020 by segment including granular asset-level detail.
2. A table for each company comparing EDC vs. consensus over the forecast period.
3. An output chart that visually represents where EDC diverges the most vs. consensus (Figure 1).

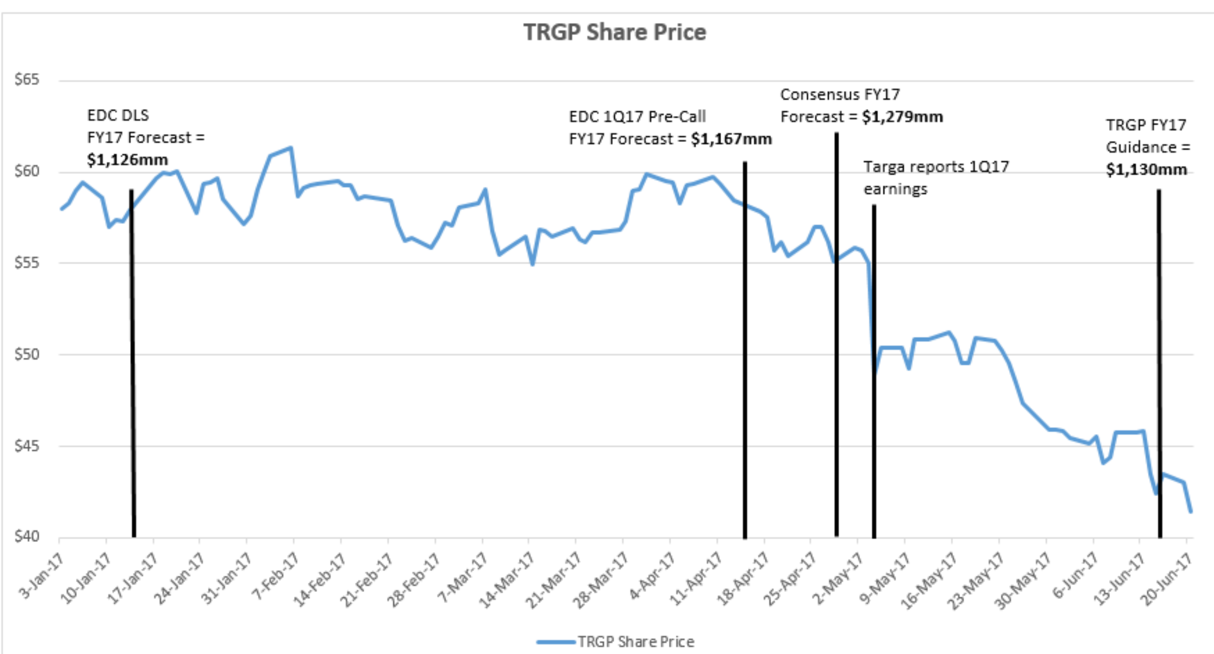
The data in the chart and tables is fed from EDC's Blueprint Models. The Consensus Comparison is updated quarterly at a minimum, following pre-call Blueprint Model updates, and is updated more frequently as dictated by market events. The next quarterly update will occur in mid- to late-July following the completion of EDC 2Q17 model updates on July, 15, 2017. To qualify for access to the Consensus Comparison, the client's subscription must meet certain levels.

Additionally, the Consensus Comparison will provide the basis for a new quarterly written report (to be released July 18, 2017) that will explain the likely model assumptions that drive the largest variances. Even if EDC falls in line with consensus but has a differentiated view of company risk, a summary of that variant view will be discussed in the report. For example, in Figure 1, possible explanations for the conservative EBITDA view for Targa (TRGP), Enbridge (EEP), Plains (PAA), and TC Pipelines (TCP) would be included. Similarly, an explanation of reasons for less conservative EBITDA views would be addressed for Magellan (MMP), Marathon Petroleum Logistics (MPLX), and Southcross (SXE).

TRGP: FY17 Consensus, EDC's Forecast and the Likely Gap

Targa was the company which EDC has been most conservative relative to consensus before 1Q17 earnings were announced (see Figure 1, Targa is the left-most company on the chart, dark blue bar). Targa's share price has been under pressure in 2017 down almost 30% YTD (see Figure 2, blue line). Given 1Q17 earnings and new guidance issued by Targa on June 20, 2017, consensus has already begun to realign itself, narrowing the gap with EDC's outlook and most likely moving itself out of the left-most position in Figure 1.

Figure 2 - Targa Share Price



In the investor deck posted on June 20, Targa management laid out a few reasons for guiding 2Q17 below 1Q17, including lower export volumes from minimal short-term volumes, a weaker marketing business (due to seasonality), and lower commodity prices. In the 2H17, management guided to improved performance in the G&P segment from higher inlet volumes driven by Permian growth. The G&P growth is expected to trickle down to more NGL barrels being fractionated at Targa's Mt. Belvieu fractionators and LPG export upside.

The assumptions provided by management for the remainder of FY17 do not differ significantly from what EDC has modeled since the beginning of 2017. As a result, EDC's beginning of FY17 view is now closely in line with Targa's current outlook. For instance, Targa's LPG export risk was addressed in EDC's Dirty Little Secrets report at the beginning of 2017 given the amount of term contract volumes was unknown at the time. Since that report, Targa disclosed about two-thirds of their export volumes are contracted, leaving one-third of exported volumes exposed to lower spot rates. Additionally, a lack of demand from northern hemisphere heating needs typically drives down exports in 2Q and 3Q. While 1Q17 export volumes were 218 MB/d, EDC forecasted volumes much lower for 2Q and 3Q at 173 MB/d and 170 MB/d, respectively.

EDC also forecasted inlet volume growth driven by the Permian throughout 2017 in-line with Targa's updated guidance. While EDC's Midstream Activity Tracker has shown growth on Targa's WestTX and Outrigger-acquired assets throughout 2017, there has been more tepid growth and natural volume declines on other G&P assets. Some of those weaker performing G&P assets forecasts included WestOK (northwest of the STACK core), NorthTX (very little drilling in the Barnett), and Targa's offshore system. While the positive market sentiment behind Targa's WestTX and Outrigger-acquired assets was merited, the data EDC uses in its proprietary G&P allocation model provided the basis for a G&P forecast that was lower than market expectations in early 2017.

Looking Ahead To 2019

The variance between EDC's forecast for Targa and market consensus persisted into 2018 and 2019. In addition to providing FY17 guidance on June 20, Targa also provided initial 2019 guidance of about $1,520mm which is supported by Permian growth including the recently announced Grand Prix NGL Pipeline. Targa management indicated that project is estimated to cost about $1.3B and earn a multiple of 5x-7x with an in-service date of 2Q19. Grand Prix is not included in EDC's 2019 forecast as of the 1Q17 Blueprint Model but adding Grand Prix at a 7x multiple for three quarters adds $139mm in EBITDA. Adding $139mm of incremental EBITDA growth to EDC's 2019 number in Figure 1 results in 2019 Adjusted EBITDA of $1,519mm, which is also right in-line with Targa's updated guidance.

An updated Consensus Comparison will be available in mid- to late-July with EDC's 2Q17 Blueprint Model and the current consensus outlook showing how new information since 1Q17 impacts EDC's view of Targa vs. consensus. We expect the gap between EDC and market expectations for Targa will have narrowed in the 2Q17 Consensus Comparison Report given new information available to the market.

If you have any questions pertaining to any of the companies mentioned in this paper or would like to see additional scenarios, reach out to East Daley at insight@eastdaley.com.

In addition to Targa, East Daley provides detailed, asset-level coverage of the following midstream companies:

Company Info		% of Revenue					% of Coverage				Rev Coverage
Name	Ticker	Transport & Storage	Midstream	E&P	Other	Total	Transport & Storage	Midstream	E&P	Other	Total
Antero Midstream Partners	AM	0%	100%	0%	0%	100%	0%	75%	0%	0%	75%
Boardwalk	BWP	93%	7%	0%	0%	100%	100%	40%	0%	0%	96%
Buckeye Partners	BPL	28%	0%	0%	72%	100%	100%	0%	0%	30%	50%
Columbia Pipeline Partners	CPPL	95%	5%	0%	0%	100%	100%	65%	0%	0%	98%
CONE Midstream Partners	CNNX	0%	100%	0%	0%	100%	0%	85%	0%	0%	85%
Crestwood Midstream Partners	CMLP	29%	39%	0%	32%	100%	90%	90%	0%	50%	77%
DCP Midstream Partners	DPM	9%	75%	0%	16%	100%	0%	90%	0%	0%	68%
Enable Midstream Partners	ENBL	39%	61%	0%	0%	100%	85%	90%	0%	0%	88%
Enbridge Energy Partners	EEP	44%	12%	0%	44%	100%	100%	90%	0%	80%	90%
Energy Transfer Partners	ETP	37%	25%	0%	38%	100%	90%	90%	0%	20%	63%
Enlink Midstream LLC GP	ENLC	23%	77%	0%	0%	100%	50%	90%	0%	0%	81%
Enlink Midstream LP	ENLK	23%	77%	0%	0%	100%	50%	90%	0%	0%	81%
Enterprise Products Partners	EPD	65%	34%	0%	1%	100%	80%	65%	0%	50%	75%
EQT Midstream LP	EQM	75%	25%	0%	0%	100%	100%	65%	0%	0%	91%
Kinder Morgan	KMI	71%	5%	15%	9%	100%	90%	65%	60%	50%	81%
Magellan Midstream Partners	MMP	80%	0%	0%	20%	100%	75%	0%	0%	25%	65%
Midcoast	MEP	17%	83%	0%	0%	100%	100%	75%	0%	0%	79%
MPLX	MPLX	94%	6%	0%	0%	100%	95%	50%	0%	0%	92%
ONEOK Partners	OKS	9%	91%	0%	0%	100%	70%	75%	0%	0%	75%
Pioneer Natural Reources	PXD	0%	0%	99%	1%	100%	0%	0%	85%	0%	85%
Plains All American Pipeline, LP	PAA	60%	10%	0%	30%	100%	80%	80%	0%	50%	71%
Rice Midstream Partners	RMP	0%	100%	0%	0%	100%	0%	90%	0%	0%	90%
Southcross Energy Partners	SXE	43%	57%	0%	0%	100%	90%	90%	0%	0%	90%
Spectra Energy Partners	SEP	100%	0%	0%	0%	100%	95%	0%	0%	0%	95%
Sunoco Logistics Partners	SXL	79%	0%	0%	21%	100%	70%	0%	0%	25%	61%
Tallgrass Energy LP	TEP	45%	55%	0%	0%	100%	80%	75%	0%	0%	77%
Targa Resources Corp	TRGP	3%	82%	0%	15%	100%	0%	80%	0%	50%	73%
TC Pipelines	TCP	100%	0%	0%	0%	100%	98%	0%	0%	0%	98%
Western Gas Partners	WES	25%	75%	0%	0%	100%	75%	75%	0%	0%	75%
Williams Partners LP	WPZ	29%	71%	0%	0%	100%	100%	60%	0%	0%	72%

"% of revenue" is where a company generates revenue by asset type per EDC analysis.
"% of coverage" is EDC's visibility into revenue generation from the asset type.

TERMS OF USE: THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION AND USE OF CLIENTS OF EAST DALEY CAPITAL ADVISORS AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY OR DISCLOSED IN ANY MANNER TO ANYONE OTHER THAN THE SPECIFIED PARTIES. DISCLOSURE OR REDISTRIBUTION OF DATA, INFORMATION OR REPORTS PROVIDED BY EAST DALEY CAPITAL ADVISORS, IN WHOLE OR IN PART, TO ANY PERSON OR ENTITY OTHER THAN AN AFFILIATE SPECIFICALLY DESIGNATED AS A PERMITTED USER IN THE AGREEMENT IS STRICTLY PROHIBITED WITHOUT THE EXPRESSED WRITTEN CONSENT OF EAST DALEY CAPITAL ADVISORS.

DISCLAIMER: THIS REPORT IS FURNISHED ON AN “AS IS” BASIS. EAST DALEY CAPITAL ADVISORS DOES NOT WARRANT THE ACCURACY OR CORRECTNESS OF THE REPORT OR THE INFORMATION CONTAINED THEREIN. EAST DALEY CAPITAL ADVISORS MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE USE OF ANY INFORMATION CONTAINED IN THIS REPORT IN CONNECTION WITH THE RATING OF COMMODITIES, EQUITIES, FUTURES, OPTIONS OR ANY OTHER USE. EAST DALEY CAPITAL ADVISORS MAKES NO EXPRESS OR IMPLIED WARRANTIES AND EXPRESSLY DISCLAIMS ALL WARRANTIES, INCLUDING BUT NOT LIMITED TO, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

RELEASE AND LIMITATION OF LIABILITY: IN NO EVENT SHALL EAST DALEY CAPITAL ADVISORS BE LIABLE FOR ANY DIRECT, INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES (INCLUDING LOSS OF PROFIT) ARISING OUT OF OR RELATED TO THE ACCURACY OR CORRECTNESS OF THIS REPORT OR THE INFORMATION CONTAINED THEREIN, EITHER BASED ON WARRANTY, CONTRACT, TORT OR ANY OTHER LEGAL THEORY.