



# Spark Energy Inc. (SPKE)

Updated June 12<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$10.40	<b>5 Year CAGR Estimate:</b>	14.8%	<b>Volatility Percentile:</b>	97.2%
<b>Fair Value Price:</b>	\$11.25	<b>5 Year Growth Estimate:</b>	29.2%	<b>Momentum Percentile:</b>	73.4%
<b>% Fair Value:</b>	92%	<b>5 Year Valuation Multiple Estimate:</b>	-21.4%	<b>Growth Percentile:</b>	99.6%
<b>Dividend Yield:</b>	7.0%	<b>5 Year Price Target</b>	\$11.25	<b>Valuation Percentile:</b>	51.0%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	99.8%

## Overview & Current Events

Spark Energy Inc. is an independent retail energy services company founded in 1999. The organization provides residential and commercial customers with alternative choices for their natural gas and electricity. Spark Energy is headquartered in Houston, Texas and currently operates in 19 states and serves 94 utility territories. Spark Energy has a market cap of \$363 million and executed its initial public offering in 2014.

In early May, Spark Energy reported (5/6/19) financial results for the first quarter of fiscal 2019. The company improved its EBITDA by 33%, from \$15.9 million in last year's quarter to \$25.1 million, thanks to a higher retail gross margin, which resulted from reduced retail cost of revenues. The company switched from an operating loss of \$46.3 million to an operating profit of \$5.8 million and narrowed its losses per share from -\$1.04 to -\$0.09.

Management attributed the improved performance to its focus on high-margin customers and the efficient hedging strategy, which protected the company from the adverse weather in the quarter. While management did not provide specific guidance for this year, it stated that it expects strong EBITDA growth in the rest of this year and next year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	---	---	---	---	---	-\$0.01	\$0.53	\$1.11	\$1.21	-\$0.69	<b>\$0.25</b>	<b>\$0.90</b>
<b>DPS</b>	---	---	---	---	---	\$0.30	\$0.73	\$0.73	\$0.73	\$0.73	<b>\$0.73</b>	<b>\$0.73</b>
<b>Shares</b>	---	---	---	---	---	6.00	6.24	33.44	34.62	34.99	<b>35.5</b>	<b>40.0</b>

Since its IPO, Spark Energy has made 14 acquisitions and has thus grown its customer base at a fast pace. However, this strategy has not borne fruit yet. The company has a remarkably volatile performance record and hence it is essentially impossible to forecast its future results with any degree of accuracy. Spark Energy posted a loss last year while it has not provided any material guidance for this year. It is also worth noting that Spark Energy offers very little information in its earnings reports and is hardly followed by analysts. It is also concerning that its management remains focused on EBITDA instead of earnings. We prefer to be conservative and assume earnings-per-share around \$0.90 by 2024.

The company's expansion into the country of Japan is likely to be an important growth driver in the upcoming years. Spark Energy operates a profitable Japan business that currently has 107,000 customers acquired through a diverse set of sales channels. In a previous conference call, management noted that *"We continue to see development of the wholesale markets and corresponding new product alternatives over there. The business continues to outperform our business case, and we expect to begin taking distributions from 2019."*

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	---	---	---	---	---	---	14.7	12.0	13.5	---	<b>41.6</b>	<b>12.5</b>
<b>Avg. Yld.</b>	---	---	---	---	---	---	9.3%	5.5%	4.5%	7.6%	<b>7.0%</b>	<b>6.5%</b>

Spark Energy has consistently traded at a price-to-earnings ratio in the low double-digits since its initial public offering. Accordingly, we estimate that the firm's fair value is somewhere near a price-to-earnings ratio of 12.5. Due to our *Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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expectations for poor earnings this year, the stock is trading at a price-to-earnings ratio of 41.6 right now. If Spark Energy's price-to-earnings ratio contracts to 12.5 over the next five years, the stock will incur a 21.4% annualized drag in its returns during this time period.

Note: As the current price-to-earnings ratio is more than triple our assumed fair price-to-earnings ratio, we cannot calculate the fair value of the stock as usual. Instead we have left the fair value unchanged, based on an expectation of normalized earnings power.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	138%	65.8%	61.3%	---	292%	81.1%

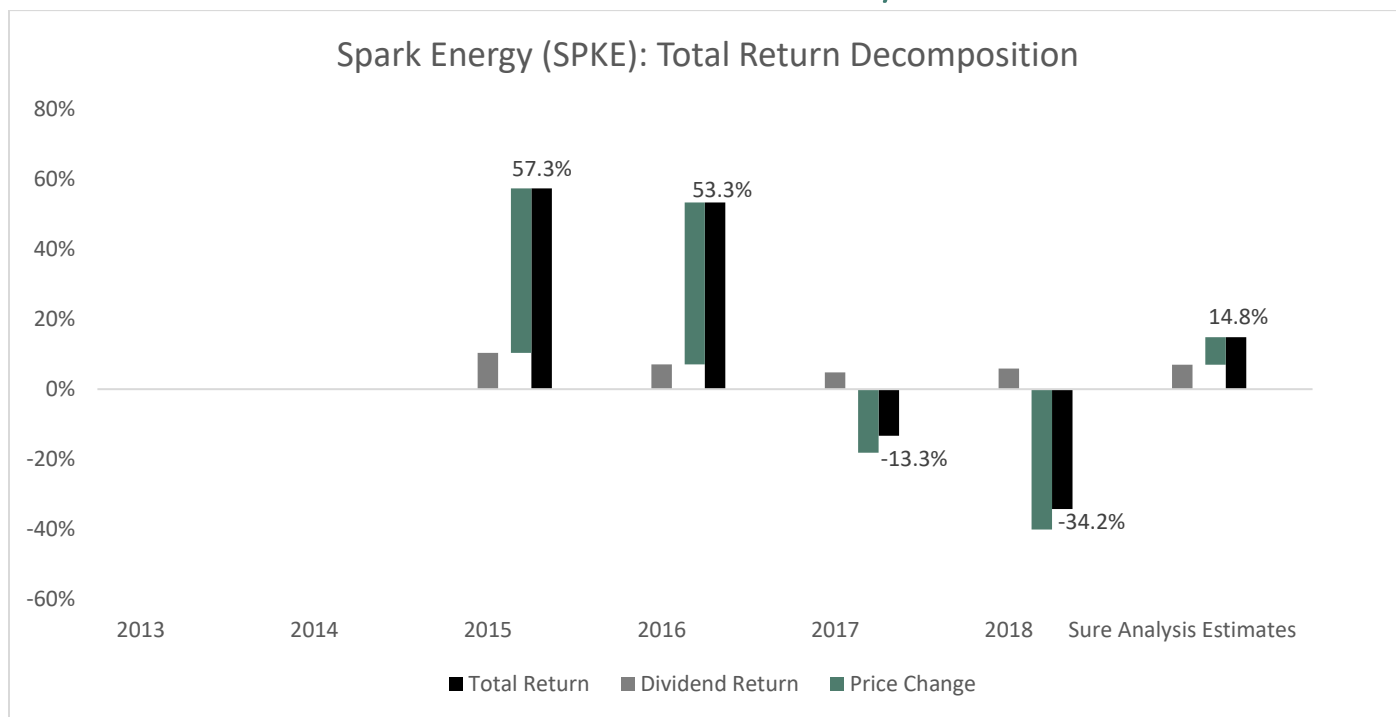
As a small-cap energy business, Spark Energy tends to be more volatile than most large cap stocks. While the stock has rallied 42% off its bottom in the Christmas sell-off, it is still 55% off its peak, in 2017. Moreover, it is likely to underperform the market whenever the next bear market shows up. Furthermore, it is hardly followed by analysts and provides little information in its reports.

## Final Thoughts & Recommendation

In our previous research reports, we recommended buying Spark Energy thanks to its rapid growth rate and its high dividend yield. While the stock has rallied 42% off its bottom in the Christmas sell-off, it can still offer a 14.8% average annual return over the next five years, assisted by its 7.0% dividend yield. As a result, it maintains its buy rating.

Nevertheless, retirees should note that Spark Energy earns a poor rating for Retirement Suitability, largely due to its short dividend history. Moreover, the stock is highly volatile and speculative and hence it is suitable only for investors who have strong confidence in its business model and can stomach wild swings in its stock price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	N/A	N/A	N/A	N/A	317	323	358	547	798	1006
<b>Gross Profit</b>	N/A	N/A	N/A	N/A	84	64	117	202	246	160
<b>Gross Margin</b>	N/A	N/A	N/A	N/A	26.5%	19.9%	32.7%	36.9%	30.8%	15.9%
<b>SG&amp;A Exp.</b>	N/A	N/A	N/A	N/A	35	46	62	85	101	111
<b>D&amp;A Exp.</b>	N/A	N/A	N/A	N/A	16	22	25	49	43	51
<b>Operating Profit</b>	N/A	N/A	N/A	N/A	33	-4	30	84	102	-4
<b>Operating Margin</b>	N/A	N/A	N/A	N/A	10.4%	-1.2%	8.3%	15.4%	12.8%	-0.4%
<b>Net Profit</b>	N/A	N/A	N/A	N/A	31	0	4	14	19	-1
<b>Net Margin</b>	N/A	N/A	N/A	N/A	9.9%	0.0%	1.1%	2.6%	2.4%	-0.1%
<b>Free Cash Flow</b>	N/A	N/A	N/A	N/A	43	3	44	65	60	58
<b>Income Tax</b>	N/A	N/A	N/A	N/A	0	-1	2	10	39	2

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	N/A	N/A	N/A	N/A	109	138	162	375	504	489
<b>Cash &amp; Equivalents</b>	N/A	N/A	N/A	N/A	11	4	4	19	29	41
<b>Accounts Receivable</b>	N/A	N/A	N/A	N/A	63	65	62	112	162	153
<b>Inventories</b>	N/A	N/A	N/A	N/A	4	8	4	4	4	4
<b>Goodwill &amp; Int. Ass.</b>	N/A	N/A	N/A	N/A	0	4	29	101	155	147
<b>Total Liabilities</b>	N/A	N/A	N/A	N/A	73	114	129	251	303	308
<b>Accounts Payable</b>	N/A	N/A	N/A	N/A	37	39	30	52	82	72
<b>Long-Term Debt</b>	N/A	N/A	N/A	N/A	28	33	49	78	146	146
<b>Shareholder's Equity</b>	N/A	N/A	N/A	N/A	36	9	11	30	58	46
<b>D/E Ratio</b>	N/A	N/A	N/A	N/A	0.77	3.81	4.30	2.58	1.48	1.07

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	N/A	N/A	N/A	N/A	26.4%	0.0%	2.6%	5.4%	4.4%	-0.2%
<b>Return on Equity</b>	N/A	N/A	N/A	N/A	64.6%	-0.2%	38.7%	69.3%	43.8%	-2.3%
<b>ROIC</b>	N/A	N/A	N/A	N/A	46.6%	-0.1%	5.6%	10.2%	7.0%	-0.4%
<b>Shares Out.</b>	N/A	N/A	N/A	N/A	6.00	6.24	33.44	34.62	34.99	6.00
<b>Revenue/Share</b>	N/A	N/A	N/A	N/A	18.93	53.81	53.82	43.08	59.80	75.13
<b>FCF/Share</b>	N/A	N/A	N/A	N/A	2.57	0.47	6.64	5.10	4.53	4.36

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

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