



Spark Energy Inc. (SPKE)

Updated August 27th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$10.10	5 Year CAGR Estimate:	9.2%	Volatility Percentile:	95.8%
Fair Value Price:	\$3.13	5 Year Growth Estimate:	22.9%	Momentum Percentile:	73.3%
% Fair Value:	323%	5 Year Valuation Multiple Estimate:	-20.9%	Growth Percentile:	99.4%
Dividend Yield:	7.2%	5 Year Price Target	\$8.75	Valuation Percentile:	0.5%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	58.2%

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 \$355 million and executed its initial public offering in 2014.

In early August, Spark Energy reported (8/7/19) financial results for the second quarter of fiscal 2019. Its EBITDA fell from \$16.1 million in last year's quarter to \$13.6 million due to mild temperatures in most of the regions that the company serves as well as increased spending on customer acquisition. Net loss widened from \$23.9 million to \$25.5 million due to the above reasons and \$10.8 million of non-recurring litigation costs.

On the bright side, the company settled most of its legacy litigation issues from its previously acquired companies and is now free to focus on its core business. While management did not provide specific guidance for this year, it stated that it expects a very strong second half of 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	-\$0.01	\$0.53	\$1.11	\$1.21	-\$0.69	\$0.25	\$0.70
DPS	---	---	---	---	---	\$0.30	\$0.73	\$0.73	\$0.73	\$0.73	\$0.73	\$0.73
Shares¹	---	---	---	---	---	6.00	6.24	33.44	34.62	34.99	35.5	40.0

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 have lowered our earnings-per-share forecast for 2024 from \$0.90 to \$0.70.

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
Avg. P/E	---	---	---	---	---	---	14.7	12.0	13.5	---	40.4	12.5
Avg. Yld.	---	---	---	---	---	---	9.3%	5.5%	4.5%	7.6%	7.2%	8.3%

1. In millions.

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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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 expectations for poor earnings this year, the stock is trading at a price-to-earnings ratio of 40.4 right now. If Spark Energy's price-to-earnings ratio contracts to 12.5 over the next five years, the stock will incur a -20.9% annualized drag, which will offset most of its 22.9% expected annual earnings-per-share growth off its low base this year.

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

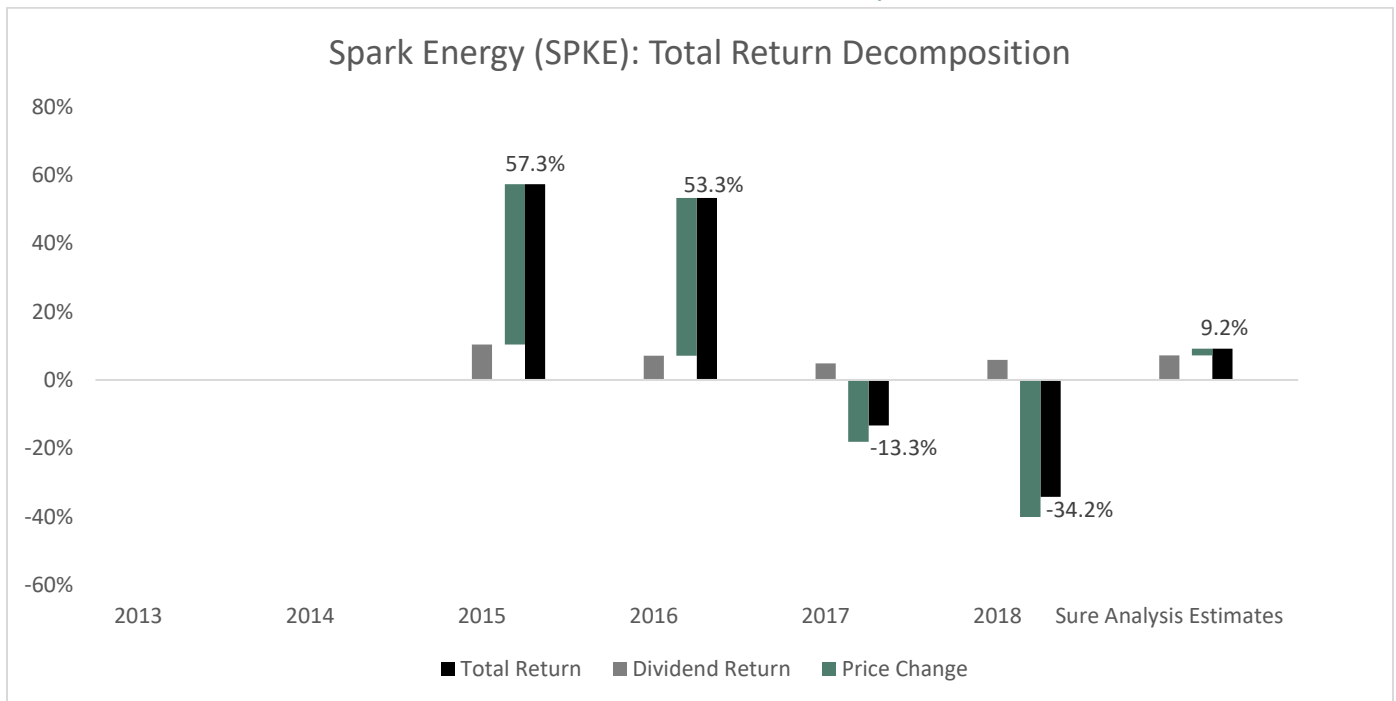
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	138%	65.8%	61.3%	---	292%	104%

As a small-cap energy business, Spark Energy tends to be more volatile than most large cap stocks. While the stock has rallied 38% off its bottom in the Christmas sell-off, it is still 43% 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

Despite its strong rally this year, Spark Energy could still offer a 9.2% average annual return over the next five years, assisted by its 7.2% dividend yield. 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. We rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	317	323	358	547	798	1006
Gross Profit	N/A	N/A	N/A	N/A	84	64	117	202	246	160
Gross Margin	N/A	N/A	N/A	N/A	26.5%	19.9%	32.7%	36.9%	30.8%	15.9%
SG&A Exp.	N/A	N/A	N/A	N/A	35	46	62	85	101	111
D&A Exp.	N/A	N/A	N/A	N/A	16	22	25	49	43	51
Operating Profit	N/A	N/A	N/A	N/A	33	-4	30	84	102	-4
Operating Margin	N/A	N/A	N/A	N/A	10.4%	-1.2%	8.3%	15.4%	12.8%	-0.4%
Net Profit	N/A	N/A	N/A	N/A	31	0	4	14	19	-1
Net Margin	N/A	N/A	N/A	N/A	9.9%	0.0%	1.1%	2.6%	2.4%	-0.1%
Free Cash Flow	N/A	N/A	N/A	N/A	43	3	44	65	60	58
Income Tax	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
Total Assets	N/A	N/A	N/A	N/A	109	138	162	375	504	489
Cash & Equivalents	N/A	N/A	N/A	N/A	11	4	4	19	29	41
Accounts Receivable	N/A	N/A	N/A	N/A	63	65	62	112	162	153
Inventories	N/A	N/A	N/A	N/A	4	8	4	4	4	4
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	0	4	29	101	155	147
Total Liabilities	N/A	N/A	N/A	N/A	73	114	129	251	303	308
Accounts Payable	N/A	N/A	N/A	N/A	37	39	30	52	82	72
Long-Term Debt	N/A	N/A	N/A	N/A	28	33	49	78	146	146
Shareholder's Equity	N/A	N/A	N/A	N/A	36	9	11	30	58	46
D/E Ratio	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
Return on Assets	N/A	N/A	N/A	N/A	26.4%	0.0%	2.6%	5.4%	4.4%	-0.2%
Return on Equity	N/A	N/A	N/A	N/A	64.6%	-0.2%	38.7%	69.3%	43.8%	-2.3%
ROIC	N/A	N/A	N/A	N/A	46.6%	-0.1%	5.6%	10.2%	7.0%	-0.4%
Shares Out.	N/A	N/A	N/A	N/A	6.00	6.24	33.44	34.62	34.99	6.00
Revenue/Share	N/A	N/A	N/A	N/A	18.93	53.81	53.82	43.08	59.80	75.13
FCF/Share	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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