Spark Energy Inc. (SPKE)

Updated November 22nd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$11.00	**5 Year CAGR Estimate:**	2.4%	**Volatility Percentile:**	94.4%
Fair Value Price:	$3.15	**5 Year Growth Estimate:**	22.9%	**Momentum Percentile:**	87.6%
% Fair Value:	352%	**5 Year Valuation Multiple Estimate:**	-22.3%	**Growth Percentile:**	99.0%
Dividend Yield:	6.6%	**5 Year Price Target**	$8.75	**Valuation Percentile:**	0.6%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	20.5%

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 $385 million and executed its initial public offering in 2014.

In early November, Spark Energy reported (11/5/19) financial results for the third quarter of fiscal 2019. Its adjusted EBITDA rose from $18.6 million in last year's quarter to $28.1 million thanks to higher retail gross margin, which more than offset the increased spending for customer acquisition. Retail gross margin increased 27%, primarily thanks to strong growth in electricity unit margins. Earnings essentially doubled, from $18.8 million to $37.7 million, thanks to the retail margin growth and a non-cash increase in the hedging positions of the company.

Spark Energy is on track to achieve over $22 million in run-rate savings by the end of this year. While management does not provide guidance for the year, it stated that it expects a strong fourth quarter thanks to improving economies of scale, which will result from the ongoing consolidation of the brands of the company.

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***
Shares[1]	---	---	---	---	---	6.00	6.24	33.44	34.62	34.99	***35.0***	***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 expect earnings-per-share around $0.70 in 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.*"

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	---	14.7	12.0	13.5	---	***44.0***	***12.5***
Avg. Yld.	---	---	---	---	---	---	9.3%	5.5%	4.5%	7.6%	***6.6%***	***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.

Spark Energy Inc. (SPKE)

Updated November 22nd, 2019 by Aristofanis Papadatos

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 the depressed earnings this year, the stock is trading at a price-to-earnings ratio of 44.0 right now. If Spark Energy's price-to-earnings ratio contracts to 12.5 over the next five years, the stock will incur a -22.3% annualized drag, which will offset most of its 22.9% expected annual earnings-per-share growth off its low base this year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

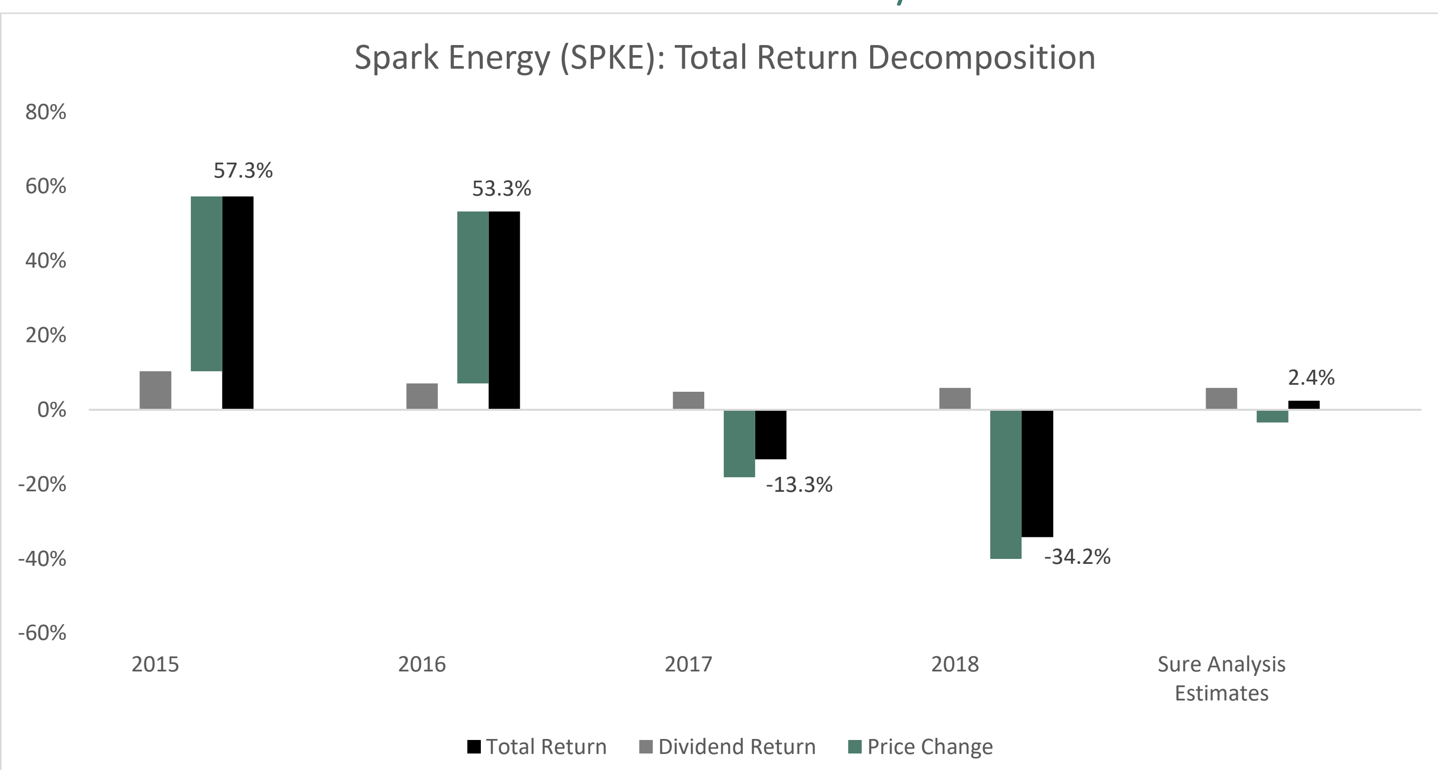
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	138%	65.8%	61.3%	---	***292%***	***104%***

As a small-cap energy business, Spark Energy tends to be more volatile than most large cap stocks. While the stock has rallied 50% off its bottom at the end of last year, it is still -50% 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

Due to its strong rally this year, Spark Energy has become less attractive and is now may offer just a 2.4% average annual return over the next five years, assisted by its 6.6% dividend yield. As the company has begun to improve its performance, it may offer higher returns but management provides too little information on the results and no guidance. Also, given the markedly volatile performance record of Spark Energy, the stock is highly speculative. Moreover, retirees should note that Spark Energy earns a poor rating for Retirement Suitability, largely due to its short dividend history and its excessive payout ratio. We rate shares as a hold.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Spark Energy Inc. (SPKE)

Updated November 22nd, 2019 by Aristofanis Papadatos

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.