



Spark Energy Inc. (SPKE)

Updated May 29th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$8.80	5 Year CAGR Estimate:	7.1%	Market Cap:	\$308 M
Fair Value Price:	\$3.10	5 Year Growth Estimate:	22.9%	Ex-Dividend Date:	5/29/2020
% Fair Value:	282%	5 Year Valuation Multiple Estimate:	-18.7%	Dividend Payment Date:	5/15/2020
Dividend Yield:	8.3%	5 Year Price Target	\$8.80	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

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 \$308 million and executed its initial public offering in 2014.

In early May, Spark Energy reported (5/5/20) financial results for the first quarter of fiscal 2020. Its adjusted EBITDA grew 21% over last year's quarter, from \$25.1 million to \$30.3 million, thanks to lower operating expenses but its retail gross margin dipped from \$56.6 million to \$55.5 million due to a lower customer count. The company continued to shed low-margin commercial customers in favor of high-margin customers. However, it is now facing a strong headwind due to the social distancing that has resulted from the coronavirus. This headwind has led Spark Energy to cease its door-to-door marketing efforts and thus its customer count is likely to shrink, particularly given the high attrition rate. Moreover, management implied that the dividend will be cut if the pandemic persists for a considerable period.

Spark Energy does not provide any guidance for the year. We note the decent business momentum of the company and the fact that it has left most of its litigation issues behind, as it settled them last year. Nevertheless, due to the opaque business model of Spark Energy and its volatile record, we expect earnings-per-share around \$0.25 this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	-\$0.01	\$0.53	\$1.11	\$1.21	-\$0.69	\$0.02	\$0.25	\$0.70
DPS	---	---	---	---	\$0.30	\$0.73	\$0.73	\$0.73	\$0.73	\$0.73	\$0.73	\$0.73
Shares¹	---	---	---	---	6.00	6.24	33.44	34.62	34.99	35.0	35.0	40.0

Since its IPO, Spark Energy has made 14 acquisitions and has 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. Its fragile business model is also evident from the markedly high monthly attrition rate, which averaged 5.0% in 2019 and was 5.7% in the first quarter of 2020. Spark Energy posted a loss in 2018 and a marginal profit 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 2025.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	14.7	12.0	13.5	---	---	35.2	12.5
Avg. Yld.	---	---	---	---	---	9.3%	5.5%	4.5%	7.6%	7.4%	8.3%	8.3%

¹ In millions.

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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 the depressed earnings expected this year, the stock is trading at a price-to-earnings ratio of 35.2 right now. If Spark Energy's price-to-earnings ratio contracts to 12.5 over the next five years, the stock would incur a -18.7% 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

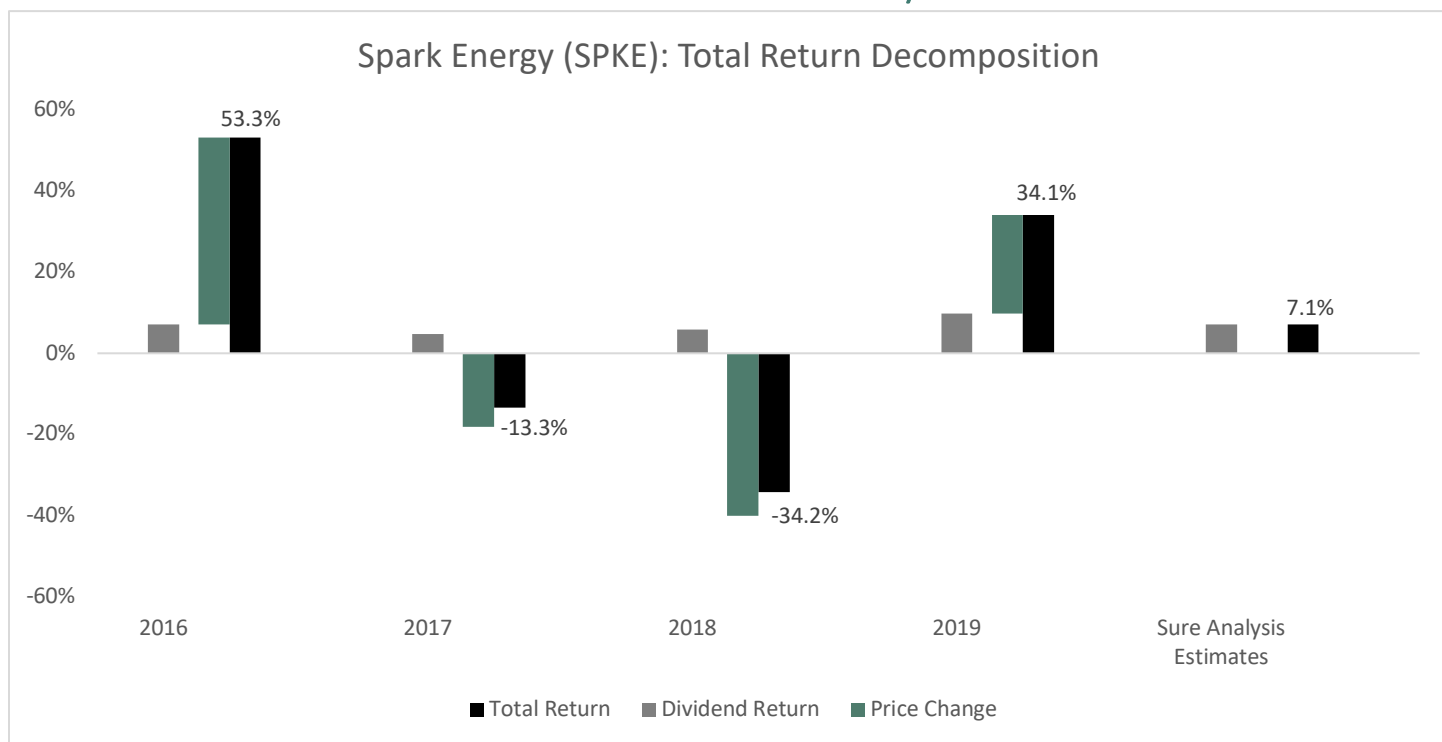
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	138%	65.8%	61.3%	---	3650%	292%	104%

As a small-cap energy business, Spark Energy tends to be more volatile than most large cap stocks. To provide a perspective, the stock is -75% off its peak posted almost three years ago. Moreover, the stock is likely to underperform the market during sell-off periods. In the sell-off triggered by the pandemic, the stock plunged -50% whereas the S&P 500 fell -35%. Furthermore, Spark Energy is hardly followed by analysts and provides little information in its reports.

Final Thoughts & Recommendation

Spark Energy is facing a setback in its growth efforts due to the coronavirus. If the pandemic does not persist beyond this year, we expect the stock to offer a 7.1% average annual return over the next five years, thanks to its 8.3% 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 also note that the dividend is at risk of being cut later this year. We rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5,591	6,091	379	317	323	358	547	798	1,006	814
Gross Profit	2,007	2,108	100	84	64	117	202	246	160	199
Gross Margin	35.9%	34.6%	26.3%	26.5%	19.9%	32.7%	36.9%	30.8%	15.9%	24.4%
SG&A Exp.	---	1,267	47	35	46	62	85	101	111	134
D&A Exp.	210	228	23	16	22	25	49	43	51	41
Operating Profit	656	622	29	33	(4)	30	84	102	(4)	24
Operating Margin	11.7%	10.2%	7.8%	10.4%	-1.2%	8.3%	15.4%	12.8%	-0.4%	2.9%
Net Profit	261	245	26	31	(0)	4	14	19	(1)	8
Net Margin	4.7%	4.0%	6.9%	9.9%	0.0%	1.1%	2.6%	2.4%	-0.1%	1.0%
Free Cash Flow	252	194	42	43	3	44	65	60	58	85
Income Tax	168	145	0	0	(1)	2	10	39	2	7

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6,374	6,663	129	109	138	162	375	504	489	423
Cash & Equivalents	261	239	7	7	4	4	19	29	41	57
Accounts Receivable	468	547	78	69	65	62	115	162	153	116
Inventories	314	363	4	4	8	4	4	4	4	3
Goodwill & Int. Ass.	1,713	1,710	---	---	1	26	107	155	147	138
Total Liabilities	4,313	4,472	68	73	114	129	251	303	308	266
Accounts Payable	373	400	44	37	39	32	56	82	71	49
Long-Term Debt	2,206	2,296	10	28	33	49	78	146	146	123
Shareholder's Equity	1,825	1,978	61	36	9	11	30	58	46	51
D/E Ratio	1.21	1.16	0.16	0.77	3.81	4.30	2.58	1.48	1.07	0.87

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.2%	3.8%	---	26.4%	0.0%	2.6%	5.4%	4.4%	-0.2%	1.9%
Return on Equity	15.3%	12.9%	---	64.6%	-0.2%	38.7%	69.3%	43.8%	-2.3%	17.4%
ROIC	6.2%	5.6%	---	46.6%	-0.1%	5.6%	10.2%	7.0%	-0.4%	2.8%
Shares Out.	---	---	---	---	6.00	6.24	33.44	34.62	34.99	35.0
Revenue/Share	33.73	35.95	63.18	52.85	53.81	53.82	43.08	59.80	75.13	55.86
FCF/Share	1.52	1.15	6.98	7.17	0.47	6.64	5.10	4.53	4.36	5.81

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

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