



Spark Energy Inc. (SPKE)

Updated August 25th, 2020 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|--------|--|--------|----------------------------------|-----------|
| Current Price: | \$9.50 | 5 Year CAGR Estimate: | 5.5% | Market Cap: | \$333 M |
| Fair Value Price: | \$3.10 | 5 Year Growth Estimate: | 22.9% | Ex-Dividend Date: | 8/31/2020 |
| % Fair Value: | 304% | 5 Year Valuation Multiple Estimate: | -19.9% | Dividend Payment Date: | 9/15/2020 |
| Dividend Yield: | 7.7% | 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 \$333 million and executed its initial public offering in 2014.

In early August, Spark Energy reported (8/4/20) financial results for the second quarter of fiscal 2020. Its adjusted EBITDA grew from \$13.6 million in last year's quarter to \$23.8 million thanks to lower operating expenses and the company switched from a net loss of -\$25.5 million to a net profit of \$26.8 million. About two-thirds of the profit came from gains in the hedging positions of the company. Spark Energy 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 pandemic. This headwind has led Spark Energy to reduce its door-to-door marketing efforts and thus its customer count has shrunk at a fast clip, from 818,000 in last year's quarter to 534,000. Management expects the customer count to decrease even further in the near future. Moreover, management implied once again 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 still 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 hardly borne fruit so far. 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 and 3.5% in the second quarter. 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.

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 August 25th, 2020 by Aristofanis Papadatos

Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | --- | --- | --- | --- | --- | 14.7 | 12.0 | 13.5 | --- | --- | 38.0 | 12.5 |
| Avg. Yld. | --- | --- | --- | --- | --- | 9.3% | 5.5% | 4.5% | 7.6% | 7.4% | 7.7% | 8.3% |

Spark Energy has 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 38.0 right now. If Spark Energy's price-to-earnings ratio contracts to 12.5 over the next five years, the stock would incur a -19.9% annualized drag, which will offset its abnormally high 22.9% expected annual earnings-per-share growth off its low base this year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

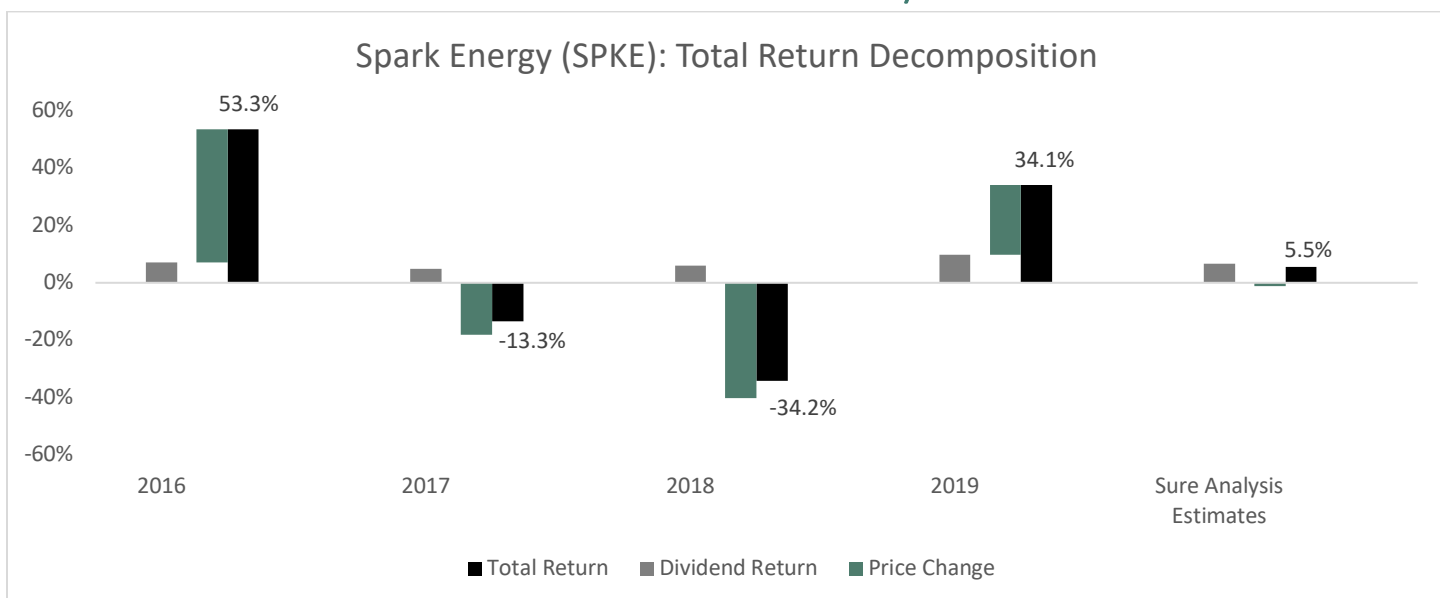
| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|--------|------|------|------|------|------|------|-------|-------|------|-------|-------------|-------------|
| Payout | --- | --- | --- | --- | --- | 138% | 65.8% | 61.3% | --- | 3650% | 292% | 104% |

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 -60% off its peak posted about three years ago. Moreover, the stock could 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 5.5% average annual return over the next five years, thanks to its 7.7% 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



[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 August 25th, 2020 by Aristofanis Papadatos

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.