



Spark Energy Inc. (SPKE)

Updated March 12th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$10.50	5 Year CAGR Estimate:	7.9%	Market Cap:	\$372 M
Fair Value Price:	\$10.60	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	2/26/2021
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	3/15/2021
Dividend Yield:	7.0%	5 Year Price Target	\$11.70	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 100 utility territories. Spark Energy has a market cap of \$372 million and executed its initial public offering in 2014.

In early March, Spark Energy reported (3/3/21) financial results for the fourth quarter of fiscal 2020. In the year, the company achieved record earnings-per-share of \$1.48 but these earnings resulted primarily from accounting gains thanks to the hedging derivatives of the company. Spark Energy continued to shed low-margin commercial customers in favor of high-margin customers while it also maintained its efforts on reducing general and administrative expenses. Spark Energy has been negatively affected by 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. Management has implied that the dividend will be cut if the pandemic persists for a considerable period. However, we expect the pandemic to subside later this year thanks to the ongoing vaccination program.

Spark Energy has an opaque business model and does not provide any guidance for the year. On the bright side, we note the decent business momentum of the company and the fact that it has settled most of its litigation issues.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	-\$0.01	\$0.53	\$1.11	\$1.21	-\$0.69	\$0.02	\$1.48	\$0.85	\$0.94
DPS	---	---	---	\$0.30	\$0.73	\$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	35.4	35.4	36.0

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 4.0% last year. Spark Energy posted a loss in 2018 and a marginal profit in 2019 and never provides any material guidance. It is also worth noting that Spark Energy offers very little information in its earnings reports and is not followed by analysts. It is also concerning that its management remains focused on EBITDA instead of earnings. We prefer to be conservative and expect the company to grow its earnings-per-share by 2.0% per year on average beyond this year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	14.7	12.0	13.5	---	---	5.6	12.4	12.5
Avg. Yld.	---	---	---	---	9.3%	5.5%	4.5%	7.6%	7.4%	8.8%	7.0%	6.2%

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 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. The stock is currently trading at a price-to-earnings ratio of 12.4. If the stock trades at a price-to-earnings ratio of 12.5 in five years, it will enjoy a marginal 0.2% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

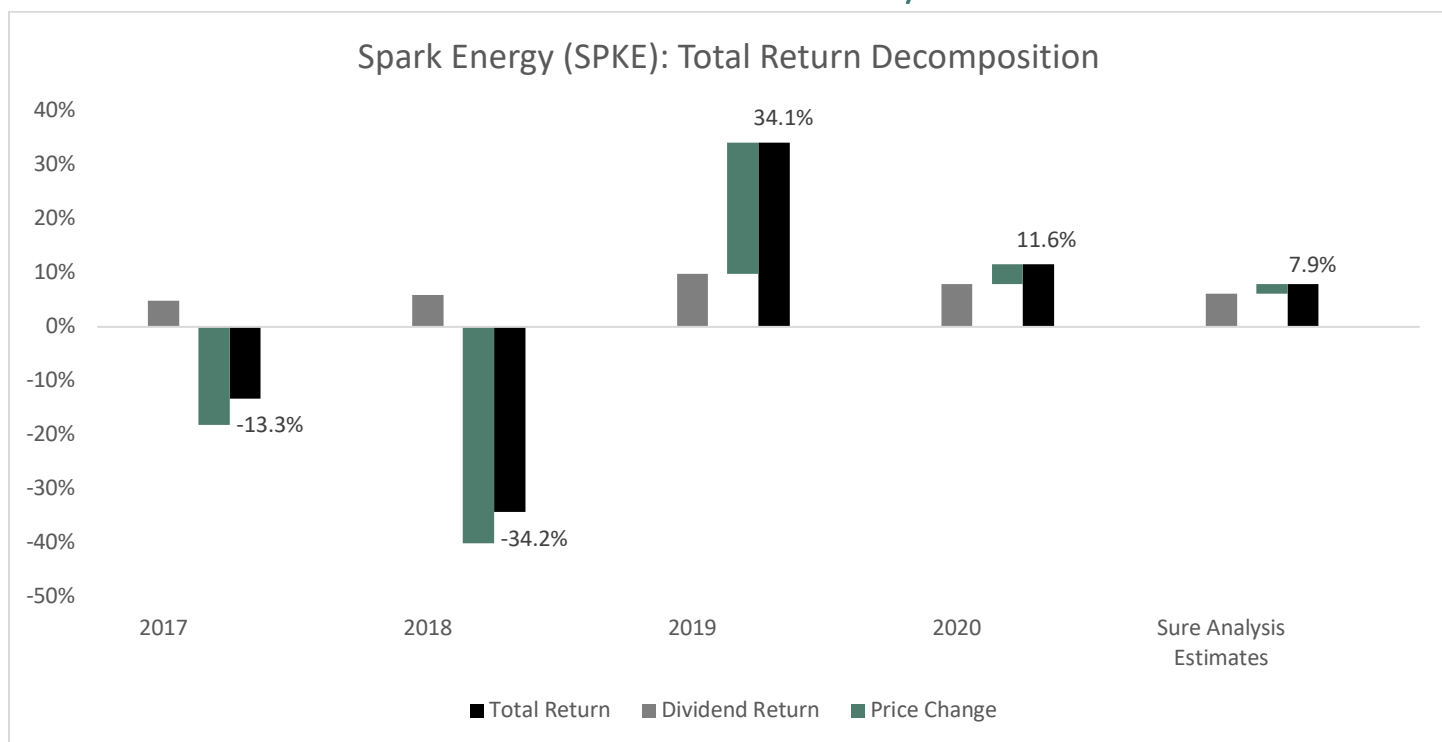
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	138%	65.8%	61.3%	---	---	49.3%	85.9%	77.8%

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 -55% off its peak posted nearly four 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 not followed by analysts and provides little information in its reports.

Final Thoughts & Recommendation

Spark Energy is facing a headwind due to the coronavirus crisis but we expect the pandemic to subside later this year. If the pandemic does not extend beyond this year, we expect the stock to offer a 7.9% average annual return over the next five years, thanks to its 7.0% dividend yield and 2.0% average annual earnings-per-share growth. The stock 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 will be at the risk of being cut in the event of a prolonged pandemic. We rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	379	317	323	358	547	798	1,006	814	555
Gross Profit	---	100	84	64	117	202	246	160	199	210
Gross Margin	---	26.3%	26.5%	19.9%	32.7%	36.9%	30.8%	15.9%	24.4%	37.9%
SG&A Exp.	---	47	35	46	62	85	101	111	134	91
D&A Exp.	---	23	16	22	25	49	43	51	41	31
Operating Profit	---	29	33	(4)	30	84	102	(4)	24	89
Operating Margin	---	7.8%	10.4%	-1.2%	8.3%	15.4%	12.8%	-0.4%	2.9%	16.0%
Net Profit	---	26	31	(0)	4	14	19	(1)	8	29
Net Margin	---	6.9%	9.9%	0.0%	1.1%	2.6%	2.4%	-0.1%	1.0%	5.3%
Free Cash Flow	---	42	43	3	44	65	60	58	85	90
Income Tax	---	0	0	(1)	2	10	39	2	7	16

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	129	109	138	162	375	504	489	423	367
Cash & Equivalents	---	7	7	4	4	19	29	41	57	72
Accounts Receivable	---	78	69	65	62	115	162	153	116	75
Inventories	---	4	4	8	4	4	4	4	3	1
Goodwill & Int. Ass.	---	---	---	1	26	107	155	147	138	126
Total Liabilities	---	68	73	114	129	251	303	308	266	191
Accounts Payable	---	44	37	39	32	56	82	71	49	28
Long-Term Debt	---	10	28	33	49	78	146	146	123	100
Shareholder's Equity	---	61	36	9	11	30	58	46	51	65
D/E Ratio	---	0.16	0.77	3.81	4.30	2.58	1.48	1.07	0.87	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	26.4%	0.0%	2.6%	5.4%	4.4%	-0.2%	1.9%	7.4%
Return on Equity	---	---	64.6%	-0.2%	38.7%	69.3%	43.8%	-2.3%	17.4%	50.5%
ROIC	---	---	46.6%	-0.1%	5.6%	10.2%	7.0%	-0.4%	2.8%	10.5%
Shares Out.	---	---	---	6.00	6.24	33.44	34.62	34.99	35.0	35.4
Revenue/Share	---	63.18	52.85	53.81	53.82	43.08	59.80	75.13	55.86	37.71
FCF/Share	---	6.98	7.17	0.47	6.64	5.10	4.53	4.36	5.81	6.09

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

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