



Spire Inc. (SR)

Updated August 24th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	9.5%	Market Cap:	\$3.6 B
Fair Value Price:	\$71	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	09/09/21
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	10/04/21
Dividend Yield:	3.8%	5 Year Price Target	\$93	Years Of Dividend Growth:	19
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	4.4%

Overview & Current Events

Spire Inc. is a public utility holding company based in St. Louis, Missouri. The Company provides natural gas service through its regulated core utility operations while engaging in non-regulated activities that provide business opportunities. The Company was previously known as the Laclede Group, trading under the symbol LG. Laclede Gas Company was one of the first twelve industrial companies that made up the Dow Jones Industrial average. The Company was first listed on the NYSE on November 14, 1889. In 2009, The Company celebrated 120 years of trading on the exchange. In 2016, shareholders approved renaming the Company to Spire and trading on the NYSE under the new symbol SR. The Company has five gas utilities, serving 1.7 million homes and businesses across Alabama, Mississippi, and Missouri. This makes Spire the 5th largest publicly traded natural gas company in the country. The Company has a market cap of \$3.6 billion and generated \$1,855 million in sales in 2020. Spire has been growing its dividends for 19 years.

On August 5, 2021, the Company reported its fiscal third-quarter results for Fiscal Year (FY)2021. For the quarter, the Company generated \$327.8 million in sales, up 2.1% compared to the third quarter of FY2020. The increase in revenue year over year was driven by higher usage. For the nine months of FY2021, revenue is up 21.3% compared to the first nine months of FY2020. This was also caused by higher use compared to the nine months of FY2020. For the quarter, net income was \$5.3 million or \$0.03 per diluted share, up from a loss of \$(92.3) million or \$(1.87) per share a year ago. For the nine months, net income is up 160% compared to the nine months of FY2020. Net Economic Earnings (NEE) for the nine months was \$279.4 million or \$5.18 per share, up from \$223.1million or \$4.14 per share a year ago. The increase in NEE reflects higher Gas Marketing and Gas Utility earnings and lower other costs.

The management team has affirmed its fiscal 2021 guidance to \$4.30-\$4.50 per share for the year. We will use \$4.45 for our fair value and total return calculations. The Company's long-term per share growth target is between 5-7%, driven by the continuous and consistent growth of the company gas utilities.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.79	\$2.79	\$2.87	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.45	\$5.82
DPS	\$1.62	\$1.66	\$1.70	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	\$3.32
Shares¹	22.0	22.0	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	52.0	55.0

Over the last ten years, Spire has grown Earnings per Share (EPS) at a Compound Annual Growth Rate (CAGR) of 3.4%. However, over the past five years, EPS has grown by over 5.3%. We expect Spire will grow earnings for the next five years at a CAGR of 5.5%. This will give the Company an EPS of \$5.82 in 2026. Most of this growth will come from a growing customer base in the region and increasing utility fees. The dividend growth rate is in line with the Company's EPS growth rate. Over the past ten years, the Company has been paying a growing dividend rate of 4.9%. We expect Spire to continue to grow its dividend at a slightly higher rate of 5% over the next five years.

¹ Share count is 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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.5	13.7	15.6	17.2	18.3	18.7	20.9	19.9	22.3	16.3	15.4	16.0
Avg. Yld.	4.2%	3.9%	3.8%	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	3.8%	3.6%

The Company has a current valuation of 15.4x earnings, lower than its ten-year average of 17.7x earnings. However, we think a fair PE of 16x earnings is a good base case. Thus, this suggests that the Company has a 0.7% valuation expansion. The current dividend yield is higher than its ten-year average of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

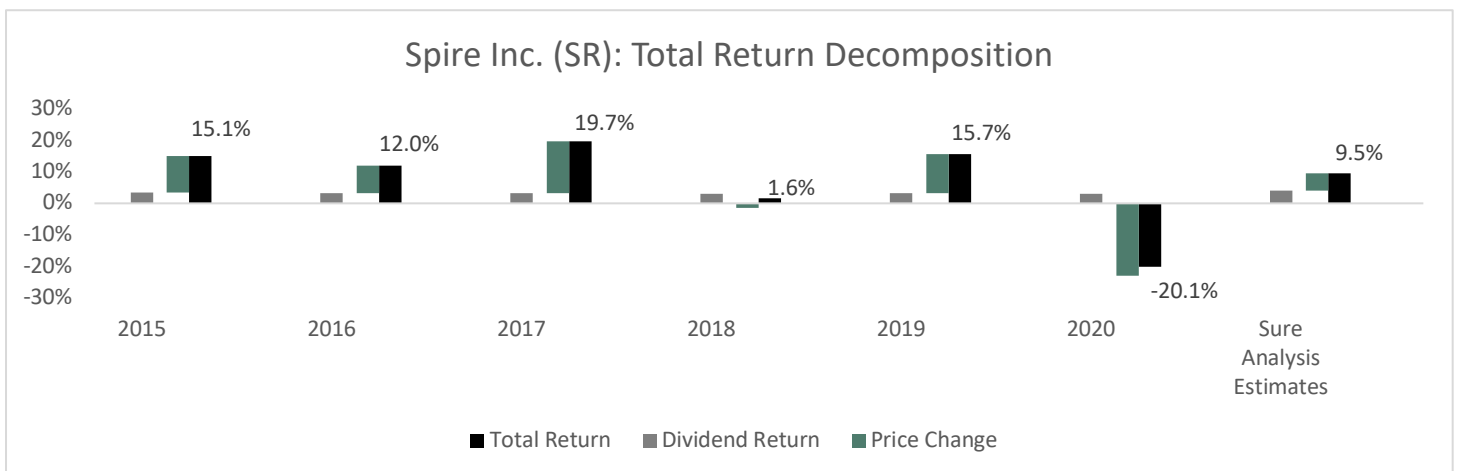
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	58.1%	59.5%	59.2%	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	58%	57%

Spire's competitive advantage is its state-regulated utility business, which requires excessive capital expenses for infrastructure and poses high entry barriers to potential competitors in the area. During the Great Recession of 2008-2009, the Company grew earnings from \$2.31 in 2007 to \$2.64 in 2008 and \$2.92 in 2009. The dividend was well covered, and the Company increased its dividend by 2.7% in 2008. This shows the dividend safety and the resilience of this Company. However, in 2010, earnings did drop by (14%) to \$2.52 per share. The drop-in earnings did not affect the dividend that year as the Company had a dividend payout ratio of 62% and increased the dividend by 2.6% that year. The Company has a stable balance sheet with a debt to equity ratio of 1.4. Interest coverage increased to a better ratio of 4.0 compared to when the Company had a 1.7 ratio at the end of FY2020. Spire's dividend payout ratio has been stable in the 60% area. The dividend payout ratio aligns with where we would like to see it for utility companies like Spire.

Final Thoughts & Recommendation

The Company is a very safe company to invest in, as most utility companies are. However, SR is slightly undervalued at the current price relative to our fair price estimate of \$71. Thus, we see a 5-year projected annual return of 9.5%. Most of this return will come from the 3.8% dividend yield and the 5.5% earnings growth, while the remainder will come from dividend growth and multiple expansion. Thus, we rate Spire as a Buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,603	1,126	1,017	1,627	1,976	1,537	1,741	1,965	1,952	1,855
Gross Profit	228	205	205	361	545	544	632	616	638	701
Gross Margin	14.2%	18.2%	20.1%	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%
D&A Exp.	40	41	49	83	131	138	154	168	182	197
Operating Profit	118	111	97	166	273	282	341	294	302	355
Operating Margin	7.4%	9.8%	9.5%	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%
Net Profit	64	63	53	85	137	144	162	214	185	89
Net Margin	4.0%	5.6%	5.2%	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%
Free Cash Flow	100	19	33	(48)	33	35	(150)	(43)	(372)	(169)
Income Tax	29	26	18	32	62	70	78	(27)	35	12

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,783	1,880	3,125	5,074	5,290	6,064	6,547	6,844	7,619	8,241
Cash & Equivalents	43	27	53	16	14	5	7	4	6	4
Accounts Receivable	122	115	101	148	138	128	141	152	140	132
Inventories	128	106	199	270	215	202	226	210	197	192
Goodwill & Int. Ass.		-	247	938	946	1,165	1,172	1,172	1,172	1,172
Total Liabilities	1,210	1,279	2,079	3,566	3,717	4,296	4,555	4,588	5,076	5,719
Accounts Payable	97	90	140	177	147	211	257	290	302	243
Long-Term Debt	410	405	987	2,138	2,190	2,469	2,572	2,629	2,866	3,132
Shareholder's Equity	573	602	1,046	1,508	1,574	1,768	1,991	2,255	2,301	2,280
D/E Ratio	0.72	0.67	0.94	1.42	1.39	1.40	1.29	1.17	1.13	1.24

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.5%	3.4%	2.1%	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%
Return on Equity	11.5%	10.7%	6.4%	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%
ROIC	6.3%	6.3%	3.5%	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%
Shares Out.	22.0	22.0	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0
Revenue/Share	72.32	50.47	39.12	45.33	45.64	34.70	37.04	39.86	38.43	36.17
FCF/Share	4.49	0.87	1.27	(1.35)	0.75	0.79	(3.19)	(0.87)	(7.33)	(3.28)

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

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