



Spire Inc. (SR)

Updated February 27th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	7.8%	Market Cap:	\$3.4 B
Fair Value Price:	\$62	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	03/10/22
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	04/04/22
Dividend Yield:	4.1%	5 Year Price Target	\$81	Years Of Dividend Growth:	19
Dividend Risk Score:	C	Retirement Suitability Score:	B	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 \$3.4 billion and generated \$2.24 billion in sales in 2021. Spire has been growing its dividends for 19 straight years.

On February 2, 2022, the company reported its Fiscal Year (FY)2022 first-quarter results. The company generated \$555.4 million in revenue for the quarter, up 8.3% compared to the first quarter of FY2021. The increase in revenue year over year was driven by higher usage. For the quarter, net income was lower to \$55.7 million or \$1.01 per diluted share, down from \$88.9 million or \$1.65 per share a year ago. Net Economic Earnings (NEE) on a per-share basis were \$1.14 this year compared to \$1.42 a year ago for the first quarter. Also, the company STL pipeline received a temporary certificate to continue operation through winter.

Management earnings expectations for 2022 will remain unchanged at \$3.70 - \$4.00 per share. We will use \$3.85 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.79	\$2.87	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.86	\$3.85	\$5.03
DPS	\$1.66	\$1.70	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	\$2.74	\$3.50
Shares¹	22.0	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	51.6	52.0

Over the last ten years, Spire has grown Earnings per Share (EPS) at a Compound Annual Growth Rate (CAGR) of 6.4%. However, EPS has grown by over 1.6% over the past five years. 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 \$5.03 in 2027. 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 5.1%. We expect Spire to continue to grow its dividend at a slightly lower rate of 5% over the next five years.

¹ Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.7	15.6	17.2	18.3	18.7	20.9	19.9	22.3	16.3	12.6	17.2	16.0
Avg. Yld.	3.9%	3.8%	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	4.3%	4.1%	4.3%

The company has a current valuation of 17.2x earnings, in-line with its ten-year average. However, a fair PE of 16x earnings is a good base case. Thus, this suggests that the company has a (1.4)% valuation headwind. The current dividend yield is higher than its ten-year average of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

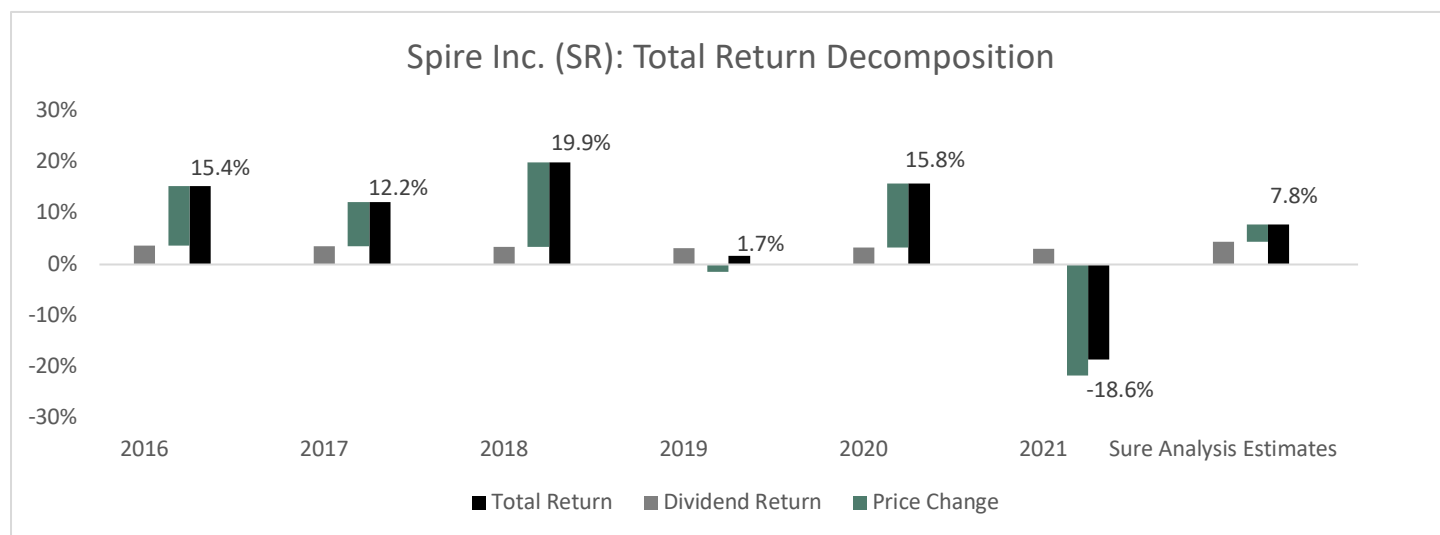
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	59.5%	59.2%	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	53.5%	71%	69%

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 1.7. The company's interest coverage decreases slightly to a ratio of 3.8. But the ratio is still better than 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 is higher than we would like to see for utility companies like Spire.

Final Thoughts & Recommendation

The company is safe to invest in, as most utility companies are. However, SR is slightly overvalued at the current price relative to our fair price estimate of \$62. Thus, we see a 5-year projected annual return of 7.8%. This return will come from the 4.1% dividend yield and the 5.5% earnings growth. Thus, we rate Spire as a Hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,126	1,017	1,627	1,976	1,537	1,741	1,965	1,952	1,855	2,236
Gross Profit	205	205	361	545	544	632	616	638	701	823
Gross Margin	18.2%	20.1%	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%	36.8%
D&A Exp.	41	49	83	131	138	154	168	182	197	213
Operating Profit	111	97	166	273	282	341	294	302	355	450
Operating Margin	9.8%	9.5%	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%	20.1%
Net Profit	63	53	85	137	144	162	214	185	89	272
Net Margin	5.6%	5.2%	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%	12.2%
Free Cash Flow	19	33	-48	33	35	-150	-43	-372	-169	-375
Income Tax	26	18	32	62	70	78	-27	35	12	69

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,880	3,125	5,074	5,290	6,064	6,547	6,844	7,619	8,241	9,356
Cash & Equivalents	27	53	16	14	5	7	4	6	4	4
Accounts Receivable	115	101	148	138	128	141	152	140	132	338
Inventories	106	199	270	215	202	226	210	197	192	305
Goodwill & Int. Ass.	0	247	938	946	1,165	1,172	1,172	1,172	1,172	1,172
Total Liabilities	1,279	2,079	3,566	3,717	4,296	4,555	4,588	5,076	5,719	6,698
Accounts Payable	90	140	177	147	211	257	290	302	243	410
Long-Term Debt	405	987	2,138	2,190	2,469	2,572	2,629	2,866	3,132	3,667
Shareholder's Equity	602	1,046	1,508	1,574	1,768	1,991	2,255	2,301	2,280	2,416
D/E Ratio	0.67	0.94	1.42	1.39	1.40	1.29	1.17	1.13	1.24	1.38

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.4%	2.1%	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%	3.1%
Return on Equity	10.7%	6.4%	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%	11.6%
ROIC	6.3%	3.5%	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%	4.5%
Shares Out.	22.0	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7
Revenue/Share	50.47	39.12	45.33	45.64	34.70	37.04	39.86	38.43	36.17	43.24
FCF/Share	0.87	1.27	-1.35	0.75	0.79	-3.19	-0.87	-7.33	-3.28	-7.25

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

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