



# Spire Inc. (SR)

Updated May 15<sup>th</sup>, 2022 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$75	<b>5 Year CAGR Estimate:</b>	5.5%	<b>Market Cap:</b>	\$3.87 B
<b>Fair Value Price:</b>	\$62	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	06/09/22
<b>% Fair Value:</b>	120%	<b>5 Year Valuation Multiple Estimate:</b>	-3.5%	<b>Dividend Payment Date:</b>	07/05/22
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$81	<b>Years Of Dividend Growth:</b>	19
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 \$3.87 billion and generated \$2.24 billion in sales in 2021. Spire has been growing its dividends for 19 straight years.

On May 6, 2022, the company reported its Fiscal Year (FY)2022 second quarter and six months results. The company ends its Fiscal Year at the end of every September. The company generated \$880.9 million in revenue for the quarter, down (20.2)% compared to the second quarter of FY2021. This was due to lower usage due to warmer weather. The gas utility segment saw a contribution margin increase of \$17.7 million from the prior year, reflecting new rates effective in late calendar 2021 for Spire Missouri and Spire Alabama.

For the quarter, net income was lower to \$173.6 million or \$3.27 per diluted share, down from \$187.4 million or \$3.55 per share a year ago. Net Economic Earnings (NEE) on a per-share basis were \$3.42 for the quarter compared to \$3.71 a year ago for the second quarter.

For the first six months of the fiscal year, earnings are down (17.7)% from \$5.20 per share for the first six months of FY2021 to \$4.28 per share.

Management earnings expectations for 2022 is \$3.75 - \$3.95 per share. We will use \$3.89 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's gas utilities.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.79	\$2.87	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.86	<b>\$3.89</b>	<b>\$5.08</b>
<b>DPS</b>	\$1.66	\$1.70	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	<b>\$2.74</b>	<b>\$3.50</b>
<b>Shares<sup>1</sup></b>	22.0	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	<b>51.6</b>	<b>52.0</b>

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 1.8% 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 \$5.08 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

<sup>1</sup> Share count is in millions.

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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.

## 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	19.2	16.0
Avg. Yld.	3.9%	3.8%	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	4.3%	3.7%	4.3%

The company has a current valuation of 19.2x earnings, higher than its ten-year average. However, a fair PE of 16x earnings is a good base case. Thus, this suggests that the company has a (3.5)% valuation headwind. The current dividend yield is higher than its ten-year average of 3.5%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

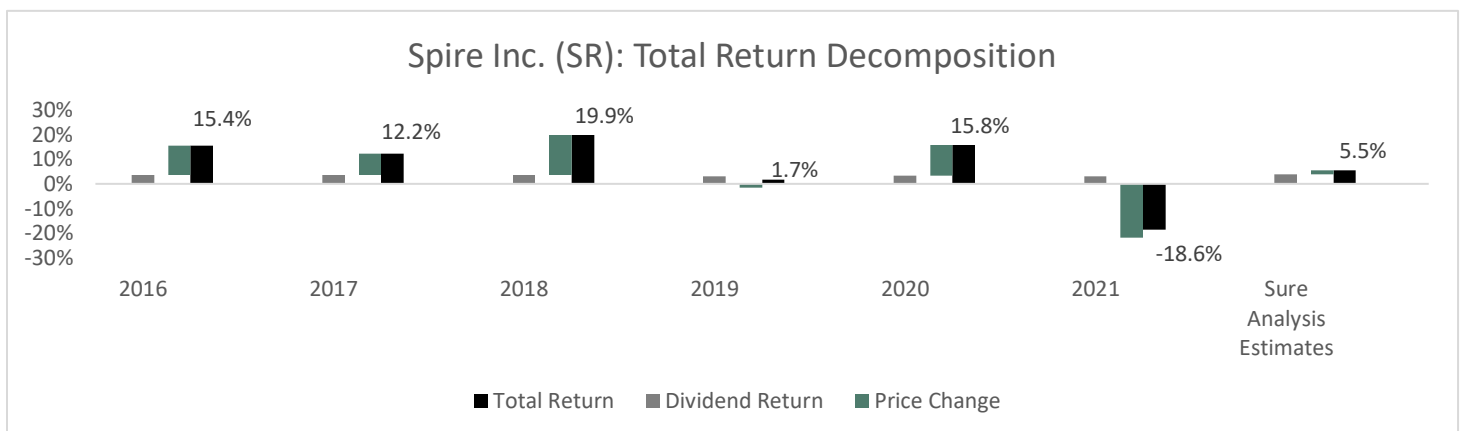
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	59.5%	59.2%	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	53.5%	70%	69%

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 payment that year. 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. However, the current 70% 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 overvalued at the current price relative to our fair price estimate of \$62. Thus, we see a 5-year projected annual return of 5.5%. This return will come from the 3.7% 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
<b>Revenue</b>	1,126	1,017	1,627	1,976	1,537	1,741	1,965	1,952	1,855	2,236
<b>Gross Profit</b>	205	205	361	545	544	632	616	638	701	823
<b>Gross Margin</b>	18.2%	20.1%	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%	36.8%
<b>D&amp;A Exp.</b>	41	49	83	131	138	154	168	182	197	213
<b>Operating Profit</b>	111	97	166	273	282	341	294	302	355	450
<b>Operating Margin</b>	9.8%	9.5%	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%	20.1%
<b>Net Profit</b>	63	53	85	137	144	162	214	185	89	272
<b>Net Margin</b>	5.6%	5.2%	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%	12.2%
<b>Free Cash Flow</b>	19	33	-48	33	35	-150	-43	-372	-169	-375
<b>Income Tax</b>	26	18	32	62	70	78	-27	35	12	69

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1,880	3,125	5,074	5,290	6,064	6,547	6,844	7,619	8,241	9,356
<b>Cash &amp; Equivalents</b>	27	53	16	14	5	7	4	6	4	4
<b>Accounts Receivable</b>	115	101	148	138	128	141	152	140	132	338
<b>Inventories</b>	106	199	270	215	202	226	210	197	192	305
<b>Goodwill &amp; Int. Ass.</b>	0	247	938	946	1,165	1,172	1,172	1,172	1,172	1,172
<b>Total Liabilities</b>	1,279	2,079	3,566	3,717	4,296	4,555	4,588	5,076	5,719	6,698
<b>Accounts Payable</b>	90	140	177	147	211	257	290	302	243	410
<b>Long-Term Debt</b>	405	987	2,138	2,190	2,469	2,572	2,629	2,866	3,132	3,667
<b>Shareholder's Equity</b>	602	1,046	1,508	1,574	1,768	1,991	2,255	2,301	2,280	2,416
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	3.4%	2.1%	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%	3.1%
<b>Return on Equity</b>	10.7%	6.4%	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%	11.6%
<b>ROIC</b>	6.3%	3.5%	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%	4.5%
<b>Shares Out.</b>	22.0	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7
<b>Revenue/Share</b>	50.47	39.12	45.33	45.64	34.70	37.04	39.86	38.43	36.17	43.24
<b>FCF/Share</b>	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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