



# Spire Inc. (SR)

Updated May 14<sup>th</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$69	<b>5 Year CAGR Estimate:</b>	8.9%	<b>Market Cap:</b>	\$3.63 B
<b>Fair Value Price:</b>	\$68	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	06/09/23
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	07/05/23
<b>Dividend Yield:</b>	4.2%	<b>5 Year Price Target</b>	\$89	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	B	<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 \$3.63 billion and generated \$2.2 billion in sales in Fiscal Year (FY)2022. Spire has been growing its dividends for 20 straight years.

On May 3<sup>rd</sup>, 2023, the company reported its FY2023 second quarter results. The company ends its Fiscal Year at the end of every September. For the quarter, the company generated \$1,123 million in revenue, up 27.5% compared to the second quarter of FY2022. This was due to higher rates in Spire Missouri and new rates in Spire Alabama. The company reported consolidated net income of \$179.2 million or \$3.33 per diluted share, compared to prior year net income of \$173.6 million or \$3.27 per share. Net economic earnings (NEE) were \$199.2 million (\$3.70 per share), up from \$181 million (\$3.42 per share) last year, as Gas Marketing delivered strong results that were partially offset by lower earnings from its Gas Utility operations. The company achieved better performance in the second quarter as a result of the strong performance of its gas marketing and midstream operations, along with increased earnings from its gas utilities. This was achieved despite warm winter weather, which can typically have a negative impact on its business.

We will use \$4.26 for our fair value and total return calculations as we expect the company to bounce back its earnings per shares. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.87	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.86	\$3.86	<b>\$4.26</b>	<b>\$5.57</b>
<b>DPS</b>	\$1.70	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	\$2.74	<b>\$2.88</b>	<b>\$3.68</b>
<b>Shares<sup>1</sup></b>	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1	<b>52.1</b>	<b>52.1</b>

Over the last ten years, Spire has grown Earnings per Share (EPS) at a Compound Annual Growth Rate (CAGR) of 3.3%. However, EPS has grown by over 2.7% 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 \$5.57 in 2028. 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 5.4%. We expect Spire to continue to grow its dividend at a slightly lower rate of 5% over the next five years.

<sup>1</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.6	17.2	18.3	18.7	20.9	19.9	22.3	16.3	12.6	16.2	<b>16.2</b>	<b>16.0</b>
Avg. Yld.	3.8%	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	4.3%	4.4%	<b>4.2%</b>	<b>4.1%</b>

The company has a current valuation of 16.2x earnings, slightly lower 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 (0.3)% valuation headwind. The current dividend yield is higher than its ten-year average of 3.8%.

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

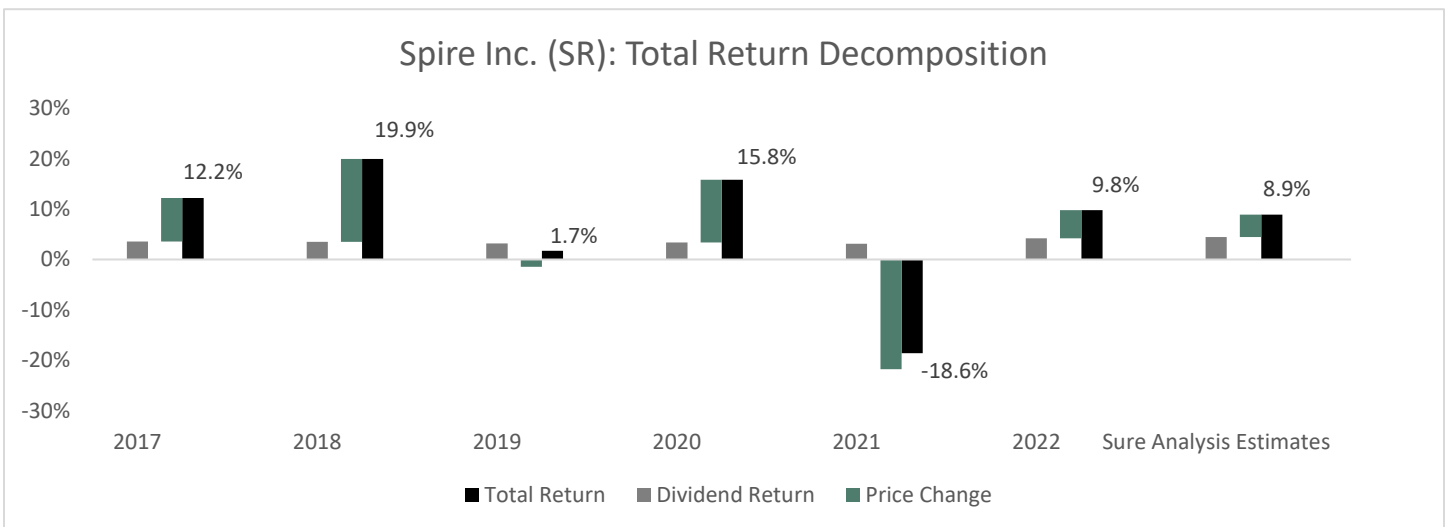
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	59.2%	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	53.5%	71.0%	<b>68%</b>	<b>66%</b>

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 3.1. 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 68% dividend payout ratio is higher than we would like to see for utility companies like Spire.

## Final Thoughts & Recommendation

The company is a safe investment, as most utility companies are. However, SR is overvalued at the current price relative to our fair price estimate of \$68. Thus, we see a 5-year projected annual return of 8.9%. This return will come from the 4.2% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,017	1,627	1,976	1,537	1,741	1,965	1,952	1,855	2,236	2,199
<b>Gross Profit</b>	205	361	545	544	632	616	638	701	823	825
<b>Gross Margin</b>	20.1%	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%	36.8%	37.5%
<b>D&amp;A Exp.</b>	49	83	131	138	154	168	182	197	213	237
<b>Operating Profit</b>	97	166	273	282	341	294	302	355	450	408
<b>Operating Margin</b>	9.5%	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%	20.1%	18.6%
<b>Net Profit</b>	53	85	137	144	162	214	185	89	272	221
<b>Net Margin</b>	5.2%	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%	12.2%	10.0%
<b>Free Cash Flow</b>	33	-48	33	35	-150	-43	-372	-169	-375	-497
<b>Income Tax</b>	18	32	62	70	78	-27	35	12	69	59

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	3,125	5,074	5,290	6,064	6,547	6,844	7,619	8,241	9,356	10,084
<b>Cash &amp; Equivalents</b>	53	16	14	5	7	4	6	4	4	7
<b>Accounts Receivable</b>	101	148	138	128	141	152	140	132	338	211
<b>Inventories</b>	199	270	215	202	226	210	197	192	305	422
<b>Goodwill &amp; Int. Ass.</b>	247	938	946	1,165	1,172	1,172	1,172	1,172	1,172	1,172
<b>Total Liabilities</b>	2,079	3,566	3,717	4,296	4,555	4,588	5,076	5,719	6,698	7,252
<b>Accounts Payable</b>	140	177	147	211	257	290	302	243	410	617
<b>Long-Term Debt</b>	987	2,138	2,190	2,469	2,572	2,629	2,866	3,132	3,667	4,277
<b>Shareholder's Equity</b>	1,046	1,508	1,574	1,768	1,991	2,255	2,301	2,280	2,416	2,577
<b>D/E Ratio</b>	0.94	1.42	1.39	1.40	1.29	1.17	1.13	1.24	1.38	1.52

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	2.1%	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%	3.1%	2.3%
<b>Return on Equity</b>	6.4%	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%	11.6%	8.8%
<b>ROIC</b>	3.5%	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%	4.5%	3.3%
<b>Shares Out.</b>	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1
<b>Revenue/Share</b>	39.12	45.33	45.64	34.70	37.04	39.86	38.43	36.17	43.24	42.20
<b>FCF/Share</b>	1.27	-1.35	0.75	0.79	-3.19	-0.87	-7.33	-3.28	-7.25	-9.54

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

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