



Spire Inc. (SR)

Updated August 13th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	11.8%	Market Cap:	\$3.16 B
Fair Value Price:	\$68	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	09/08/23
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	11/03/23
Dividend Yield:	4.8%	5 Year Price Target	\$88	Years Of Dividend Growth:	20
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

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 \$3.16 billion and generated \$2.2 billion in sales in Fiscal Year (FY)2022. Spire has been growing its dividends for 20 straight years.

On August 2nd, 2023, the company reported its FY2023 third quarter results. The quarter saw a net loss of \$21.6 million, or (\$0.48) per diluted share, in contrast to a net loss of \$1.4 million, or (\$0.10) per share, in the prior year. Similarly, on a net economic earnings (NEE) basis, the quarter experienced a loss of \$18.6 million, or (\$0.42) per share, a decline from the earnings of \$4.1 million, or \$0.01 per share, reported a year earlier. As a result of these developments, the fiscal 2023 net economic earnings guidance has been revised to a range of \$4.15 to \$4.25 per share. An in-depth breakdown of the third-quarter results highlights specific segments' performances. In the Gas Utility segment, there was a reported loss of (\$12.3) million, while Gas Marketing incurred a loss of (\$2.5) million. The Midstream segment demonstrated positive momentum, generating \$3.6 million in earnings, whereas the Other segment faced challenges, reflecting a loss of (\$7.4) million. Consequently, the cumulative net economic earnings for these segments totaled a loss of (\$18.6) million, further impacted by pre-tax adjustments and income tax modifications.

For the broader context of the fiscal year, the company's report emphasizes that Spire Inc. reported consolidated net income of \$248.6 million (\$4.51 per diluted share) over the nine-month period ending June 30, representing an increase from the prior year's figure of \$227.9 million (\$4.16 per share). Additionally, NEE for this same period registered at \$265.7 million (\$4.83 per share), showcasing a rise from \$247.7 million (\$4.54 per share) in the previous year. The growth was notably fueled by the commendable performance of Spire Marketing during the first half of the fiscal year, which considerably contributed to the overall positive trajectory of the company's financial results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.87	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.86	\$3.86	\$4.22	\$5.52
DPS	\$1.70	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	\$2.74	\$2.88	\$3.68
Shares¹	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1	52.1	52.1

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 2.6% over the past five years. We expect Spire will grow earnings for the next five years

¹ Share count is in millions.

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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.

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	14.2	16.0
Avg. Yld.	3.8%	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	4.3%	4.4%	4.8%	4.2%

The company has a current valuation of 14.2x earnings, 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 2.4% valuation tailwind. The current dividend yield is higher than its ten-year average of 3.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

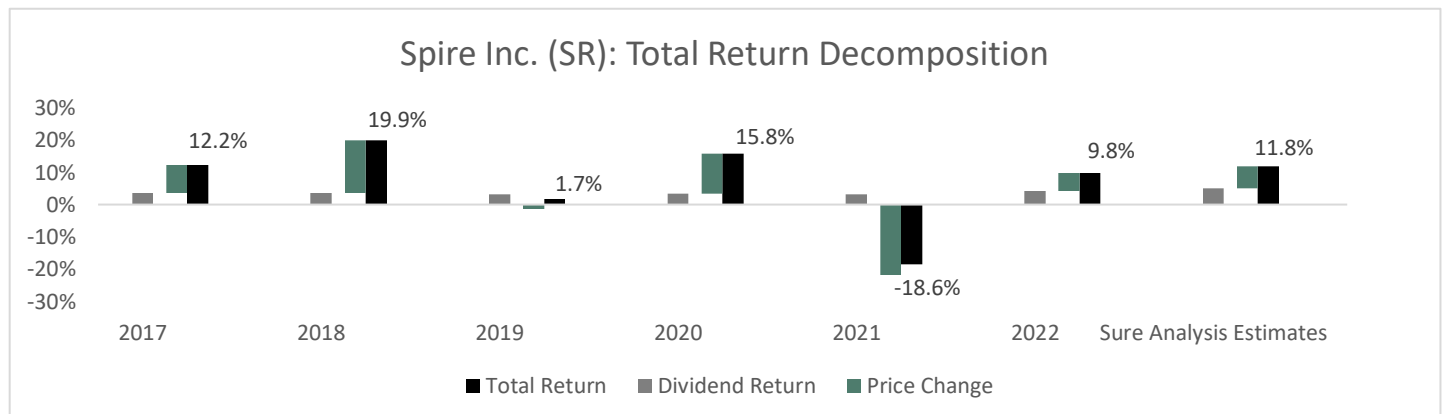
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	59.2%	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	53.5%	71.0%	68%	67%

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 undervalued at the current price relative to our fair price estimate of \$68. Thus, we see a 5-year projected annual return of 11.8%. This return will come from the 4.8% dividend yield and the 5.5% earnings growth. Thus, we rate Spire as a buy 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
Revenue	1,017	1,627	1,976	1,537	1,741	1,965	1,952	1,855	2,236	2,199
Gross Profit	205	361	545	544	632	616	638	701	823	825
Gross Margin	20.1%	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%	36.8%	37.5%
D&A Exp.	49	83	131	138	154	168	182	197	213	237
Operating Profit	97	166	273	282	341	294	302	355	450	408
Operating Margin	9.5%	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%	20.1%	18.6%
Net Profit	53	85	137	144	162	214	185	89	272	221
Net Margin	5.2%	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%	12.2%	10.0%
Free Cash Flow	33	-48	33	35	-150	-43	-372	-169	-375	-497
Income Tax	18	32	62	70	78	-27	35	12	69	59

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,125	5,074	5,290	6,064	6,547	6,844	7,619	8,241	9,356	10,084
Cash & Equivalents	53	16	14	5	7	4	6	4	4	7
Accounts Receivable	101	148	138	128	141	152	140	132	338	211
Inventories	199	270	215	202	226	210	197	192	305	422
Goodwill & Int. Ass.	247	938	946	1,165	1,172	1,172	1,172	1,172	1,172	1,172
Total Liabilities	2,079	3,566	3,717	4,296	4,555	4,588	5,076	5,719	6,698	7,252
Accounts Payable	140	177	147	211	257	290	302	243	410	617
Long-Term Debt	987	2,138	2,190	2,469	2,572	2,629	2,866	3,132	3,667	4,277
Shareholder's Equity	1,046	1,508	1,574	1,768	1,991	2,255	2,301	2,280	2,416	2,577
D/E Ratio	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
Return on Assets	2.1%	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%	3.1%	2.3%
Return on Equity	6.4%	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%	11.6%	8.8%
ROIC	3.5%	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%	4.5%	3.3%
Shares Out.	26.0	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1
Revenue/Share	39.12	45.33	45.64	34.70	37.04	39.86	38.43	36.17	43.24	42.20
FCF/Share	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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