



# Spire Inc. (SR)

Updated February 10<sup>th</sup>, 2024 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$58	<b>5 Year CAGR Estimate:</b>	13.2%	<b>Market Cap:</b>	\$3.2 B
<b>Fair Value Price:</b>	\$70	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	03/08/24
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.6%	<b>Dividend Payment Date:</b>	04/02/24
<b>Dividend Yield:</b>	5.2%	<b>5 Year Price Target</b>	\$91	<b>Years Of Dividend Growth:</b>	21
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$3.2 billion and generated \$2.7 billion in sales in Fiscal Year (FY)2023. Spire has been growing its dividends for 21 straight years.

On February 1<sup>th</sup>, 2024, the company reported its FY2024 first quarter results. The company reported a net income of \$85.1 million, or \$1.52 per share, compared to the prior year's \$91.0 million, or \$1.66 per share. Net economic earnings (NEE) amounted to \$82.7 million, or \$1.47 per share, in contrast to \$85.1 million, or \$1.55 per share, a year ago. The company affirmed its NEE expectation for fiscal year 2024 to be in the range of \$4.25–\$4.45 per share.

Spire's president and CEO, Steve Lindsey, attributed the positive results to solid operational and financial performance, driven by growth in the Gas Utility segment. Despite extreme weather conditions, Spire's dedicated workforce ensured the delivery of safe, reliable, and affordable energy to customers. Lindsey highlighted the company's focus on executing its growth strategy, emphasizing operational excellence, and strengthening reliability through key leadership appointments and strategic acquisitions.

The financial breakdown for the first quarter revealed growth in the Gas Utility segment, offset by a return to more normal market conditions for the Gas Marketing and Midstream segments compared to the previous year. Spire provided guidance for fiscal year 2024, projecting NEE to be in the range of \$4.25–\$4.45 per share. The company expressed confidence in its ability to achieve long-term NEE per share growth of 5–7%, driven by an expected annual utility rate base growth of 7–8%, supported by a robust capital investment plan totaling \$7.2 billion through fiscal year 2033, with \$765 million earmarked for fiscal year 2024.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.86	\$3.86	\$4.05	<b>\$4.35</b>	<b>\$5.69</b>
<b>DPS</b>	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	\$2.74	\$2.88	<b>\$3.02</b>	<b>\$3.85</b>
<b>Shares<sup>1</sup></b>	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1	52.6	<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 3.2%. However, EPS has grown by over 3.1% 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 \$5.69 in 2029. Most of this growth will come from a growing

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

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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 5.6%. We expect Spire to continue to grow its dividend at a slightly lower rate of 5% over the next five years. The most recent increase was 4.9% that was announced on November 13<sup>th</sup> 2023.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.2	18.3	18.7	20.9	19.9	22.3	16.3	12.6	16.2	13.9	13.4	16.0
Avg. Yld.	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	4.3%	4.4%	5.1%	5.2%	4.2%

The company has a current valuation of 13.4x 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 3.6% valuation tailwind. The current dividend yield is higher than its ten-year average of 3.8%.

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

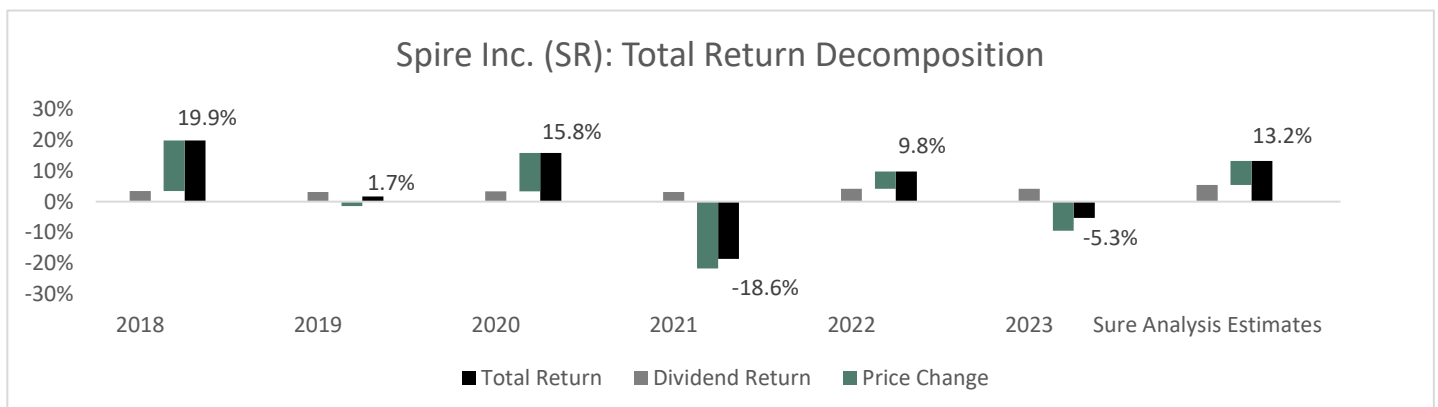
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	53.5%	71.0%	71.1%	69%	68%

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 69% 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 2.4. 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 69% 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 \$70. Thus, we see a 5-year projected annual return of 13.2%. This return will come from the 5.2% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	1,627	1,976	1,537	1,741	1,965	1,952	1,855	2,236	2,199	2,666
<b>Gross Profit</b>	361	545	544	632	616	638	701	823	825	888
<b>Gross Margin</b>	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%	36.8%	37.5%	33.3%
<b>D&amp;A Exp.</b>	83	131	138	154	168	182	197	213	237	255
<b>Operating Profit</b>	166	273	282	341	294	302	355	450	408	419
<b>Operating Margin</b>	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%	20.1%	18.6%	15.7%
<b>Net Profit</b>	85	137	144	162	214	185	89	272	221	218
<b>Net Margin</b>	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%	12.2%	10.0%	8.2%
<b>Free Cash Flow</b>	-48	33	35	-150	-43	-372	-169	-375	-497	-222
<b>Income Tax</b>	32	62	70	78	-27	35	12	69	59	39

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	5,074	5,290	6,064	6,547	6,844	7,619	8,241	9,356	10,084	10,310
<b>Cash &amp; Equivalents</b>	16	14	5	7	4	6	4	4	7	6
<b>Accounts Receivable</b>	148	138	128	141	152	140	132	338	211	192
<b>Inventories</b>	270	215	202	226	210	197	192	305	422	280
<b>Goodwill &amp; Int. Ass.</b>	938	946	1,165	1,172	1,172	1,172	1,172	1,172	1,172	1,172
<b>Total Liabilities</b>	3,566	3,717	4,296	4,555	4,588	5,076	5,719	6,698	7,252	7,396
<b>Accounts Payable</b>	177	147	211	257	290	302	243	410	617	253
<b>Long-Term Debt</b>	2,138	2,190	2,469	2,572	2,629	2,866	3,132	3,667	4,277	4,666
<b>Shareholder's Equity</b>	1,508	1,574	1,768	1,991	2,255	2,301	2,280	2,416	2,577	2,675
<b>D/E Ratio</b>	1.42	1.39	1.40	1.29	1.17	1.13	1.24	1.38	1.52	1.60

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%	3.1%	2.3%	2.1%
<b>Return on Equity</b>	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%	11.6%	8.8%	8.3%
<b>ROIC</b>	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%	4.5%	3.3%	3.0%
<b>Shares Out.</b>	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1	52.6
<b>Revenue/Share</b>	45.33	45.64	34.70	37.04	39.86	38.43	36.17	43.24	42.20	50.69
<b>FCF/Share</b>	-1.35	0.75	0.79	-3.19	-0.87	-7.33	-3.28	-7.25	-9.54	-4.23

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

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