



Spire Inc. (SR)

Updated August 9th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	10.5%	Market Cap:	\$3.7 B
Fair Value Price:	\$67	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	09/11/24
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	10/02/24
Dividend Yield:	4.7%	5 Year Price Target	\$88	Years Of Dividend Growth:	21
Dividend Risk Score:	C	Retirement Suitability Score:	NA	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 \$3.7 billion and generated \$2.7 billion in sales in Fiscal Year (FY)2023. Spire has been growing its dividends for 21 straight years.

On July 31st, 2024, the company reported its FY2024 third quarter results. The company reported a net loss of \$12.6 million, or \$0.28 per diluted share, an improvement from the previous year's loss of \$21.6 million, or \$0.48 per share. On a net economic earnings (NEE) basis, the company recorded a loss of \$4.3 million, or \$0.14 per share, compared to a loss of \$18.6 million, or \$0.42 per share, in the same quarter last year. Spire has adjusted its fiscal 2024 net economic earnings guidance to a range of \$4.15 to \$4.25 per share, down from the previous \$4.25 to \$4.45 per share.

During the third quarter, Spire's Gas Utility segment showed improved results with a net economic loss of \$11.0 million, compared to a loss of \$12.3 million in the prior year, supported by new rates but partially offset by higher depreciation and bad debt expenses. The Gas Marketing segment turned around with earnings of \$1.0 million, up from a \$2.5 million loss last year, due to better transportation margins. The Midstream segment significantly improved, with earnings of \$13.9 million, driven by increased storage capacity and new contracts at higher rates, alongside contributions from recent acquisitions.

Spire also launched a customer affordability initiative aimed at reducing overall costs and enhancing operational efficiency, with benefits expected to materialize primarily in 2025 and 2026. Despite these efforts, the company lowered its fiscal 2024 NEE guidance due to ongoing challenges, including higher interest expenses and impacts from a warmer winter. Spire remains committed to its long-term growth strategy, supported by a \$7.3 billion capital investment plan over the next decade, with an increased focus on infrastructure upgrades and advanced meter deployment.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.05	\$3.19	\$3.42	\$3.56	\$3.72	\$3.73	\$3.76	\$4.86	\$3.86	\$4.05	\$4.20	\$5.49
DPS	\$1.76	\$1.84	\$1.96	\$2.10	\$2.25	\$2.37	\$2.49	\$2.60	\$2.74	\$2.88	\$3.02	\$3.85
Shares¹	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1	52.6	55.7	55.7

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 2.4% 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 \$5.49 in 2029. 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 5.6%. 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 13th 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	15.2	16.0
Avg. Yld.	3.8%	3.4%	3.1%	2.8%	3.1%	2.7%	4.7%	4.3%	4.4%	5.1%	4.7%	4.4%

The company has a current valuation of 15.2x 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 1.0% valuation tailwind. The current dividend yield is higher than its ten-year average of 3.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

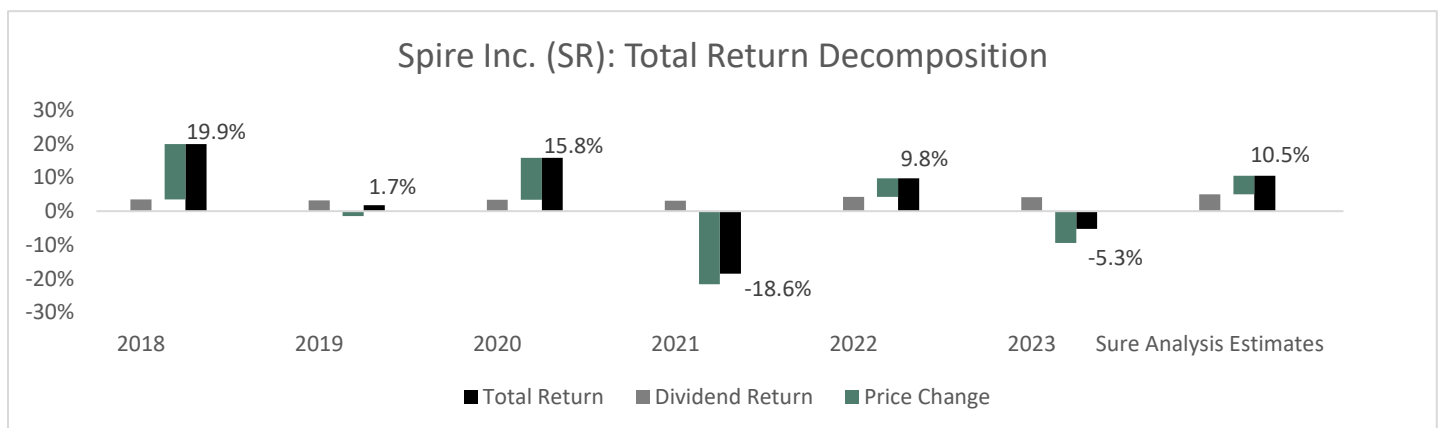
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	57.7%	57.7%	57.3%	59.0%	60.5%	63.5%	66.2%	53.5%	71.0%	71.1%	72%	70%

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 1.5. The company's interest coverage increase slightly to a ratio of 2.5. 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 a safe investment, as most utility companies are. However, SR is undervalued at the current price relative to our fair price estimate of \$67. Thus, we see a 5-year projected annual return of 10.5%. This return will come from the 4.7% 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
Revenue	1,627	1,976	1,537	1,741	1,965	1,952	1,855	2,236	2,199	2,666
Gross Profit	361	545	544	632	616	638	701	823	825	888
Gross Margin	22.2%	27.6%	35.4%	36.3%	31.3%	32.7%	37.8%	36.8%	37.5%	33.3%
D&A Exp.	83	131	138	154	168	182	197	213	237	255
Operating Profit	166	273	282	341	294	302	355	450	408	419
Operating Margin	10.2%	13.8%	18.4%	19.6%	15.0%	15.5%	19.1%	20.1%	18.6%	15.7%
Net Profit	85	137	144	162	214	185	89	272	221	218
Net Margin	5.2%	6.9%	9.4%	9.3%	10.9%	9.5%	4.8%	12.2%	10.0%	8.2%
Free Cash Flow	-48	33	35	-150	-43	-372	-169	-375	-497	-222
Income Tax	32	62	70	78	-27	35	12	69	59	39

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,074	5,290	6,064	6,547	6,844	7,619	8,241	9,356	10,084	10,310
Cash & Equivalents	16	14	5	7	4	6	4	4	7	6
Accounts Receivable	148	138	128	141	152	140	132	338	211	192
Inventories	270	215	202	226	210	197	192	305	422	280
Goodwill & Int. Ass.	938	946	1,165	1,172	1,172	1,172	1,172	1,172	1,172	1,172
Total Liabilities	3,566	3,717	4,296	4,555	4,588	5,076	5,719	6,698	7,252	7,396
Accounts Payable	177	147	211	257	290	302	243	410	617	253
Long-Term Debt	2,138	2,190	2,469	2,572	2,629	2,866	3,132	3,667	4,277	4,666
Shareholder's Equity	1,508	1,574	1,768	1,991	2,255	2,301	2,280	2,416	2,577	2,675
D/E Ratio	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
Return on Assets	2.1%	2.6%	2.5%	2.6%	3.2%	2.6%	1.1%	3.1%	2.3%	2.1%
Return on Equity	6.6%	8.9%	8.6%	8.6%	10.1%	8.1%	3.9%	11.6%	8.8%	8.3%
ROIC	3.0%	3.7%	3.6%	3.7%	4.5%	3.6%	1.6%	4.5%	3.3%	3.0%
Shares Out.	35.0	43.0	44.0	47.0	49.0	50.0	51.0	51.7	52.1	52.6
Revenue/Share	45.33	45.64	34.70	37.04	39.86	38.43	36.17	43.24	42.20	50.69
FCF/Share	-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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