

**Spire Inc. (SR)**

DECREASE TARGET PRICE

Rating **NEUTRAL**  
 Price (01-Feb-18, US\$) 63.20  
 Target price (US\$) (from 70.00) 66.00  
 52-week price range (US\$) 82.25 - 62.60  
 Market cap(US\$ m) 3,052  
 Target price is for 12 months.

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Missouri Public Service Commission

**Another Step Backward for Missouri**

- **Missouri regulators poised to impute parent debt on eve of decision.** With a final decision expected in mid-Feb for the Missouri ratecases, regulator deliberations point toward adoption of the Staff position for a 49% consolidated equity ratio rather than SR's proposed continued use of operating company structure at a 54% equity ratio. We are reducing our estimates -\$0.21 to account for a lower equity ratio as well as half of a potential -\$0.08 hit for parent interest under the lower tax rate (assumes mitigation). A separate proceeding is underway to consider the passthrough of tax benefits to customers, with a hearing on Feb 5<sup>th</sup>. In our opinion, the drive to reduce financing cost reimbursement would appear to overlook ringfencing provisions and \$210M of unrecoverable goodwill taken on by investors in the pursuit of cost savings and cross-border efficiencies that also benefit customers.
- **SB 730 could turn the tide.** The proposed legislation has passed committee in the state Senate and could bring a more favorable Rate Stabilization methodology to gas regulation in Missouri. The company already operates successfully under this form of regulation in Alabama and a similar Alternative Rate Plan in Mississippi.
- **Equity issuances expected for STL Pipeline.** SR continues to plan for equity issuances over the next 4-5 years, mostly to help fund the \$190M-\$210M STL Pipeline, which is on track for mid-FY-19 in-service. The company also continues to consider additional midstream opportunities in Missouri and Alabama. A capital plan update and 2018 guidance are expected in after the ratecase with the 2Q earnings call.
- **Valuation.** We are reducing our estimates \$0.21 and TP \$4, to \$66, to reflect a lower outcome in the Missouri ratecase. Reiterate Neutral with 4.4% upside (plus 3% yield) after the \$6 drop since PSC deliberations on Tuesday. Risks to our call include regulatory and legislative risk.

Share price performance



On 01-Feb-2018 the S&P 500 INDEX closed at 2821.98  
 Daily Feb02, 2017 - Feb01, 2018, 02/02/17 = US\$63.29

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	1.04	2.39	0.45	-0.22
2018E	1.19	2.42	0.41	-0.42
2019E	-	-	-	-

Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (CS adj.) (US\$)	3.57	3.61	3.68	3.86
Prev. EPS (US\$)	-	3.72	3.89	4.07
P/E (x)	17.7	17.5	17.2	16.4
P/E rel. (%)	73.6	80.6	91.7	96.5
EBITDA (US\$ m)	485	480	498	530
EV/EBITDA (current)	11.6	11.7	11.3	10.6
Net debt (US\$ m)	2,565	2,913	3,163	3,316
FFO/Interest	3.6	3.4	3.2	3.1
FFO/Total Debt	0.12	0.11	0.11	0.11
Number of shares (m)	48	BV/Share (Next Qtr., US\$)		43
Net debt (Next Qtr., US\$ m)	2,712	Dividend (current, US\$)		2.2
Net debt/tot eq (Next Qtr., %)	130.0	Dividend yield (%)		3.34

Source: Company data, Thomson Reuters, Credit Suisse estimates

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