

Industry Update — November 4, 2021

Utilities

Utility and Infrastructure Daily

Comments on SR

Our Call

Quick thoughts from Wells Fargo Securities, LLC Utility & Infrastructure Team:

Utilities

Spire, Inc. (SR/Equal Weight) (Akers) — On 11/3 (during market hours), the Missouri PSC provided clarification on the correct short-term debt adjustments to Spire MO's capital structure, which appear to support an equity ratio of 50.5%. This represents a 20 cent EPS delta relative to the company and Staff position of 54.28%. Separately, the PSC ordered that the company stop capitalizing future non-operational overhead costs. It is our understanding that this would result in those costs flowing instead through O&M, which presents an unquantified EPS risk assuming the costs cannot be deferred. This may be more of a temporary issue should the Staff audit ultimately support the capitalization of the costs, but it contributes to further downside risk heading into the '22 guidance update. Aside from the near-term earnings risk associated with the clarifications, we note that the confusion at the end of the case and the ultimate adoption of an equity ratio that is nearly 3% below the Staff recommendation likely serves to undermine investors' confidence in the MO regulatory environment.

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This document is for adam.woodard@spireenergy.com and should not be distributed further.

Industry Update

Acronyms

PSC - Public Service Commission

Spire Inc. (SR/\$3.5B Market Cap) 11/3/21 closing price: \$63.18

Source: FactSet, Wells Fargo Securities, LLC

Price Target Basis and Risk

Price Target for SR: \$78.00

Our \$78/sh price target is primarily based on our P/E multiple analysis (16.5X on our '23E EPS - multiple reflects a 7-9% discount to the '22 Gas LDC peer group median of 18X given below-average credit metrics and non-utility exposure).

Risk for SR

Key downside risks include negative regulatory developments (pending MO rate case), unfavorable market dynamics in the company's gas marketing business, and safety/incident risks inherent in storing and delivering a combustible fuel. Upside risks include meaningful growth at the gas marketing operations (including cash flow generation to offset equity needs), better-than-expected regulatory outcomes and additional infrastructure growth opportunities (acceleration of pipe replacement programs and/or new redundancy/supply diversity projects).

Investment Thesis

SR

We like SR's 10+ year gas pipe replacement inventory and timely recovery of investments, along with other gas infrastructure investment opportunities. Our Equal Weight rating primarily reflects valuation considerations.

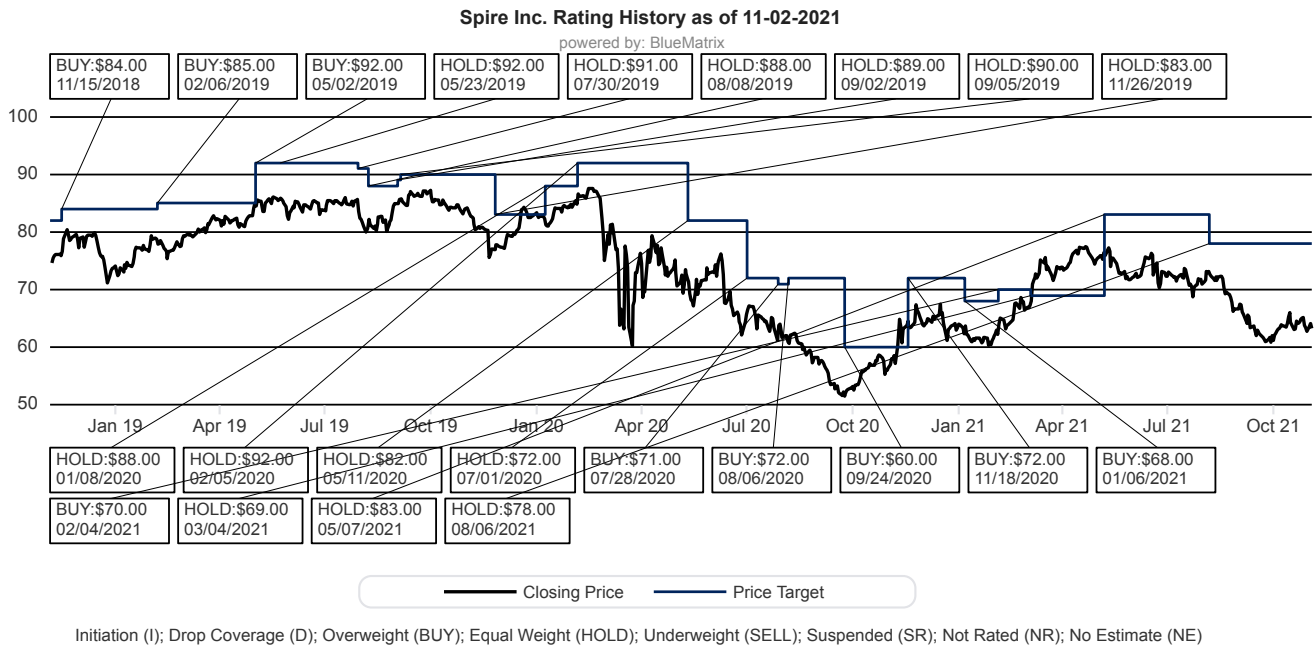
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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

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3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of November 3, 2021

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