S&P Global Ratings

RatingsDirect®

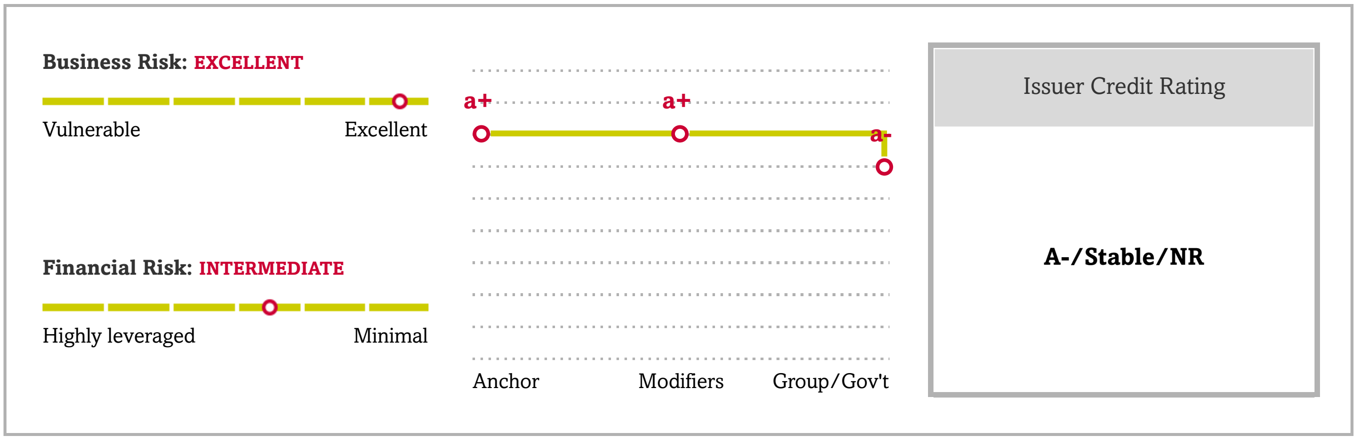
Spire Missouri Inc.

Primary Credit Analyst:
Beverly R Gantt, New York + 1 (212) 438 1696; beverly.gantt@spglobal.com

Secondary Contact:
Matthew L O'Neill, New York (1) 212-438-4295; matthew.oneill@spglobal.com

Table Of Contents

Spire Missouri Inc.



Credit Highlights

Overview

Key Strengths	Key Risks
Lower-risk, rate-regulated natural gas distribution utility.	Lack of geographic and regulatory diversity.
Effective management of regulatory risk through regular rate case filings and regulatory mechanisms.	Robust capital spending.
Mostly residential customer base that provides generally stable cash flows.	

Spire Missouri is a low-risk, regulated distribution utility under a generally constructive regulatory environment. Although the company has limited regulatory and geographical diversification, we view the regulatory environment in Missouri as generally constructive and expect Spire Missouri to continue to effectively manage regulatory risk. The company's credit measures are supported by the Missouri Public Service Commission's (MoPSC's) triennial rate cases and an infrastructure system replacement surcharge, which allows Spire Missouri to recover some costs in between rate cases. In addition, the company is able to earn its return on equity or close to it, supporting our assessment of its excellent business risk profile.

Outlook: Stable

The stable outlook on Spire Missouri reflects that on its parent, Spire Inc. (Spire). We expect that Spire will continue to generate the vast majority of its cash flow from its regulated utility operations and maintain funds from operations (FFO) to debt consistently greater than 15%, even with its unregulated operations growing to greater than 10% of its overall operations. We also expect that both Spire and Spire Missouri will continue to effectively manage regulatory risk.

Downside scenario

We could lower the ratings on Spire Missouri over the next two years if parent Spire's core credit ratios weaken such that FFO to debt is consistently less than 15%, or if the contribution of non-utility operations materially increases such that they contribute at least about 30% of consolidated company revenues.

Upside scenario

We do not anticipate raising the ratings during the outlook period. An upgrade on Spire Missouri would largely depend on parent Spire achieving FFO to debt of more than 20% on a consistent basis or shrinking non-utility operations to consistently less than 10% of the consolidated company.

Our Base-Case Scenario

Assumptions

- Consistent rate increases and the use of existing regulatory mechanisms;
- Modest customer growth;
- Capital expenditure averaging about $320 million annually;
- Dividend payments of about $50 million annually;
- Negative discretionary cash flow; and
- All debt maturities to be refinanced.

Key Metrics

	2019a	2020e	2021e
FFO/debt (%)	17.6	19-21	18.5-20.5
Debt/EBITDA (x)	4.7	6.5-7.0	6.2-6.7

All figures are S&P Global Ratings adjusted. a--Actual. e--Estimate. FFO--Funds from operations.

Company Description

Spire Missouri is a regulated natural gas distribution utility that engages in the purchase, retail distribution, and sale of natural gas. The company also sells heating energy and operates an underground storage facility. Spire Missouri, through Spire Missouri East and Spire Missouri West, serves approximately 1.2 million residential, commercial, and industrial customers in Missouri and has about 30,000 miles of main and related service lines. Spire Missouri is based in St. Louis.

Table 1

Spire Missouri Inc.--Peer Comparison				
Industry sector: Gas				
	Spire Missouri Inc.	**Piedmont Natural Gas Co. Inc.**	**NorthWestern Corp.**	**DTE Gas Co.**
Ratings as of March 20, 2020	A-/Stable/--	A-/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2
	--Fiscal year ended--			
	Sept. 30, 2019	**Dec. 31, 2019**	**Dec. 31, 2019**	**Dec. 31, 2018**
(Mil. $)				
Revenue	1,291.8	1,381.0	1,257.9	1,415.0
EBITDA	301.8	489.0	468.5	429.0
Funds from operations (FFO)	251.1	409.0	378.9	354.0
Interest expense	58.6	115.0	110.4	81.0
Cash interest paid	50.7	111.0	96.3	65.0
Cash flow from operations	312.5	387.0	292.8	338.0
Capital expenditure	355.0	1,027.0	312.1	451.0
Free operating cash flow (FOCF)	(42.5)	(640.0)	(19.3)	(113.0)
Discretionary cash flow (DCF)	(91.0)	(640.0)	(134.4)	(225.0)
Cash and short-term investments	2.6	0.0	5.1	0.0
Debt	1,429.1	2,833.4	2,446.4	1,807.2
Equity	1,339.3	2,443.0	2,039.1	1,668.0
Adjusted ratios				
EBITDA margin (%)	23.4	35.4	37.2	30.3
Return on capital (%)	8.6	6.6	6.6	8.8
EBITDA interest coverage (x)	5.2	4.3	4.2	5.3
FFO cash interest coverage (x)	6.0	4.7	4.9	6.4
Debt/EBITDA (x)	4.7	5.8	5.2	4.2
FFO/debt (%)	17.6	14.4	15.5	19.6
Cash flow from operations/debt (%)	21.9	13.7	12.0	18.7
FOCF/debt (%)	(3.0)	(22.6)	(0.8)	(6.3)
DCF/debt (%)	(6.4)	(22.6)	(5.5)	(12.4)

Business Risk: Excellent

Our assessment of Spire Missouri's business risk reflects the company's lower-risk gas utility operations and its effective management of regulatory risk. Spire Missouri is an above-average-sized utility that serves about 1.2 million natural gas customers throughout Missouri. The majority of the company's customer base is residential, which provides a measure of cash flow stability.

The MoPSC regulates Spire Missouri. We view the regulatory environment in Missouri as generally constructive. The company typically files a general rate case every three years and benefits from the use of an infrastructure system replacement surcharge (ISRS) mechanism, allowing it to recover costs for incremental infrastructure investment in between rate cases, thus reducing regulatory lag and enabling the company to earn close to or at its authorized returns on equity.

Recent court rulings in Missouri determined that some Spire Missouri expenditures previously approved by MoPSC were not eligible for ISRS recovery, thereby disallowing recovery for those expenditures and ordering Spire Missouri to issue refunds to its customers. The company is evaluating its potential legal and regulatory response to the decision. The company has filed a motion for transfer of the appeals court orders to the Missouri Supreme Court. In addition, Missouri legislators voted to approve SB 618, a bill modifying provisions related to the ISRS mechanism, specifically adding language to clarify projects that could be covered under the mechanism and introducing a competitive bidding process for installing and performing ISRS-covered utility projects. Overall, we view the company's management of regulatory risk to be in line with that of peers, and we expect that Spire Missouri will continue to effectively manage regulatory risk.

Financial Risk: Intermediate

We assess Spire Missouri's financial measures using our low-volatility table, reflecting its lower-risk, regulated natural gas distribution operations and its effective management of regulatory risk. Under our base-case scenario, we assume consistent base rate increases, the use of constructive regulatory mechanisms, modest customer growth, capital spending averaging about $320 million annually, and dividend payments averaging about $50 million annually. We expect FFO to debt of about 18%-21% over the forecast period.

Financial summary

Table 2

Spire Missouri Inc.--Financial Summary					
Industry sector: Gas					
	--Fiscal year ended Sept. 30--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. $)					
Revenue	1,291.8	1,285.6	1,171.9	1,087.5	1,416.6
EBITDA	301.8	312.5	311.6	304.0	293.3
Funds from operations (FFO)	251.1	265.8	272.2	270.1	261.3
Interest expense	58.6	54.1	43.5	41.2	41.5
Cash interest paid	50.7	46.7	39.4	36.0	32.7
Cash flow from operations	312.5	284.8	184.2	273.3	280.8
Capital expenditure	355.0	294.9	281.7	197.8	198.6
Free operating cash flow (FOCF)	(42.5)	(10.1)	(97.5)	75.5	82.2
Discretionary cash flow (DCF)	(91.0)	(46.1)	(126.2)	(9.3)	3.5
Cash and short-term investments	2.6	2.0	2.5	2.1	1.7
Gross available cash	2.6	2.0	2.5	2.1	1.7

Table 2

Spire Missouri Inc.--Financial Summary (cont.)					
Industry sector: Gas					
	--Fiscal year ended Sept. 30--				
	2019	**2018**	**2017**	**2016**	**2015**
Debt	1,429.1	1,291.3	1,242.0	1,101.8	1,074.5
Equity	1,339.3	1,259.9	1,171.0	1,068.5	1,037.8
Adjusted ratios					
EBITDA margin (%)	23.4	24.3	26.6	27.9	20.7
Return on capital (%)	8.6	8.2	9.4	9.8	9.6
EBITDA interest coverage (x)	5.2	5.8	7.2	7.4	7.1
FFO cash interest coverage (x)	6.0	6.7	7.9	8.5	9.0
Debt/EBITDA (x)	4.7	4.1	4.0	3.6	3.7
FFO/debt (%)	17.6	20.6	21.9	24.5	24.3
Cash flow from operations/debt (%)	21.9	22.1	14.8	24.8	26.1
FOCF/debt (%)	(3.0)	(0.8)	(7.8)	6.8	7.6
DCF/debt (%)	(6.4)	(3.6)	(10.2)	(0.8)	0.3

Liquidity: Adequate

Spire Missouri has adequate liquidity and could more than cover its needs for the next 12 months, in our view, even if consolidated EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by more than 1.1x. Under our stress scenario, we do not expect Spire Missouri would require access to the capital markets during that period to meet its liquidity needs. Spire Missouri also benefits from sound relationships with its banks and a generally satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Credit facility availability of about $475 million; • Cash FFO of about $240 million; and • Minimal cash on hand.	• Long-term debt maturities of about $290 million in 2019; • Capital spending averaging about $320 million annually; and • Dividend payment averaging about $50 million annually.

Environmental, Social, And Governance

Our ESG analysis focuses on consolidated Spire. Spire's environmental risks are generally in line with its peers'. The company engages in the purchase, transmission, and distribution of natural gas. Marginally affecting our assessment is the company's remaining vintage gas assets, which are more susceptible to natural gas leaks, potentially emitting methane and affecting biodiversity.

Social and governance risk factors are also in line with those of the company's peers. We view Spire's ability to deliver safe and reliable services to customers as a positive social factor. Spire has an independent board of directors, which we see as capably engaged in risk oversight on behalf of all stakeholders.

Group Influence

Spire Missouri is a wholly owned subsidiary of Spire. We consider Spire Missouri as core to its parent, reflecting our view that Spire Missouri is highly unlikely to be sold; is integral to the overall group strategy; possesses a strong, long-term commitment from Spire's management; is successful at what it does; is a significant contributor to the group; operates as a profit center of the group; and is closely linked to the parent's name and reputation. Therefore, we cap our issuer credit rating on Spire Missouri at Spire's group credit profile of 'a-'.

Issue Ratings - Recovery Analysis

Spire Missouri's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the ICR.

Table 3

Reconciliation Of Spire Missouri Inc.'s Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Sept. 30, 2019--						
Spire Missouri Inc.'s reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	1,311.4	286.3	174.8	49.2	301.8	313.6	356.9
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(48.7)	--	--
Operating leases	0.6	0.9	0.1	0.1	(0.1)	0.8	--

Table 3

Reconciliation Of Spire Missouri Inc.'s Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $) (cont.)							
Postretirement benefit obligations/deferred compensation	93.4	--	--	--	--	--	--
Accessible cash and liquid investments	(2.6)	--	--	--	--	--	--
Capitalized interest	--	--	--	1.9	(1.9)	(1.9)	(1.9)
Share-based compensation expense	--	7.2	--	--	--	--	--
Asset retirement obligations	137.1	7.4	7.4	7.4	--	--	--
Nonoperating income (expense)	--	--	45.7	--	--	--	--
Debt: Other	(110.8)	--	--	--	--	--	--
Total adjustments	117.7	15.5	53.2	9.4	(50.7)	(1.1)	(1.9)
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	1,429.1	301.8	228.0	58.6	251.1	312.5	355.0

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/NR

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** a-
- **Entity status within group:** Core (-2 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 23, 2020)*

Spire Missouri Inc.	
Issuer Credit Rating	A-/Stable/NR
Senior Secured	A

Ratings Detail (As Of March 23, 2020)*(cont.)	
Issuer Credit Ratings History	
15-Feb-2017	A-/Stable/NR
13-Jun-2014	A-/Stable/A-2
07-Apr-2014	A-/Watch Neg/A-2
Related Entities	
Spire Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.