Badger Meter (BMI)

Updated April 21st, 2018 by Nate Parsh

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	2.9%	**Quality Percentile:**	N/A
Fair Value Price:	$39	**5 Year Growth Estimate:**	3.4%	**Momentum Percentile:**	N/A
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Total Return Percentile:**	N/A
Dividend Yield:	1.2%	**5 Year Price Target**	$47	**Valuation Percentile:**	N/A

Overview & Current Events

Badger Meter was founded in 1905 in Milwaukee, WI by Albert Gumz and Albert Wingender. The company's first product was a "frost proof" water meter. Today, BMI manufactures and markets meters and valves that are used to measure and control the flow of liquids, such as water, oil and various chemicals. The company's products are also used to control the flow of air and other gases. BMI has a market cap of $1.25 billion and had more than $400 million in sales in 2017. The company is also a founding member of the American Water Works Association, a trade group that sets water measurement standards in the U.S.

BMI reported 1st quarter 2018 earnings on 4/17/2018. The company reported earnings of $0.26 per share, $0.13 below expectations. The company grew revenue 3.4% to $105 million, missing analysts' estimates by $3.6 million. Net income dropped almost 14% and gross and operating margins were down 35% and 9.5%, respectively. On the plus side, management stated that they still feel that they can reach their EPS target of $1.65 for 2018. The company's tax rate is expected to drop to 21% from 35%.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.85	$0.90	$0.96	$0.64	$0.98	$0.85	$1.03	$0.90	$1.11	$1.19	***$1.65***	***$1.95***
DPS	$0.20	$0.23	$0.26	$0.30	$0.33	$0.35	$0.37	$0.39	$0.43	$0.49	***$0.52***	***$0.88***

BMI has increased earnings per share by 3.4% per year over the past decade. Unlike many companies, BMI actually saw an increase in EPS in both 2008 and 2009. The company has seen earnings declines in other years, but BMI expects to earn $1.65 per share in 2018, thanks in large part to a much lower tax return. Applying the long term EPS growth rate (3.4%) to this guidance, BMI could earn $1.95 per share in 2023.

BMI has increased its dividend for the past 25 years. The company has increased its dividend by an average of 11% per year over the past 10 years. BMI raised its dividend 13% on 8/11/2017. Dividend growth has varied over the past few years, with 15% raise in 2016 and ~5% raises in 2015 and 2014. Applying the long term dividend growth rate to the current annualized dividend of $0.52, shareholder could expect to receive $0.88 per share in dividends.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	24.9	19.8	21	28	18.9	28.8	25.6	33.2	30.6	34.8	***26.1***	***23.9***
Avg. Yld.	0.9%	1.3%	1.3%	1.7%	1.8%	1.4%	1.4%	1.3%	1.3%	1.1%	***1.2%***	***1.9%***

BMI has seen its price to earnings multiple fluctuate in the last decade. Shares have been at their most expensive over the past three years. As these years could be outliers, they were not included in the 2023 multiple estimate. If shares were to revert to their 2008-2014 average P/E of 23.9, investors would see the multiple contract by more than 1.7% per year through 2023.

BMI has rewarded shareholders with low double digit dividend growth over the past decade, but that still equates to a very low dividend yield (currently 1.2%). This is below the yield of the S&P 500 and significantly below the yield of the 10-year Treasury Bond. While shareholders can expect strong dividend growth going forward, especially if the company passes along any tax reform savings, they shouldn't expect BMI to become a high yielding position in their portfolio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	50.4%	50.8%	47.6%	41%	42.1%	37%	38.4%	38.2%	43.1%	39.8%	***40.4%***	***42.8%***
Debt/A	43.2%	24.4%	22%	18.1%	41%	37.8%	37.2%	34.7%	26.7%	29.2%	***29.6%***	***31.4%***
Int. Cov.	246.6	469.4	309.2	148.9	92.3	35.6	40.6	34.8	55.1	70.5	***65.9***	***47.3***
Payout	23.5%	25.6%	28.9%	46.9%	33.7%	41.2%	36%	43.3%	38.7%	41.2%	***31.2%***	***45.1%***
Std. Dev.	88.8%	59.8%	31.3%	42.2%	34.5%	31.1%	25.2%	24%	27%	26.4%	***28.9%***	***26.7%***

Unlike many companies at the height of the last recession, earnings for BMI actually improved. The vast majority of the company's sales are made to municipal water utilities. Consumers still need access to water, even in a recession. It is estimated that there are more than 30 million water meters in the U.S. that are not monitored with the advanced equipment that BMI offers. And with some states, like California, looking to improve its water monitoring systems in times of droughts, BMI is in a prime position to benefit.

BMI has seen its profitability decline from the 50% range, but this metric has stabilized in the past few years. Tax reform will be a major benefit to the company in future years, which should allow profitability to increase. BMI has also seen debt as a percentage of assets decline to nearly a 10 year low.

BMI maintains a very low payout ratio, even in years in which earnings declined (2011, 2013 and 2015). This should give investors confidence that the company can continue to increase its dividend. It should be noted that if BMI produces EPS and DPS targets for 2023, the company would have its highest payout ratio since 2011. Even so, this still gives the company ample room to continue growing its dividend.

Final Thoughts & Recommendation

Badger Meter is expected to return 2.9% per year for the next 5 years. This total return is based off of growth (3.4%), dividends (1.2%) and valuation contraction (1.7%). While the company did perform fairly well during the last recession and has managed its debt well in recent years, shares just don't offer much upside to investors. And while double digit dividend growth and 25 consecutive years of increased payments to shareholders is impressive, BMI's stock offers a very low yield. Investors should invest their capital elsewhere.

Total Return Breakdown by Year