# Badger Meter (BMI)

*Updated February 10th, 2019 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $59 | **5 Year CAGR Estimate:** | -3.0% | **Volatility Percentile:** | 56.3% |
| **Fair Value Price:** | $40 | **5 Year Growth Estimate:** | 3.4% | **Momentum Percentile:** | 86.7% |
| **% Fair Value:** | 148% | **5 Year Valuation Multiple Estimate:** | -7.4% | **Growth Percentile:** | 18.0% |
| **Dividend Yield:** | 1.0% | **5 Year Price Target** | $48 | **Valuation Percentile:** | 5.1% |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Total Return Percentile:** | 2.0% |

## Overview & Current Events

Badger Meter was founded in 1905 in Milwaukee, WI. The company's first product was a "frost proof" water meter. Today, Badger Meter 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. Badger Meter has a market capitalization of $1.7 billion and generates more than $433 million in annual revenues. 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.

Badger Meter released financial results for the fourth quarter and full year 2018 on 2/5/19. Excluding the impact of the termination of the company's pension program and executive retirement charges, adjusted earnings-per-share (EPS) totaled $0.40 in the fourth quarter, topping estimates by $0.02 and improving 60% year-over-year. Excluding a $0.09 benefit due to tax reform, adjusted EPS still grew 24% from the previous year. Revenue in the fourth quarter grew 8% to $104.4 million, beating expectations by $0.9 million. Bader Meter's adjusted EPS totaled $1.54 in 2018, a 29% improvement from 2017, but $0.11 below expectations. Revenue increased 8% to $433.7 million for the year.

Municipal water sales grew 8% in the fourth quarter due to strong demand from both commercial and residential customers. This growth was due to the company's E-Series Ultrasonic water meters and ORION Cellular products. Flow instrumentation products grew 9% due to high demand the areas of water, waste water and oil and gas. Free cash flow grew nearly 50% and margins reached 38.5% during the quarter. Badger Meter does not give guidance, but the company has a sizeable backlog and a positive outlook for 2019. Analysts expect Badger Meter to earn $1.68 and to produce revenues of more than $455 million in 2019.

## Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $0.90 | $0.96 | $0.64 | $0.98 | $0.85 | $1.03 | $0.90 | $1.11 | $1.19 | $1.54 | ***$1.68*** | ***$1.99*** |
| **DPS** | $0.23 | $0.26 | $0.30 | $0.33 | $0.35 | $0.37 | $0.39 | $0.43 | $0.49 | $0.56 | ***$0.60*** | ***$1.01*** |
| **Shares** | 30 | 30 | 30 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | ***29*** | ***29*** |

Badger Meter has increased earnings per share by 3.4% per year over the past decade. The company's products showed strong growth last year and we continue to see EPS growing due to this demand by at least 3.4% per year through 2024.

Badger Meter has increased its dividend for the past 26 years. The company has increased its dividend by an average of 11% per year over the past 10 years. Dividend growth has varied over the past few years, with a 15% raise in 2016 following ~5% raises in 2015 and 2014. Badger Meter raised its dividend 15.4% on 8/1/2018.

## Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 19.8 | 21.0 | 28.0 | 18.9 | 28.8 | 25.6 | 33.2 | 30.6 | 34.8 | 30.3 | ***35.1*** | ***23.9*** |
| **Avg. Yld.** | 1.3% | 1.3% | 1.7% | 1.8% | 1.4% | 1.4% | 1.3% | 1.3% | 1.1% | 1.1% | ***1.0%*** | ***2.1%*** |

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

# Badger Meter (BMI)

*Updated February 10th, 2019 by Nathan Parsh*

Shares of Badger Meter have been at their most expensive over the past three years. As these years could be outliers, they were not included in the 2024 multiple estimate. Shares of Badger Meter have increased in price by $9, or 18%, since our October 17th update. Using estimates for EPS for 2019, the stock has a forward multiple of 35.1. This is well above the 2008-2014 average price-to-earnings ratio of 23.9. If the stock was to revert to this average, shares could see annual returns reduced by 7.4% per year through 2024.

Badger Meter has rewarded shareholders with low double digit dividend growth over the past decade, but that still equates to a very low dividend yield today (currently 1.0%).

## Safety, Quality, Competitive Advantage, & Recession Resiliency

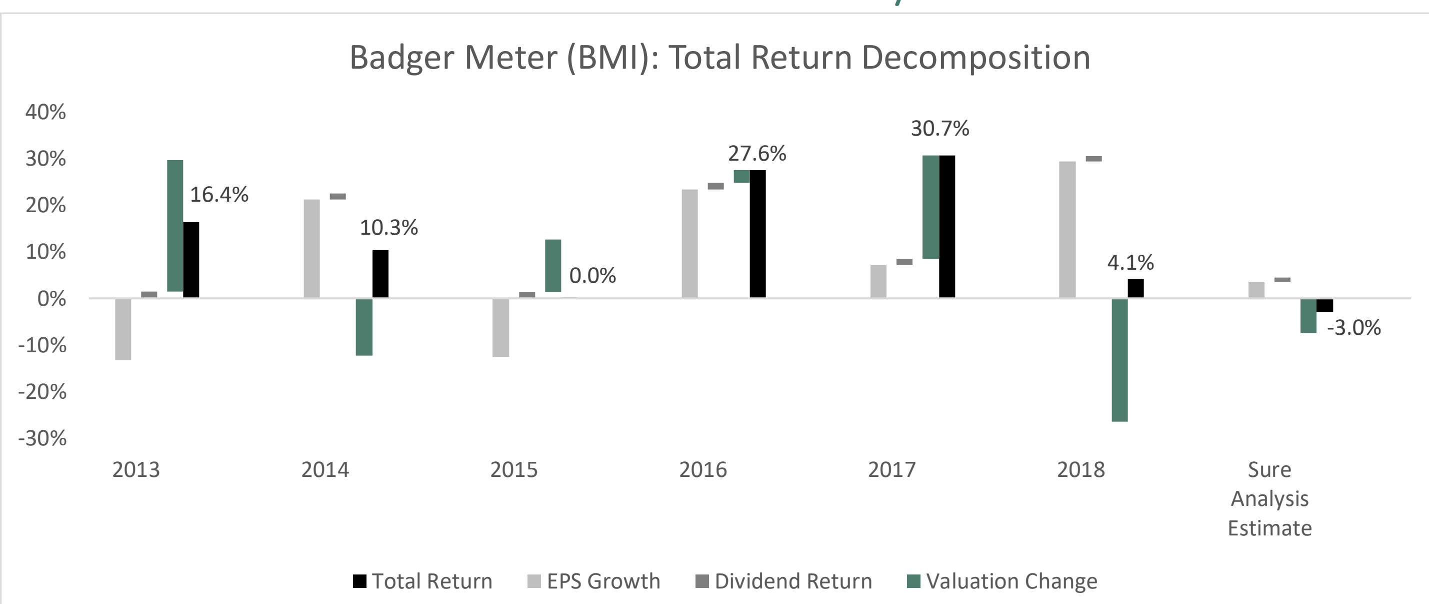
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2024** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 26% | 29% | 47% | 34% | 41% | 36% | 43% | 39% | 41% | 36% | ***36%*** | ***51%*** |

Unlike many companies at the height of the last recession, EPS for Badger Meter actually improved. The vast majority of the company's sales are made to municipal water utilities. A key competitive advantage that Badger Meter possess is consumers will still need access to water in a recession. In addition, 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 Badger Meter offers. And with some states, like California, looking to improve its water monitoring systems for use in times of droughts, the company is in a prime position to benefit from upgrades and improvements.

## Final Thoughts & Recommendation

Due to the significant increase in the stock price, we estimate that shares of Badger Meter are likely to lose 3% in annual returns through 2024. We feel that Badger Meter's valuation has grown to a level usually reserved for high growth companies. While the company has seen increased demand for its high tech products, we rate shares as a strong sell due to valuation and feel shareholders of Badger Meter should take profits. We have raised our 2024 price target $1 to $48 due to EPS estimates for 2019.

## Total Return Breakdown by Year




Click here to rate and review this research report. Your feedback is important to us.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

# Badger Meter (BMI)

*Updated February 10th, 2019 by Nathan Parsh*

## Income Statement Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 279.6 | 250.3 | 276.6 | 262.9 | 319.7 | 334.1 | 364.8 | 377.7 | 393.8 | 402.4 |
| Gross Profit | 98.5 | 97.0 | 102.8 | 89.8 | 122.2 | 117.0 | 131.1 | 135.8 | 150.6 | 155.7 |
| Gross Margin | 35.2% | 38.8% | 37.2% | 34.2% | 38.2% | 35.0% | 36.0% | 35.9% | 38.2% | 38.7% |
| SG&A Exp. | 57.6 | 54.8 | 58.0 | 62.3 | 77.8 | 77.9 | 85.1 | 93.4 | 99.8 | 100.1 |
| D&A Exp. | 7.1 | 8.2 | 8.5 | 9.5 | 12.1 | 13.5 | 15.7 | 20.6 | 22.4 | 24.4 |
| Operating Profit | 40.9 | 42.2 | 44.8 | 27.5 | 44.5 | 39.1 | 46.0 | 42.4 | 50.8 | 55.6 |
| Operating Margin | 14.6% | 16.9% | 16.2% | 10.5% | 13.9% | 11.7% | 12.6% | 11.2% | 12.9% | 13.8% |
| Net Profit | 25.1 | 34.2 | 28.7 | 19.2 | 28.0 | 24.6 | 29.7 | 25.9 | 32.3 | 34.6 |
| Net Margin | 9.0% | 13.6% | 10.4% | 7.3% | 8.8% | 7.4% | 8.1% | 6.9% | 8.2% | 8.6% |
| Free Cash Flow | -12.7 | 28.8 | 1.1 | 26.0 | 26.6 | 20.5 | 23.4 | 16.1 | 45.6 | 34.7 |
| Income Tax | 14.5 | 15.6 | 15.8 | 8.2 | 15.4 | 13.4 | 15.2 | 15.2 | 17.5 | 20.3 |

## Balance Sheet Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 195.4 | 191.0 | 215.9 | 218.9 | 290.5 | 316.1 | 341.2 | 355.5 | 349.7 | 391.7 |
| Cash & Equivalents | 6.2 | 13.3 | 3.1 | 5.0 | 6.6 | 7.3 | 6.7 | 8.2 | 7.3 | 11.2 |
| Accounts Receivable | N/A | N/A | N/A | N/A | N/A | N/A | 54.0 | 56.6 | 59.8 | 58.2 |
| Inventories | 39.3 | 32.5 | 48.3 | 49.4 | 61.0 | 60.9 | 71.8 | 78.6 | 77.7 | 85.2 |
| Goodwill & Int. Ass. | 32.0 | 30.6 | 43.3 | 43.0 | 94.3 | 102.0 | 109.4 | 105.3 | 101.2 | 126.8 |
| Total Liabilities | 84.3 | 46.6 | 47.5 | 39.6 | 119.2 | 119.5 | 126.8 | 123.2 | 93.5 | 114.3 |
| Accounts Payable | 13.2 | 10.8 | 11.2 | 11.4 | 15.6 | 18.6 | 16.1 | 19.2 | 18.4 | 28.6 |
| Long-Term Debt | 25.2 | 8.0 | 12.9 | 1.8 | 66.7 | 70.0 | 75.9 | 71.4 | 38.0 | 44.6 |
| Shareholder’s Equity | 111.0 | 144.5 | 168.4 | 179.3 | 171.2 | 196.6 | 214.3 | 232.3 | 256.2 | 277.5 |
| D/E Ratio | 0.2 | 0.1 | 0.1 | 0.0 | 0.4 | 0.4 | 0.4 | 0.3 | 0.1 | 0.2 |

## Profitability & Per Share Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 14.5% | 17.7% | 14.1% | 8.8% | 11.0% | 8.1% | 9.0% | 7.4% | 9.2% | 9.3% |
| Return on Equity | 24.7% | 26.7% | 18.3% | 11.0% | 16.0% | 13.4% | 14.4% | 11.6% | 13.2% | 13.0% |
| ROIC | 20.5% | 23.7% | 17.2% | 10.6% | 13.4% | 9.8% | 10.7% | 8.7% | 10.8% | 11.2% |
| Shares Out. | 29.62 | 29.95 | 30.10 | 30.25 | 28.63 | 28.82 | 28.92 | 29.05 | 29.12 | 29.12 |
| Revenue/Share | 9.42 | 8.37 | 9.22 | 8.74 | 11.10 | 11.57 | 12.68 | 13.07 | 13.55 | 13.82 |
| FCF/Share | -0.43 | 0.96 | 0.04 | 0.86 | 0.92 | 0.71 | 0.81 | 0.56 | 1.57 | 1.19 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*


Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.