Badger Meter (BMI)

Updated July 18th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	-0.1%	**Volatility Percentile:**	66.0%
Fair Value Price:	$41	**5 Year Growth Estimate:**	3.4%	**Momentum Percentile:**	49.2%
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Growth Percentile:**	21.3%
Dividend Yield:	1.2%	**5 Year Price Target**	$48	**Valuation Percentile:**	21.1%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	6.3%

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 $1.5 billion and generates more than $450 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 second quarter on 7/18/2019. The company earned $0.39 per share, which was $0.05 below estimates and a 7.1% decrease from the previous year. Revenue declined 9% to $103.5 million, which was almost $14 million lower than expected.

Municipal water sales were down almost 10% as orders were deferred until Badger Meter's latest version of advanced technology products become available. This was an issue in the previous quarter, but the company expects these products to begin shipping sometime later this year. The previous year also included a large order from a Middle East customer that did not reoccur in the second quarter of 2019. Flow instrumentation products decreased 6.6% due to weakness in most industrial markets. On a positive note, gross profit margins improved 240 bps to 38.9% due to positive product and sales mix. Operating margins were up 10 bps to 14.5%. Expenses were flat year-over-year. Shares were down more than 9% following the company's results release.

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	***$1.71***	***$2.02***
DPS	$0.23	$0.26	$0.30	$0.33	$0.35	$0.37	$0.39	$0.43	$0.49	$0.56	***$0.60***	***$0.94***
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 earnings-per-share growing due to this demand of at least 3.4% per year through 2024. Badger Meter's ability to control costs, and thereby boost margins, should help offset any weakness in revenue that may occur.

Badger Meter has increased its dividend for the past 26 years. The company has increased its dividend by an average of 9.3% 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	***30.4***	***23.9***
Avg. Yld.	1.3%	1.3%	1.7%	1.8%	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%	***1.2%***	***1.9%***

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Shares of Badger Meter have been at their most expensive valuations over the past four years. As these years could be outliers, they were not included in the 2024 multiple estimate. Shares of Badger Meter have decreased by $4, or 7.1%, since our April 19th update. Using estimates for earnings-per-share for 2019, the stock has a current multiple of 30.4. This is well above the 2008-2014 average price-to-earnings ratio of 23.9. If the stock were to revert to this average, shares could see annual returns reduced by 4.7% 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 1.2%). We see a declining valuation as the catalyst for the yield to rise closer to 2% over time from the current 1.2%.

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%	***35%***	***47%***

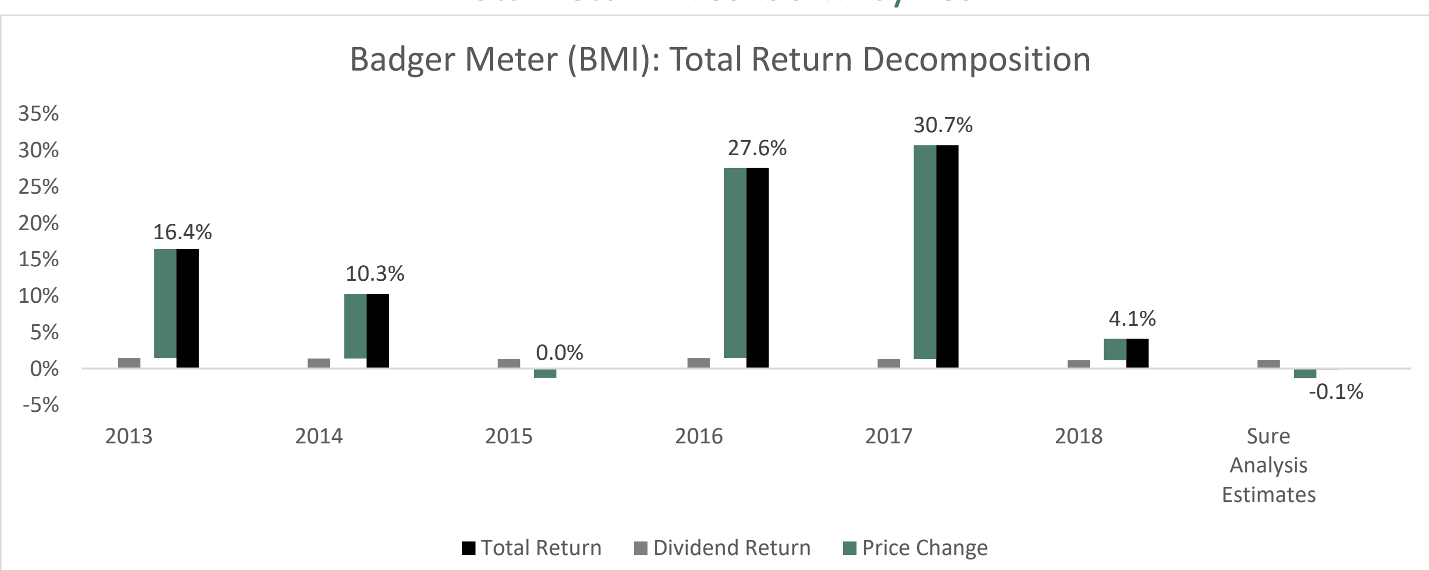
Given Badger Meter's 26-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

Unlike many companies at the height of the last recession, earnings-per-share 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 that 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

Following second quarter results and the decline in the stock price, we estimate that Badger Meter shares are likely to lose 0.1% annually through 2024. This is an improvement of our previous estimate of a loss of 1.6%. Even after a decline of more than 9%, Badger Meter's price-to-earnings ratio is above 30, a valuation usually reserved for high-growth stocks, not water utility companies. The stock's yield is also below that of the S&P 500. We maintain our 2024 price target of $48, but Badger Meter continues to receive a sell rating from Sure Dividend due to very low expected returns.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	250	277	263	320	334	365	378	394	402	434
Gross Profit	97	103	90	122	117	131	136	151	156	162
Gross Margin	38.8%	37.2%	34.2%	38.2%	35.0%	36.0%	35.9%	38.2%	38.7%	37.4%
SG&A Exp.	55	58	62	78	78	85	93	98	99	105
D&A Exp.	8	8	9	12	13	16	21	22	24	24
Operating Profit	42	45	28	44	39	46	42	53	57	57
Operating Margin	16.9%	16.2%	10.5%	13.9%	11.7%	12.6%	11.2%	13.4%	14.1%	13.1%
Net Profit	34	29	19	28	25	30	26	32	35	28
Net Margin	13.6%	10.4%	7.3%	8.8%	7.4%	8.1%	6.9%	8.2%	8.6%	6.4%
Free Cash Flow	29	1	26	27	21	23	16	46	35	52
Income Tax	16	16	8	15	13	15	15	18	20	8

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	191	216	219	290	316	341	355	350	392	393
Cash & Equivalents	13	3	5	7	7	7	8	7	11	13
Accounts Receivable	N/A	N/A	41	46	50	54	57	60	58	66
Inventories	32	48	49	61	61	72	79	78	85	81
Goodwill & Int. Ass.	31	43	43	94	105	114	105	101	133	132
Total Liabilities	47	47	40	119	119	127	123	93	114	89
Accounts Payable	11	11	11	16	19	16	19	18	29	22
Long-Term Debt	8	13	2	67	70	76	71	38	45	18
Shareholder's Equity	144	168	179	171	197	214	232	256	277	304
D/E Ratio	0.06	0.08	0.01	0.39	0.36	0.35	0.31	0.15	0.16	0.06

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	17.7%	14.1%	8.8%	11.0%	8.1%	9.0%	7.4%	9.2%	9.3%	7.1%
Return on Equity	26.7%	18.3%	11.0%	16.0%	13.4%	14.4%	11.6%	13.2%	13.0%	9.6%
ROIC	23.7%	17.2%	10.6%	13.4%	9.8%	10.7%	8.7%	10.8%	11.2%	8.6%
Shares Out.	30	30	30	29	29	29	29	29	29	29
Revenue/Share	8.37	9.22	8.74	11.10	11.57	12.68	13.07	13.55	13.82	14.86
FCF/Share	0.96	0.04	0.86	0.92	0.71	0.81	0.56	1.57	1.19	1.77

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