Badger Meter (BMI)

Updated February 5th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	-2.9%	**Market Cap:**	$1.8 billion
Fair Value Price:	$42	**5 Year Growth Estimate:**	3.4%	**Ex-Dividend Date:**	2/27/2020[1]
% Fair Value:	149%	**5 Year Valuation Multiple Estimate:**	-7.7%	**Dividend Payment Date:**	3/16/2020[2]
Dividend Yield:	1.1%	**5 Year Price Target**	$49	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	13.3%

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 generates in excess $425 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 earnings results for the fourth quarter and full year on 2/5/2020. Earnings-per-share of $0.42 was in-line with estimates, but a 5% increase year-over-year. Revenue improved 3.1% to $107.6 million, though this was $0.79 million below estimates. Adjusted earnings-per-share increased 4.5% to $1.61 for the year while revenue was down 2% to $424.6 million.

Badger Meter's municipal water sales were higher by 8% due to higher demand for the company's ultrasonic meters, which began shipping to customers in the third quarter. Badger Meter now expects the placement of orders to ramp up as customers who had held off on making purchases due so as new products have become available. Domestic water sales increased 1% for the full year. Flow instrumentation products declined 11% due to weakness in several industrial global end markets. The company lowered expenses by 2.2% for the quarter and 3.9% for the year and gross margins increased 110 bps to 38.5%. Shares of Badger Meter were up 2% following the earnings release. Analysts expect earnings-per-share of a $1.74 for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.96	$0.64	$0.98	$0.85	$1.03	$0.90	$1.11	$1.19	$1.54	$1.61	***$1.74***	***$2.06***
DPS	$0.26	$0.30	$0.33	$0.35	$0.37	$0.39	$0.43	$0.49	$0.56	$0.68	***$0.68***	***$1.06***
Shares[3]	30	30	29	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 2025. Badger Meter's ability to control costs, and thereby boost margins, should help offset any weakness in revenue that may occur. We are expecting $1.74 in earnings-per-share for 2020.

Badger Meter has increased its dividend for the past 27 years. The company has increased its dividend by an average of 9.3% per year over the past 10 years. Badger Meter raised its dividend 13.3% for the 9/13/2019 payment. This marks the third straight year of double-digit dividend growth following several years of meager growth.

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[1] Estimated date

[2] Estimated dividend payment date

[3] In millions of shares

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	21.0	28.0	18.9	28.8	25.6	33.2	30.6	34.8	30.3	40.3	***35.6***	***23.9***
Avg. Yld.	1.3%	1.7%	1.8%	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%	1.0%	***1.1%***	***2.1%***

Shares of Badger Meter have been at their most expensive valuations over the past five years. As these years could be outliers, they were not included in the 2025 multiple estimate. Shares of Badger Meter have increased by another $5, or 8.1%, since our 10/17/2019 update. Using estimates for earnings-per-share for 2020, the stock has a current P/E ratio of 35.6. This gives Badger Meter a valuation normally reserved for high growth companies and is well above our target P/E of 23.9. If the stock were to revert to this average, shares could see annual returns reduced by 7.7% per year through 2025. We see a declining valuation as the catalyst for the yield to rise closer to 2% over time from the current 1.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29%	47%	34%	41%	36%	43%	39%	41%	36%	42%	***39%***	***51%***

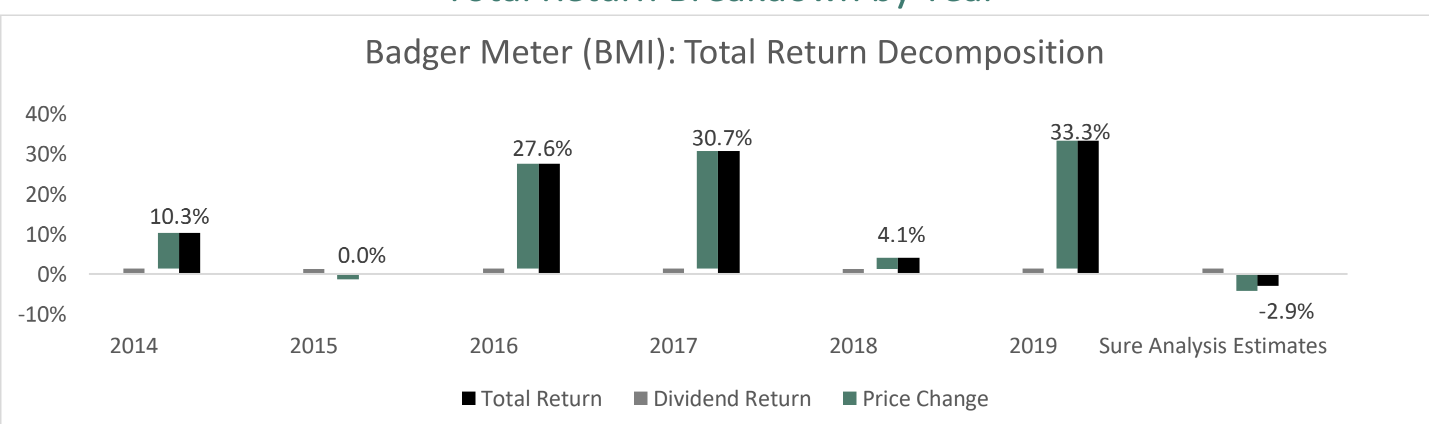
Given Badger Meter's 27-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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 earnings results for the fourth quarter and full year, Bader Meter is projected to lose 2.9% per year through 2025, which is a decline from our prior estimate of 2.7% annual loss. The company's more advanced products are starting to see an increase in demand. On the other hand, flow instrumentation continues to see significant declines in industrial end markets. Shares of Badger Meter trade with a valuation usually reserved for high growth companies, not those growing at a single-digit rate. We have increased our 2025 target price $4 to $49, but continue to rate the stock as a sell due to returns over the next five years.

Total Return Breakdown by Year



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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.