Badger Meter (BMI)

Updated July 16th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	-5.3%	**Market Cap:**	$1.8 billion
Fair Value Price:	$36	**5 Year Growth Estimate:**	3.4%	**Ex-Dividend Date:**	8/28/2020
% Fair Value:	172%	**5 Year Valuation Multiple Estimate:**	-10.3%	**Dividend Payment Date:**	9/11/2020[1]
Dividend Yield:	1.1%	**5 Year Price Target**	$43	**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 about $400 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 reported second quarter earnings results on 4/16/2020. The company's GAAP earnings-per-share declined 15% to $0.33 and were $0.01 below estimates. Revenue declined 12% to $91 million, missing estimates by $7.4 million.

Municipal water sales decreased 9% primarily due to the widespread lock-down orders throughout the U.S. Orders did improve near the end of the quarter. The backlog was higher than sales for the quarter as Badger Meter did experience some supply chain issues related to COVID-19. The company's ultrasonic meter technology continues to see higher demand from customers. Flow instrumentation product sales were down 22% due to weak demand in end markets. Operating margins of 13.9% were 60 basis points below the previous year while gross margins improved 40 basis points to 39.3% due to cost reductions and a continued improvement in product mix and pricing. Expenses deceased $2 million to $23.2 million due to cost reductions. Analysts now expect on average that the company will produce $1.51 of earnings-per-share in 2020, down from $1.58 previously.

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	***$1.51***	***$1.78***
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[2]	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.

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.

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	***41.1***	***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%***	***2.5%***

[1] Estimated dividend payment date

[2] In millions of shares

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Shares of Badger Meter continue to trade 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 $5, or 9%, since our 2/16/2020 update. Using updated estimates for earnings-per-share for 2020, the stock has a current P/E ratio of 41.1. 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 10.3% per year through 2025. We see a declining valuation as the catalyst for the yield to rise above 2% from the current yield.

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%	***45%***	***59%***

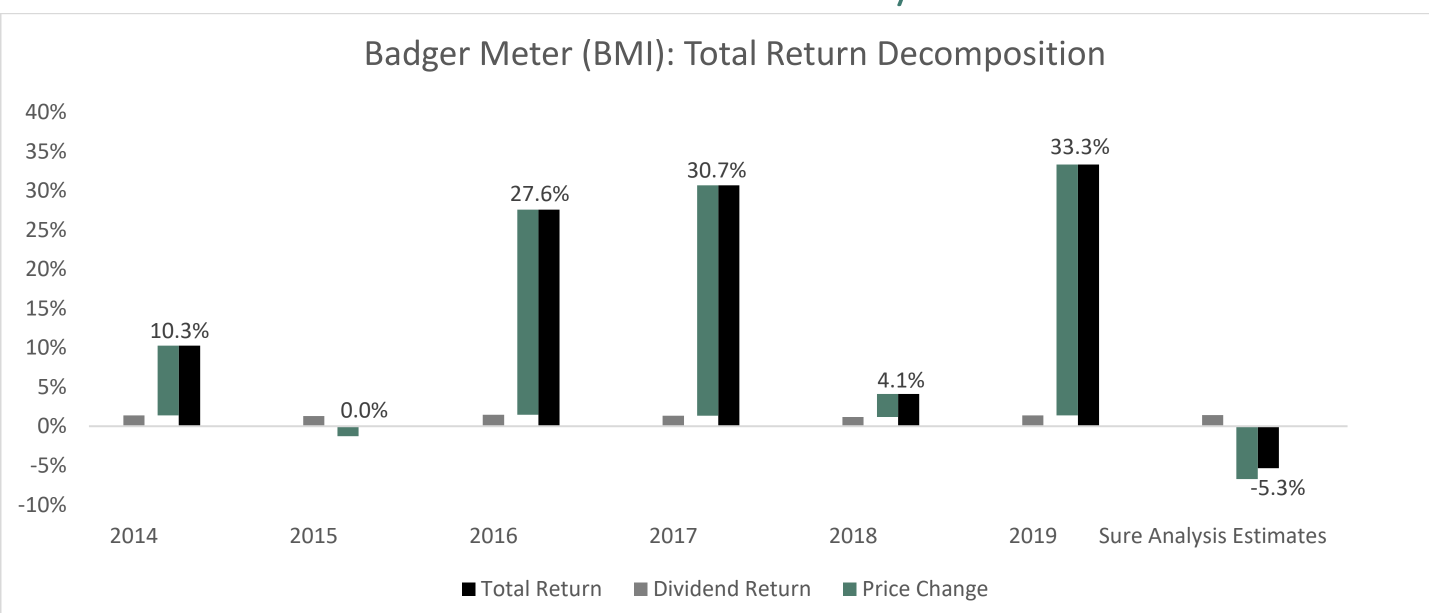
Given Badger Meter's 27-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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

After second quarter earnings results, Bader Meter is projected to lose 5.3% per year through 2025, down from a projected loss of 2.9% from our last report. While advanced products continue to see an improvement in demand, Badger Meter's second quarter results were heavily impacted by the COVID-19 pandemic. We expect this to be the case for as long as a lock-down is required to slow the spread of COVID-19. As with our prior reports, we feel that Badger Meter is extremely overvalued. We encourage investors still holding the stock to consider selling their shares. We have lowered our 2025 price target $2 to $423 due to the reduction in EPS estimates.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	277	263	320	334	365	378	394	402	434	425
Gross Profit	103	90	122	117	131	136	151	156	162	164
Gross Margin	37.2%	34.2%	38.2%	35.0%	36.0%	35.9%	38.2%	38.7%	37.4%	38.5%
SG&A Exp.	58	62	78	78	85	93	98	99	105	101
D&A Exp.	8	9	12	13	16	21	22	24	24	24
Operating Profit	45	28	44	39	46	42	53	57	57	62
Operating Margin	16.2%	10.5%	13.9%	11.7%	12.6%	11.2%	13.4%	14.1%	13.1%	14.6%
Net Profit	29	19	28	25	30	26	32	35	28	47
Net Margin	10.4%	7.3%	8.8%	7.4%	8.1%	6.9%	8.2%	8.6%	6.4%	11.1%
Free Cash Flow	1	26	27	21	23	16	46	35	52	73
Income Tax	16	8	15	13	15	15	18	20	8	14

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	216	219	290	316	341	355	350	392	393	422
Cash & Equivalents	3	5	7	7	7	8	7	11	13	49
Accounts Receivable		41	46	50	54	57	60	58	66	61
Inventories	48	49	61	61	72	79	78	85	81	82
Goodwill & Int. Ass.	43	43	94	105	114	105	101	133	132	125
Total Liabilities	47	40	119	119	127	123	93	114	89	91
Accounts Payable	11	11	16	19	16	19	18	29	22	32
Long-Term Debt	13	2	67	70	76	71	38	45	18	4
Shareholder's Equity	168	179	171	197	214	232	256	277	304	331
D/E Ratio	0.08	0.01	0.39	0.36	0.35	0.31	0.15	0.16	0.06	0.01

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	14.1%	8.8%	11.0%	8.1%	9.0%	7.4%	9.2%	9.3%	7.1%	11.6%
Return on Equity	18.3%	11.0%	16.0%	13.4%	14.4%	11.6%	13.2%	13.0%	9.6%	14.9%
ROIC	17.2%	10.6%	13.4%	9.8%	10.7%	8.7%	10.8%	11.2%	8.6%	14.4%
Shares Out.	30	30	29	29	29	29	29	29	29	29
Revenue/Share	9.22	8.74	11.10	11.57	12.68	13.07	13.55	13.82	14.86	14.53
FCF/Share	0.04	0.86	0.92	0.71	0.81	0.56	1.57	1.19	1.77	2.51

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