Badger Meter (BMI)

Updated October 16th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$82	**5 Year CAGR Estimate:**	-10.4%	**Market Cap:**	$2.4 billion
Fair Value Price:	$36	**5 Year Growth Estimate:**	3.4%	**Ex-Dividend Date:**	11/27/2020
% Fair Value:	227%	**5 Year Valuation Multiple Estimate:**	-15.1%	**Dividend Payment Date:**	12/14/2020[1]
Dividend Yield:	0.9%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	28
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.9%

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 over $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 third quarter earnings results on 10/16/2020. The company's GAAP earnings-per-share increased $0.07, or 16%, to $0.51, which was $0.13 higher than expected. Revenue improved 4.5% to $113.6 million, $12.4 million above estimates.

Municipal water sales were higher by 11% due to recovery in order rates and the conversion of the company's backlog from the prior quarter. Badger Meter continues to see high demand for its ultrasonic meter technology. Weakness in flow instrumentation product sales, which were down 18%, continued from the last quarter though slightly less severe. Operating margins increased 210 basis points to 17.2% while gross profit margins improved 120 basis points to 39.6% due in large part to product mix. Expenses increased 1.2% to $25.5 million as lower travel costs partially offset higher personal costs. We maintain our expected earnings-per-share estimate of $1.51 for 2020. Shares were up as much as 16% following the earnings release.

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	***$0.72***	***$1.12***
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 28 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 5.9% for the 9/11/2020 payment.

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	***54.3***	***23.9***
Avg. Yld.	1.3%	1.7%	1.8%	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%	1.0%	***0.9%***	***2.6%***

[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 $20, or 32%, since our 7/16/2020 update. Following the surge in share price, the stock has a current P/E ratio of 54.3. 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 15.1% 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%	***48%***	***63%***

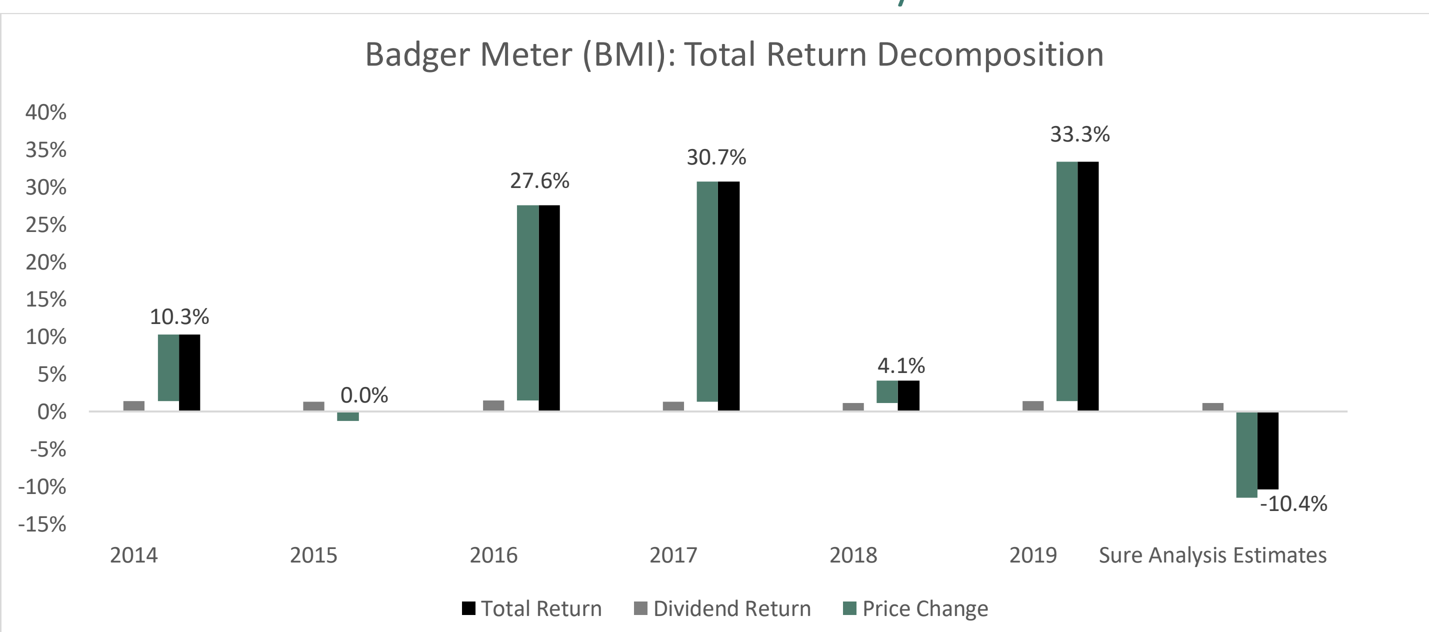
Given Badger Meter's 28-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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 third quarter earnings results, Badger Meter is projected to lose 10.4% per year through 2025, down from a projected loss of 5.3% from our last report. Badger Meter recovered somewhat from the previous quarter as municipal water sales were higher by double-digits. Flow instrumentation continues to be in decline, but margins improved. Badger Meter's valuation continues to be a significant headwind to total returns in our opinion. We maintain our sell rating on Badger Meter as the stock is projected to produce double-digit negative returns annually over the next five years.

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.

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