Badger Meter (BMI)

Updated January 31st, 2021 by Nathan Parsh

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	-10.7%	**Market Cap:**	$2.7 billion
Fair Value Price:	$40	**5 Year Growth Estimate:**	3.4%	**Ex-Dividend Date:**	2/26/2020
% Fair Value:	229%	**5 Year Valuation Multiple Estimate:**	-15.3%	**Dividend Payment Date:**	3/12/2020[1]
Dividend Yield:	0.8%	**5 Year Price Target**	$47	**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 $480 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 announced fourth quarter and full year earnings results on 1/29/2021. The company's GAAP earnings-per-share of $0.45 was a 7.1% increase from the prior year and $0.02 better than expected. Revenue grew 4.4% to $112.3 million, beating estimates by $5 million. For the year, GAAP EPS grew 5% to $1.69 while revenue increased 0.2% to $425.5 million.

Utility water sales grew 8% year-over-year, with acquisitions adding 3% of the growth. The company continues to see strength in its ultrasonic meters and ORION Cellular radios. As with prior quarters, flow instrumentation products remain challenged, with sales declining 10% in the fourth quarter, though results did improve compared to the third quarter of 2020. Operating margins declined 10 basis points to 15.1% while favorable sales mix helped gross margins to improve 100 basis points to 39.2%. Expenses increased 9.3% and represented 24.1% of sales. Analysts expect Badger Meter to earn $1.69 of earnings-per-share in 2021. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.64	$0.98	$0.85	$1.03	$0.90	$1.11	$1.19	$1.54	$1.61	$1.69	***$1.68***	***$1.99***
DPS	$0.30	$0.33	$0.35	$0.37	$0.39	$0.43	$0.49	$0.56	$0.68	$0.72	***$0.72***	***$1.12***
Shares[2]	30	29	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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	28.0	18.9	28.8	25.6	33.2	30.6	34.8	30.3	40.3	55.7	***54.8***	***23.9***
Avg. Yld.	1.7%	1.8%	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%	1.0%	0.7%	***0.8%***	***2.4%***

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[1] Estimated dividend payment date

[2] In millions of shares

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Shares of Badger Meter continue to trade at the stock's most expensive valuations over the past five years. As these years could be outliers, they were not included in the 2026 multiple estimate. Shares of Badger Meter have increased by $10, or 12.2%, since our 10/16/2020 update. The stock has a current P/E ratio of 54.8 following the latest increase in share price and our expected results for 2021. This is well above our target P/E of 23.9, meaning that shareholders are very likely to see significant headwinds from valuation reversion in the coming years. Annual returns would be reduced by 15.3% over this period of time if the stock were to revert to our target by 2026. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47%	34%	41%	36%	43%	39%	41%	36%	42%	43%	***43%***	***56%***

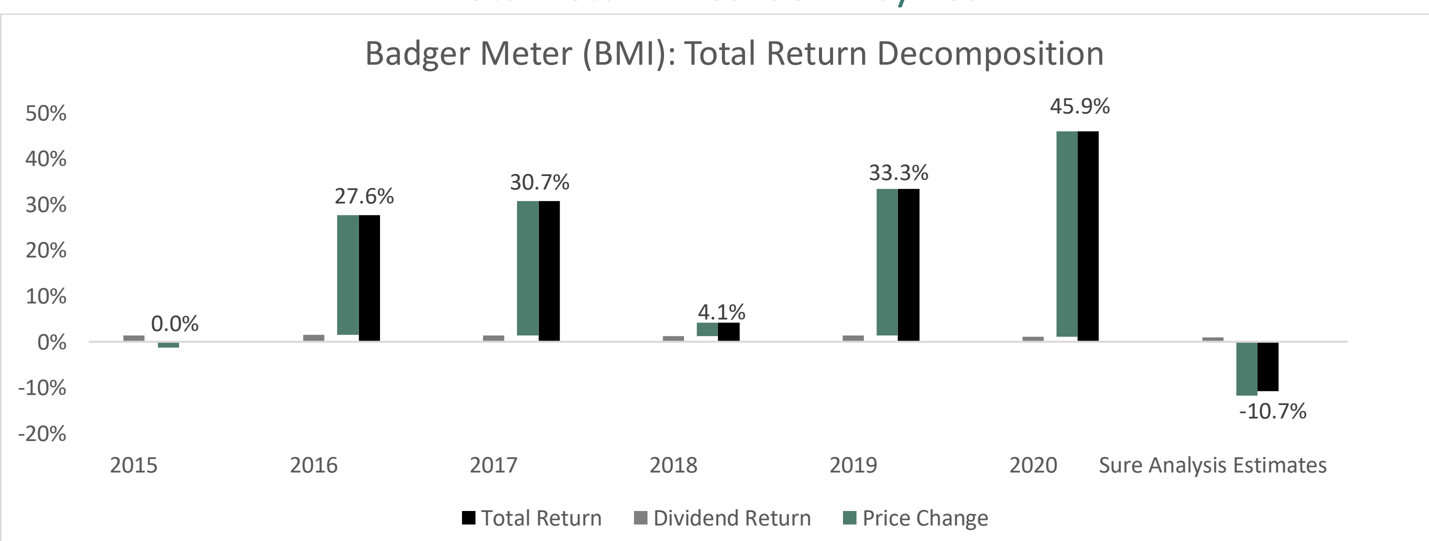
Given Badger Meter's 28-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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 require access to water, regardless of economic conditions. 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 fourth quarter earnings results, Badger Meter is projected to lose 10.7% per year through 2026, down from a projected loss of 10.4% from our last report. Our estimated return stems from a 3.4% earnings growth rate coupled with a 0.8% starting yield, offset by a mid-double-digit headwind from valuation reversion. Badger Meter does have strength in certain aspects of its business, but the share price has gotten too far in front of itself in our opinion. We have increased our five-year price target $4 to $47, but note that shares trade at nearly 230% of our fair value estimate. We maintain our sell rating on Badger Meter as a result.

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.