



BASF SE (BASFY)

Updated February 28th, 2021 by Derek English

Key Metrics

Current Price:	\$20.50	5 Year CAGR Estimate:	6.3%	Market Cap:	\$62.20B
Fair Value Price:	\$19.60	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/30/21
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date:	05/04/21
Dividend Yield:	4.6%	5 Year Price Target	\$23.00	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	0.00%

Overview & Current Events

BASF SE (BASFY) is a multinational chemical company headquartered in Germany. Founded in 1865, BASF operates in over 80 countries worldwide and employs more than 117,000 people. BASF operating businesses are organized under six main segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care, and Agricultural Solutions. Surface technologies is the company's largest segment with slightly over 28% of sales. The underlying security BASF is listed on the Frankfurt and London exchanges. The ADR was delisted on the NYSE in 2007¹, however, the company still maintains the ADR program. Each ADR (BASFY) represents one-fifth of a BASF share. While BASF reports all their financial statements in euros we will focus on the numbers from the ADR in US dollars using fx rates at the end of each fiscal year.

BASF released Q4 and full-year 2020 results on the 26th of February 2021. Focusing on the full-year results, BASF net sales were flat at constant exchange rates compared to 2019. Net income and EPS were both negative primarily due to impairment of assets at the Wintershall Dea group. Net Debt declined by 5% compared to 2019 while free cash flow declined by 37% due to the decrease in cash flows from operating activities. The decrease in cash flows from operating activities was largely due to the cash tied up in receivables, especially in trade accounts receivable. 2020 has been a challenging year and the dividend was not covered by earnings or free cash flow. However, the company proposes to keep the 2020 final dividend at the same amount as the previous year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.46	\$1.62	\$1.70	\$1.90	\$1.22	\$1.22	\$1.85	\$1.51	\$2.56	(\$0.59)	\$1.51	\$1.75
DPS	\$0.76	\$0.77	\$0.85	\$0.92	\$0.79	\$0.81	\$0.84	\$0.92	\$0.91	\$0.98	\$0.94	\$1.06
Shares	3678	3674	3679	3682	3683	3679	3678	3685	3681	3681	3681	3681

BASF's earnings have grown 0.5% since 2011. However, in 2011 earnings were given a boost by the sale of K+S Aktiengesellschaft. Earnings have grown at a CAGR of 6.8% from 2012 until 2019. As mentioned earlier we have seen a negative EPS due to impairments of assets at the Wintershall Dea group in 2020. BASF has an IPO for Wintershall Dea planned for 2021. In the next 5 years, we are expecting ~3% growth based on the average oil price of \$50 for a barrel of Brent crude and an exchange rate of \$1.18 per euro. Since the last dividend cut in 2009, BASF has grown its dividend for the last 11 years. The 5-year CAGR was 3%. Unlike 2009, the company has made a clear commitment to raising the dividend each year. It is unusual for a European company to declare this commitment but we have seen that they have held the dividend this year even when the payout ratio was above 100% due to one-off events. We estimate a 3% dividend growth rate over the next 5 years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.3	12.8	13.6	15.1	20.0	16.5	13.2	17.2	7.9	N/A	13.4	13.0
Avg. Yld.	3.0%	3.7%	3.7%	3.2%	3.2%	4.0%	3.4%	3.5%	4.5%	6.0%	4.6%	4.7%

¹ <https://www.basf.com/global/en/investors/share-and-adrs/adrs-for-us-investors/p-07-350.html>

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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At 4.6%, BASFs' dividend yield is slightly above its 5-year average of 4.3%. This is an attractive yield in comparison to the average of the S&P 500, which is 1.49%². The P/E ratio of 13.6 is nearly flat compared to the last 5 years which had an average P/E of 14. We expect earnings to follow the same trend as the last 5 years with mid-single-digit growth of around 4% providing we do not see prolonged lockdowns due to the coronavirus. We are predicting a PE ratio of 13 by 2026. Our relatively low fair value PE is based on the historical share price not growing since 2005 and a 3% earnings growth rate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31%	47%	50%	49%	65%	66%	45%	61%	35%	-166%	62%	61%

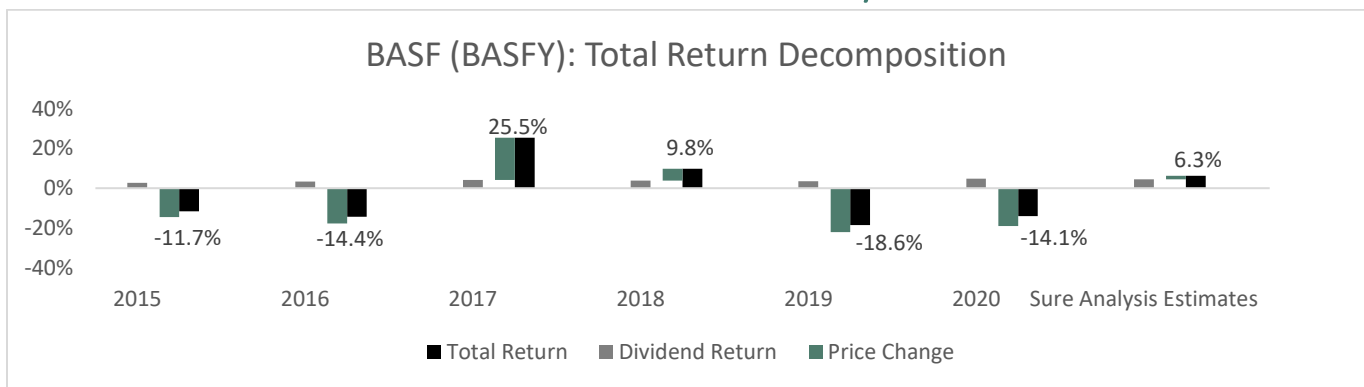
BASF aims to add value through the efficient use of resources in a concept called Verbund. The Chemicals segment is at the heart of the Verbund concept. Its production facilities supply BASF's segments with basic chemicals and intermediates to produce higher value-added products. In this way, the segment makes a significant contribution to BASF's organic growth. Chemical production is expected to grow at 4% a year over the next 3 years with Asia being a key growth driver. With a share of more than 40%, China is already the world's largest chemical market and drives the growth of global chemical production. BASF plans to build an integrated Verbund site in Zhanjiang in the southern Chinese province of Guangdong to capitalize on this market.

During the last recession, both revenue and earnings were hit hard which led the company to cut its dividend. They returned to growth in 2010 and began increasing the dividend again. Over the last 5 years, the board has made it a goal to increase the dividend every year. While they did not increase the dividend this year, BASF did not cut the dividend. This shows that the board is now more committed to rewarding shareholders.

Final Thoughts & Recommendations

BASF is expected to return 6.3% annually through 2026. The projected return stems from a 3% earnings growth rate and a 4.5% dividend yield. Our 2026 price target is \$23. The company's guidance shows that management expects growth in chemical production to be slightly stronger than global gross domestic product over the next five years and will be considerably stronger than the previous five-year average. The company is expecting an increase in EBIT in all segments apart from the Industrial solutions segment as a result of the agreement to divest BASF's global pigments business to DIC. These growth rates may prove too ambitious if there are prolonged restrictions due to the coronavirus pandemic. With its solid yield and decent-but-unspectacular expected total returns, we rate BASF as a hold at current prices.

Total Return Breakdown by Year



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² <https://www.multpl.com/s-p-500-dividend-yield>

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019
Revenue	84664	102479	92731	98243	98842	78177	63694	69336	71108	66404
Gross Profit	24605	27205	22965	24433	24585	21170	20237	22233	20435	18197
Gross Margin	29.1%	26.5%	24.8%	24.9%	24.9%	27.1%	31.8%	32.1%	28.7%	27.4%
SG&A Exp.	10389	12044	11321	11677	11772	10532	10073	10772	10711	10324
D&A Exp.	4497	4767	4227	4401	4595	4936	4749	4771	4428	4722
Operating Profit	11199	12598	8488	9416	9394	7104	7259	8620	7186	4823
Operating Margin	13.2%	12.3%	9.2%	9.6%	9.5%	9.1%	11.4%	12.4%	10.1%	7.3%
Net Profit	6040	8628	6195	6364	6855	4424	4489	6883	5558	9427
Net Margin	7.1%	8.4%	6.7%	6.5%	6.9%	5.7%	7.0%	9.9%	7.8%	14.2%
Free Cash Flow	5185	5152	3326	4286	2210	4033	3953	5424	4776	4086
Income Tax	3047	3300	1170	1975	2275	1384	1262	1461	1319	846

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	78990	77060	82882	88657	86774	77445	80869	94498	99011	97399
Cash & Equivalents	1986	2465	2187	2523	2089	2450	1454	7792	2631	2719
Accounts Receivable	13522	13149	14321	14130	12628	10404	11578	12958	12200	10186
Inventories	11555	12533	13581	13881	13585	10522	10482	12278	13782	12457
Goodwill & Int. Ass.	16285	15349	16246	17018	15768	13707	16029	16309	18936	16270
Total Liabilities	48857	44399	49062	50445	52488	42957	46439	52801	57706	49960
Accounts Payable	6301	6252	7645	7116	5911	4395	4874	5964	5859	5698
Long-Term Debt	20001	16195	16925	20928	19844	17266	17751	22227	24369	21240
Shareholder's Equity	28466	31314	32535	37343	33579	33800	33625	40594	40098	46484
D/E Ratio	0.70	0.52	0.52	0.56	0.59	0.51	0.53	0.55	0.61	0.46

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.9%	11.1%	7.7%	7.4%	7.8%	5.4%	5.7%	7.9%	5.7%	9.6%
Return on Equity	22.6%	28.9%	19.4%	18.2%	19.3%	13.1%	13.3%	18.5%	13.8%	21.8%
ROIC	12.3%	17.4%	12.4%	11.6%	12.1%	8.4%	8.6%	11.9%	8.6%	14.0%
Shares Out.	3674	3678	3674	3679	3682	3683	3679	3678	3685	3681
Revenue/Share	23.04	27.86	25.24	26.70	26.84	21.23	17.31	18.85	19.30	18.04
FCF/Share	1.41	1.40	0.91	1.16	0.60	1.09	1.07	1.47	1.30	1.11

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

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