



# BASF SE (BASFY)

Updated July 28<sup>th</sup>, 2021 by Derek English

## Key Metrics

<b>Current Price:</b>	\$19.70	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Market Cap:</b>	\$62.20B
<b>Fair Value Price:</b>	\$19.60	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	04/30/21
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-1.0%	<b>Dividend Payment Date:</b>	05/04/21
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$23.00	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 organizes its operating businesses under six main segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care, and Agricultural Solutions. The underlying security BASF is listed on the Frankfurt and London exchanges. The ADR was delisted on the NYSE in 2007<sup>1</sup>; 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 U.S. dollars using fx rates at the end of each fiscal year.

BASF released Q1 2021 results on July 28th, 2021. The company posted strong results as sales increased by 56% to \$23.34 billion, mainly due to volume growth across all regions and segments, with Europe and North America growing above 25%. EBIT increased 942% to \$2.78 billion from Q1 2020 due to higher earnings contributions from the Materials and Chemicals segments. The Surface Technologies segment also recorded substantial earnings growth due to a 44% increase in volume. However, EBIT is down 8% from the previous quarter. Net debt increased by \$1.89 billion while free cash flow saw an 8.% increase from the same period last year.

## Growth on a Per-Share Basis

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

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. 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 beyond 2021, depending on market conditions. In the next five years, we expect ~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 previous 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 had seen that they had held the dividend this year even when the payout ratio was above 100% due to one-off events. Therefore, we estimate a 3% dividend growth rate over the next five years.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	10.3	12.8	13.6	15.1	20.0	16.5	13.2	17.2	7.9	N/A	<b>13.1</b>	<b>13.0</b>
<b>Avg. Yld.</b>	3.0%	3.7%	3.7%	3.2%	3.2%	4.0%	3.4%	3.5%	4.5%	6.0%	<b>5.0%</b>	<b>4.7%</b>

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

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At 5%, BASFs' dividend yield is slightly above its five-year average of 4.3%. This is an attractive yield compared to the average of the S&P 500, which is 1.49%<sup>2</sup>. The current P/E ratio of 13.1 is very close to the five-year average P/E of 14. We expect earnings to follow the same trend as the previous five years with mid-single-digit growth of around 3%, provided we do not see more prolonged lockdowns due to the coronavirus. We are predicting a P/E ratio of 13 by 2026. Our relatively low fair value P/E 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%

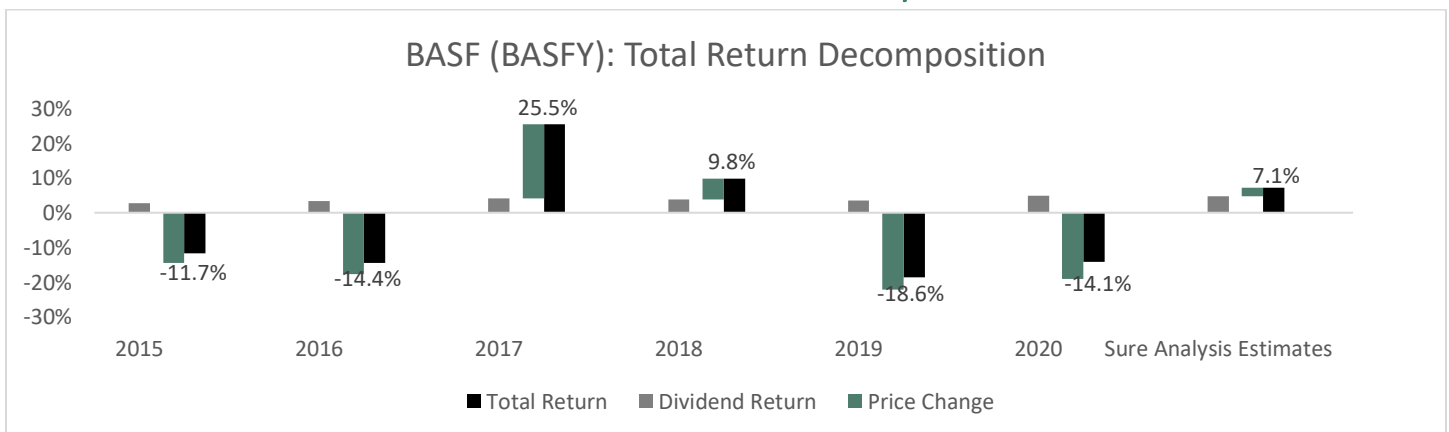
BASF aims to add value through the efficient use of resources in a concept called Verbund. The Chemicals segment is at the heart of the Verbund concept. Its production facilities supply BASF's segments with basic chemicals and intermediates to produce higher value-added products. In this way, the segment makes a significant contribution to BASF's organic growth. Chemical production is predicted to grow at 4% a year over the next three years, with Asia being a key growth driver. After a difficult 2020, we have already begun to see this growth occur, with the last three quarters both posting sales increases.

During the last recession, both revenue and earnings were hit hard, leading the company to cut its dividend. However, they returned to growth in 2010 and began increasing the dividend again. Over the last five years, the board has made it a goal to increase the dividend every year. While they did not increase the dividend in 2020, BASF did not cut the dividend for F.Y. 2020, which was paid on May 4th, 2021. The company only pays a dividend once a year, and F.Y 2021 dividend is expected to be announced next April.

## Final Thoughts & Recommendations

With expected earnings per share growth rate of 3%, a dividend yield of 5% and a low single-digit contribution from valuation expansion, we expect a total return of 7.1% annually for Reckitt Benckiser through 2026 at current prices. 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 more robust than the previous five-year average. It is encouraging to see EBIT increase in this quarter in line with the companies expectation. At current prices, we still rate BASF as a hold.

## Total Return Breakdown by Year



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

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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	84664	102479	92731	98243	98842	78177	63694	69336	71108	66404
<b>Gross Profit</b>	24605	27205	22965	24433	24585	21170	20237	22233	20435	18197
<b>Gross Margin</b>	29.1%	26.5%	24.8%	24.9%	24.9%	27.1%	31.8%	32.1%	28.7%	27.4%
<b>SG&amp;A Exp.</b>	10389	12044	11321	11677	11772	10532	10073	10772	10711	10324
<b>D&amp;A Exp.</b>	4497	4767	4227	4401	4595	4936	4749	4771	4428	4722
<b>Operating Profit</b>	11199	12598	8488	9416	9394	7104	7259	8620	7186	4823
<b>Operating Margin</b>	13.2%	12.3%	9.2%	9.6%	9.5%	9.1%	11.4%	12.4%	10.1%	7.3%
<b>Net Profit</b>	6040	8628	6195	6364	6855	4424	4489	6883	5558	9427
<b>Net Margin</b>	7.1%	8.4%	6.7%	6.5%	6.9%	5.7%	7.0%	9.9%	7.8%	14.2%
<b>Free Cash Flow</b>	5185	5152	3326	4286	2210	4033	3953	5424	4776	4086
<b>Income Tax</b>	3047	3300	1170	1975	2275	1384	1262	1461	1319	846

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	78990	77060	82882	88657	86774	77445	80869	94498	99011	97399
<b>Cash &amp; Equivalents</b>	1986	2465	2187	2523	2089	2450	1454	7792	2631	2719
<b>Accounts Receivable</b>	13522	13149	14321	14130	12628	10404	11578	12958	12200	10186
<b>Inventories</b>	11555	12533	13581	13881	13585	10522	10482	12278	13782	12457
<b>Goodwill &amp; Int. Ass.</b>	16285	15349	16246	17018	15768	13707	16029	16309	18936	16270
<b>Total Liabilities</b>	48857	44399	49062	50445	52488	42957	46439	52801	57706	49960
<b>Accounts Payable</b>	6301	6252	7645	7116	5911	4395	4874	5964	5859	5698
<b>Long-Term Debt</b>	20001	16195	16925	20928	19844	17266	17751	22227	24369	21240
<b>Shareholder's Equity</b>	28466	31314	32535	37343	33579	33800	33625	40594	40098	46484
<b>D/E Ratio</b>	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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	7.9%	11.1%	7.7%	7.4%	7.8%	5.4%	5.7%	7.9%	5.7%	9.6%
<b>Return on Equity</b>	22.6%	28.9%	19.4%	18.2%	19.3%	13.1%	13.3%	18.5%	13.8%	21.8%
<b>ROIC</b>	12.3%	17.4%	12.4%	11.6%	12.1%	8.4%	8.6%	11.9%	8.6%	14.0%
<b>Shares Out.</b>	3674	3678	3674	3679	3682	3683	3679	3678	3685	3681
<b>Revenue/Share</b>	23.04	27.86	25.24	26.70	26.84	21.23	17.31	18.85	19.30	18.04
<b>FCF/Share</b>	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.

### Disclaimer

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