Badger Meter (BMI)

Updated January 29th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$94	**5 Year CAGR Estimate:**	-3.0%	**Market Cap:**	$2.8 billion
Fair Value Price:	$54	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	2/25/2022
% Fair Value:	175%	**5 Year Valuation Multiple Estimate:**	-10.6%	**Dividend Payment Date:**	3/12/2022[1]
Dividend Yield:	0.9%	**5 Year Price Target**	$75	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	11.1%

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 $520 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 fourth quarter and full year results on 1/28/2022. For the quarter, revenue grew 20.8% to a record $135.7 million, beating estimates by $7.9 million. GAAP earnings-per-share of $0.59 compared to $0.45 in the prior year and was $0.13 better than expected. For 2021, revenue grew 19% to a record $505.2 million while earnings-per-share of $2.08 compared to $1.70 in the prior year.

The utility water business grew more than 23%, driven primarily by order activity, acquisitions, and backlog conversion. Excluding the contribution from acquisitions, water sales were still higher by 14.4%. Revenue for flow instrumentation products grew 8.9% due to better demand and an easier comparable period. Supply chain constraints were a headwind during the quarter. Order pace continues to be elevated as the backlog hit a company record. The operating margin expanded 170 basis points to 16.8% while gross margin improved 120 basis points to 40.4%.

Analysts expect Badger Meter to earn $2.07 of earnings-per-share in 2022. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.98	$0.85	$1.03	$0.90	$1.11	$1.19	$1.54	$1.61	$1.69	$2.08	***$2.07***	***$2.90***
DPS	$0.33	$0.35	$0.37	$0.39	$0.43	$0.49	$0.56	$0.68	$0.72	$0.76	***$0.80***	***$1.25***
Shares[2]	29	29	29	29	29	29	29	29	29	29	***29***	***29***

Badger Meter has increased earnings per share by 8.7% per year over the past decade and 11.7% over the last five years. The company's business was resilient in the face of the pandemic last year, showing Badger Meter's underlying strength. We are raising our expected earnings-per-share growth rate to 7% from 5% to reflect the quality of earnings and the demand for the company's products. Badger Meter's ability to control costs, and thereby boost margins, should help offset any weakness in revenue that may occur due to supply chain issues.

Badger Meter has increased its dividend for the past 29 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 11.1% for the 9/10/2021 payment.

[1] Estimated dividend payment date
[2] In millions of shares

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.9	28.8	25.6	33.2	30.6	34.8	31.8	34.9	39.1	51.2	***45.4***	***26.0***
Avg. Yld.	1.8%	1.4%	1.4%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	0.7%	***0.9%***	***1.7%***

Shares of Badger Meter have declined by $10, or 9.6%, since our 10/16/2021 update. We reaffirm our target P/E ratio of 26 to bring it more in-line with the stock's long-term average valuation. The stock has a current P/E ratio of 45.4, meaning that shareholders are very likely to see significant headwinds from valuation reversion in the coming years. Annual returns would be reduced by 10.6% over this period of time if the stock were to revert to our target by 2027. We see a declining valuation as the catalyst for the yield to rise closer to 2% from the current yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	41%	36%	43%	39%	41%	36%	42%	43%	37%	***39%***	***43%***

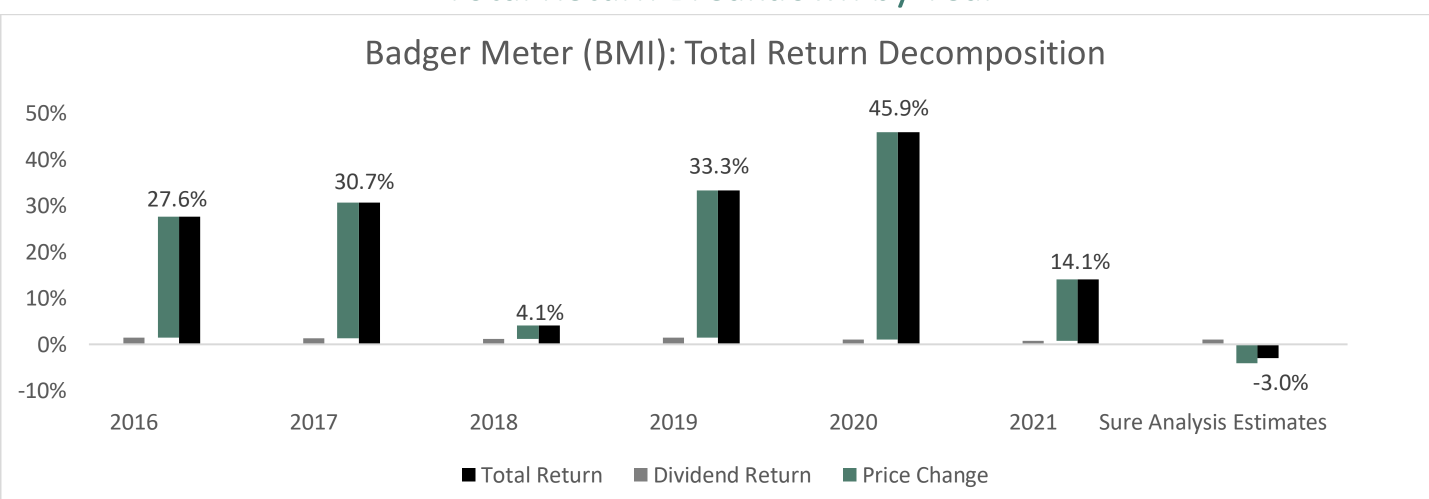
Given Badger Meter's 29-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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

After fourth quarter earnings results, Badger Meter is projected to lose 3.0% annually through 2027, compared to our prior estimate of a loss of 7.6% per year. Our estimated return stems from a 7.0% earnings growth rate combined with a 0.9% starting yield, offset by a low double-digit headwind from valuation reversion. Badger Meter ended 2021 on a very strong note, with records in several areas. We have raised our five-year price target $10 to $75, but maintain our sell rating on the stock due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	263	320	334	365	378	394	402	434	425	426
Gross Profit	90	122	117	131	136	151	156	162	164	168
Gross Margin	34.2%	38.2%	35.0%	36.0%	35.9%	38.2%	38.7%	37.4%	38.5%	39.5%
SG&A Exp.	62	78	78	85	93	98	99	105	101	103
D&A Exp.	9	12	13	16	21	22	24	24	24	25
Operating Profit	28	44	39	46	42	53	57	57	62	65
Operating Margin	10.5%	13.9%	11.7%	12.6%	11.2%	13.4%	14.1%	13.1%	14.6%	15.3%
Net Profit	19	28	25	30	26	32	35	28	47	49
Net Margin	7.3%	8.8%	7.4%	8.1%	6.9%	8.2%	8.6%	6.4%	11.1%	11.6%
Free Cash Flow	26	27	21	23	16	46	35	52	73	81
Income Tax	8	15	13	15	15	18	20	8	14	16

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	219	290	316	341	355	350	392	393	422	468
Cash & Equivalents	5	7	7	7	8	7	11	13	49	72
Accounts Receivable	41	46	50	54	57	60	58	66	61	62
Inventories	49	61	61	72	79	78	85	81	82	82
Goodwill & Int. Ass.	43	94	105	114	105	101	133	132	125	148
Total Liabilities	40	119	119	127	123	93	114	89	91	107
Accounts Payable	11	16	19	16	19	18	29	22	32	35
Long-Term Debt	2	67	70	76	71	38	45	18	4	-
Shareholder's Equity	179	171	197	214	232	256	277	304	331	361
LTD/E Ratio	0.01	0.39	0.36	0.35	0.31	0.15	0.16	0.06	0.01	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.8%	11.0%	8.1%	9.0%	7.4%	9.2%	9.3%	7.1%	11.6%	11.1%
Return on Equity	11.0%	16.0%	13.4%	14.4%	11.6%	13.2%	13.0%	9.6%	14.9%	14.3%
ROIC	10.6%	13.4%	9.8%	10.7%	8.7%	10.8%	11.2%	8.6%	14.4%	14.2%
Shares Out.	30	29	29	29	29	29	29	29	29	29
Revenue/Share	8.74	11.10	11.57	12.68	13.07	13.55	13.82	14.86	14.53	14.56
FCF/Share	0.86	0.92	0.71	0.81	0.56	1.57	1.19	1.77	2.51	2.75

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