



# BASF SE (BASFY)

Updated July 29<sup>th</sup>, 2022 by Derek English

## Key Metrics

<b>Current Price:</b>	\$11.00	<b>5 Year CAGR Estimate:</b>	20.2%	<b>Market Cap:</b>	\$62.2 B
<b>Fair Value Price:</b>	\$19.60	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	04/28/23 <sup>1</sup>
<b>% Fair Value:</b>	56%	<b>5 Year Valuation Multiple Estimate:</b>	2.7%	<b>Dividend Payment Date:</b>	05/14/23 <sup>2</sup>
<b>Dividend Yield:</b>	7.0%	<b>5 Year Price Target</b>	\$23	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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>3</sup>; however, the company still maintains the ADR program. Each ADR (BASFY) represents one-fifth of a BASF share. While BASF reports all its 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 Q2 2022 results on July 29<sup>th</sup>, 2022. The company had a solid second quarter, as sales increased 16.3% to ~\$23 billion, and net income rose by 26%. Sales in the Chemicals division rose 27.2%, Materials grew 30%, and Nutrition & Care increased 31%. Higher prices drove the growth in all three segments by passing on the increased costs for raw materials and energy to the customer. Surface technologies was the only segment that decreased compared with last year. The 7% year-over-year decrease was primarily due to significantly lower volumes in the Catalysts division. This was mainly the result of weaker demand from the automotive industry due to insufficient semiconductor supply and the Covid-19 lockdowns in China. In addition, free cash flow decreased to ~ \$340 million from Q2 2021 due to increased working capital and capex.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.62	\$1.70	\$1.90	\$1.22	\$1.22	\$1.85	\$1.51	\$2.56	(\$0.59)	\$1.36	<b>\$1.51</b>	<b>\$1.75</b>
<b>DPS</b>	\$0.77	\$0.85	\$0.92	\$0.79	\$0.81	\$0.84	\$0.92	\$0.91	\$0.98	\$0.99	<b>\$0.92</b>	<b>\$1.04</b>
<b>Shares</b>	3674	3678	3674	3679	3682	3683	3679	3678	3685	3681	<b>3681</b>	<b>3681</b>

Given BASF's cyclical nature, it is not surprising to see earnings fluctuate. The company had negative EPS in 2020 due to impairments of assets at the Wintershall Dea group 2020. BASF has an IPO for Wintershall Dea planned, which was canceled in 2021 due to market conditions. We expect annualized earnings growth of ~3% growth for the next five years based on a conservative average oil price of \$50 for a barrel of Brent crude and an exchange rate of \$1.05 per euro. Our predicted \$1.51 EPS for 2022 is supported by the current average oil price above \$100. However, macroeconomic risks, such as the conflict in Ukraine and an energy crisis in Europe, can negatively affect these estimations. The company is currently obliged to participate in a crisis team that must report to the Federal Ministry for Economic Affairs of Germany to help mitigate any gas shortage in Germany and Europe. Since the last dividend cut in 2009, BASF has grown its dividend for the previous 11 years. The 5-year CAGR is 4%. Unlike in 2009, the company has committed to raising the dividend yearly. Therefore, we estimate a reasonable 3% dividend growth rate over five years in local currency. In addition, the company has increased the dividend in euros by 3% for 2021, distributed on May 4th, 2022.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> <https://www.basf.com/global/en/investors/share-and-adrs/adrs-for-us-investors/p-07-350.html>

Disclosure: This analyst has a position in the security discussed in this research report



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.8	13.6	15.1	20.0	16.5	13.2	17.2	7.9	-27.8	14.1	<b>11.4</b>	<b>13.0</b>
Avg. Yld.	3.7%	3.7%	3.2%	3.2%	4.0%	3.4%	3.5%	4.5%	6.0%	5.2%	<b>7.0%</b>	<b>4.6%</b>

At 7%, BASFs' dividend yield is above its five-year average of 4.9%. This is an attractive yield compared to the average of the S&P 500, which is 1.56%<sup>4</sup>. The Share price has been dropping over the last quarter due to macroeconomics, but the cost of energy is also increasing while the volume of sales has been declining. The current P/E ratio of 11.4 is below the five-year average P/E of 14. We are predicting a P/E ratio of 13 by 2027. Our relatively low fair value P/E is based on the historical share price not growing since 2005 and our low expected earnings growth rate.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

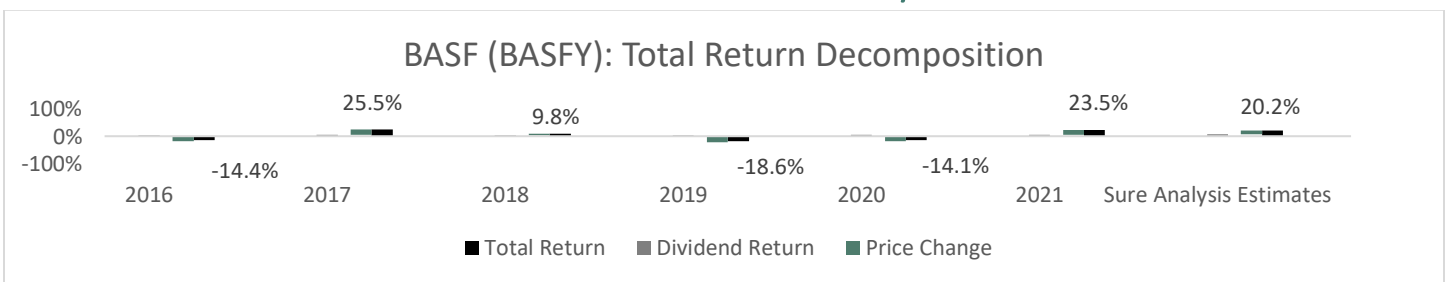
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47%	50%	49%	65%	66%	45%	61%	35%	-166%	73%	<b>61%</b>	<b>59%</b>

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 significantly contributes to BASF's organic growth. The company is currently in the main construction phase of a new Verbund site in Zhanjiang, China. Over the next three years, chemical production is predicted to grow at 4% a year, with Asia being a key growth driver. After a difficult 2020, we saw 2021 and 2022 return to growth, with sales increases in the last five quarters. However, macroeconomic factors, rising energy costs, and supply chain issues have contributed to declining sales volume in H1 2022. During the previous recession, revenue and earnings were hit hard, leading the company to cut its dividend. However, they returned to growth in 2010 and increased the dividend again. Over the last five years, the board has made it a goal to increase the dividend yearly. While they did not increase the dividend in 2020 in euro, BASF did not cut the dividend for FY 2020 and resumed increasing the dividend for F.Y. 2021.

## Final Thoughts & Recommendations

With expected earnings per share growth rate of 3%, a dividend yield of 7%, and a low single-digit contribution from valuation expansion, we estimate a total return of 20.2% annually for BASF SE through 2027. Our 2027 price target is \$23. Despite supply chain issues, the company's guidance has increased for 2022, and they have made quality acquisitions in the renewable and E.V. sectors. BASF is a reliable company that generates enough free cash flow to sustain its dividend. We rate BASF as a buy due to projected returns.

## Total Return Breakdown by Year



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<sup>4</sup> <https://www.multpl.com/s-p-500-dividend-yield>

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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	102479	92731	98243	98842	78177	63694	69336	71108	66404	93000
<b>Gross Profit</b>	27205	22965	24433	24585	21170	20237	22233	20435	18197	23420
<b>Gross Margin</b>	26.5%	24.8%	24.9%	24.9%	27.1%	31.8%	32.1%	28.7%	27.4%	25.2%
<b>SG&amp;A Exp.</b>	12044	11321	11677	11772	10532	10073	10772	10711	10324	11620
<b>D&amp;A Exp.</b>	4767	4227	4401	4595	4936	4749	4771	4428	4722	4362
<b>Operating Profit</b>	12598	8488	9416	9394	7104	7259	8620	7186	4823	9176
<b>Operating Margin</b>	12.3%	9.2%	9.6%	9.5%	9.1%	11.4%	12.4%	10.1%	7.3%	9.9%
<b>Net Profit</b>	8628	6195	6364	6855	4424	4489	6883	5558	9427	6535
<b>Net Margin</b>	8.4%	6.7%	6.5%	6.9%	5.7%	7.0%	9.9%	7.8%	14.2%	7.0%
<b>Free Cash Flow</b>	5152	3326	4286	2210	4033	3953	5424	4776	4086	4393
<b>Income Tax</b>	3300	1170	1975	2275	1384	1262	1461	1319	846	1692

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	77060	82882	88657	86774	77445	80869	94498	99011	97399	98940
<b>Cash &amp; Equivalents</b>	2465	2187	2523	2089	2450	1454	7792	2631	2719	2971
<b>Accounts Receivable</b>	13149	14321	14130	12628	10404	11578	12958	12200	10186	13520
<b>Inventories</b>	12533	13581	13881	13585	10522	10482	12278	13782	12457	15570
<b>Goodwill &amp; Int. Ass.</b>	15349	16246	17018	15768	13707	16029	16309	18936	16270	15280
<b>Total Liabilities</b>	44399	49062	50445	52488	42957	46439	52801	57706	49960	51290
<b>Accounts Payable</b>	6252	7645	7116	5911	4395	4874	5964	5859	5698	8861
<b>Long-Term Debt</b>	16195	16925	20928	19844	17266	17751	22227	24369	21240	20070
<b>Shareholder's Equity</b>	31314	32535	37343	33579	33800	33625	40594	40098	46484	46190
<b>LTD/E Ratio</b>	0.52	0.52	0.56	0.59	0.51	0.53	0.55	0.61	0.46	

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	11.1%	7.7%	7.4%	7.8%	5.4%	5.7%	7.9%	5.7%	9.6%	6.6%
<b>Return on Equity</b>	28.9%	19.4%	18.2%	19.3%	13.1%	13.3%	18.5%	13.8%	21.8%	14.9%
<b>ROIC</b>	17.4%	12.4%	11.6%	12.1%	8.4%	8.6%	11.9%	8.6%	14.0%	9.7%
<b>Shares Out.</b>	3678	3674	3679	3682	3683	3679	3678	3685	3681	3682
<b>Revenue/Share</b>	27.86	25.24	26.70	26.84	21.23	17.31	18.85	19.30	18.04	25.26
<b>FCF/Share</b>	1.40	0.91	1.16	0.60	1.09	1.07	1.47	1.30	1.11	1.19

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

### Disclaimer

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