Badger Meter (BMI)

Updated July 20th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	-0.3%	**Market Cap:**	$2.4 billion
Fair Value Price:	$57	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/25/22
% Fair Value:	152%	**5 Year Valuation Multiple Estimate:**	-8.0%	**Dividend Payment Date:**	09/09/22[1]
Dividend Yield:	0.9%	**5 Year Price Target**	$79	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 $540 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.

On July 20th, 2022, Badger Meter announced second quarter earnings for the period ending June 30th, 2022. Revenue grew 12.2% to $137.8 million, which was slightly higher than expected. Earnings-per-share of $0.57 compared favorably to earnings-per-share of $0.48 in the prior year and was $0.06 above estimates.

The utility water business grew 14%, led by strength in E-Series Ultrasonic meters and ORION Cellular endpoints along with continued backlog conversion. Revenue for flow instrumentation products was up 4% due to high demand in most areas. Gross margins improved 140 basis points to 39.7% while the operating margin expanded 80 basis points to 16%.

We have lowered our earnings-per-share estimates for the year to $2.18 from $2.23 previously.

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	***$2.18***	***$3.06***
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 September 10th, 2021 payment.

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	***39.4***	***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%***	***1.6%***

Shares of Badger Meter have declined by $4, or 4.4%, since our April 19th, 2022 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 39.4,

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[1] Estimated dividend payment date

[2] In millions of shares

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.

meaning that shareholders are very likely to see significant headwinds from valuation reversion in the coming years. Reverting to our target valuation by 2027 would reduce annual returns by 8.0% over this period of time. We see a declining valuation as the catalyst for the yield to rise to 1.6% 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%	***37%***	***41%***

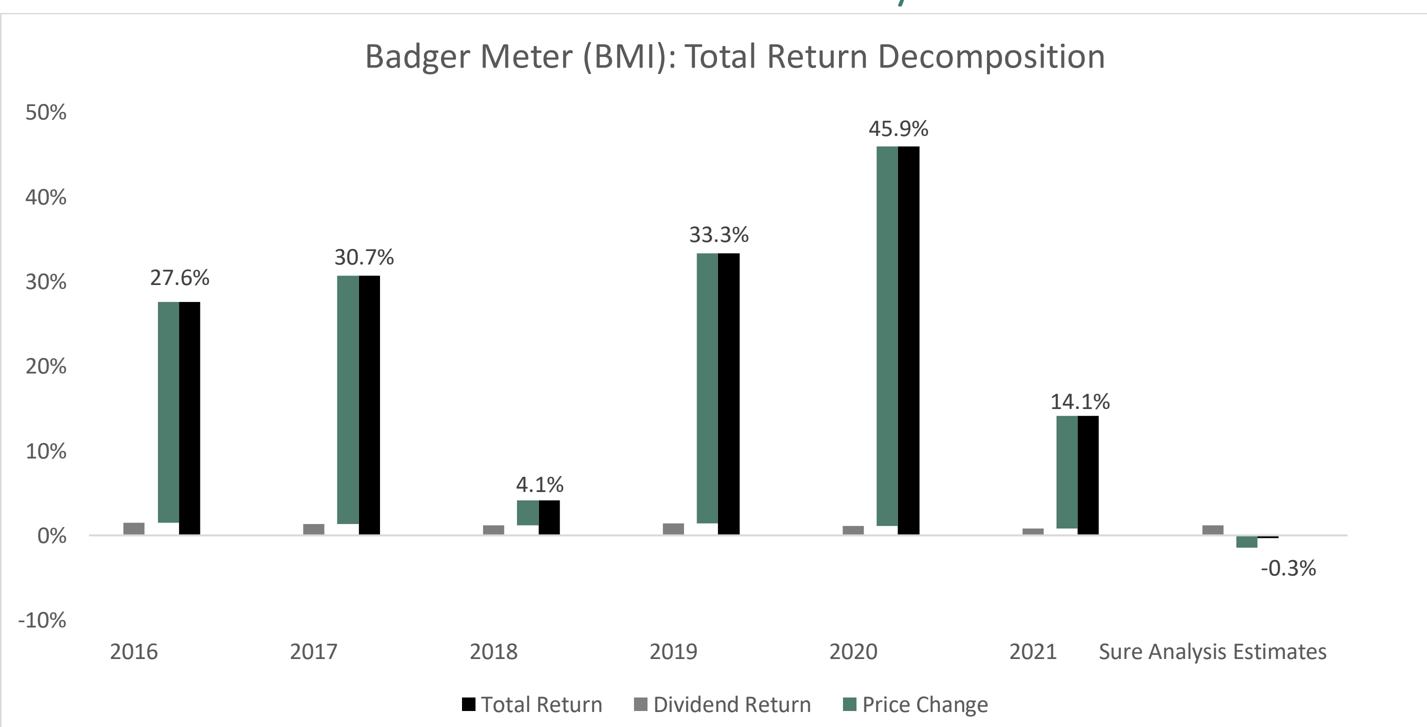
Given Badger Meter's 29-year dividend increase streak and low payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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 second quarter earnings results, Badger Meter is projected to lose 0.3% annually through 2027, compared to our prior estimate of a loss of 0.8% per year. This projected loss stems from a 7% earnings growth rate and starting yield of 0.9% that are more than offset by multiple compression. Badger Meter continues to see strong results from its water utility business and flow instrumentation returned to growth, though supply constraints remain a headwind for the latter. We have decreased our five-year price target $2 to $79 due to lower expected earnings-per-share for 2022, but maintain our sell rating on Badger Meter due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	320	334	365	378	394	402	434	425	426	505
Gross Profit	122	117	131	136	151	156	162	164	168	205
Gross Margin	38.2%	35.0%	36.0%	35.9%	38.2%	38.7%	37.4%	38.5%	39.5%	40.7%
SG&A Exp.	78	78	85	93	98	99	105	101	103	127
D&A Exp.	12	13	16	21	22	24	24	24	25	28
Operating Profit	44	39	46	42	53	57	57	62	65	79
Operating Margin	13.9%	11.7%	12.6%	11.2%	13.4%	14.1%	13.1%	14.6%	15.3%	15.6%
Net Profit	28	25	30	26	32	35	28	47	49	61
Net Margin	8.8%	7.4%	8.1%	6.9%	8.2%	8.6%	6.4%	11.1%	11.6%	12.1%
Free Cash Flow	27	21	23	16	46	35	52	73	81	81
Income Tax	15	13	15	15	18	20	8	14	16	18

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	290	316	341	355	350	392	393	422	468	531
Cash & Equivalents	7	7	7	8	7	11	13	49	72	87
Accounts Receivable	46	50	54	57	60	58	66	61	62	66
Inventories	61	61	72	79	78	85	81	82	82	100
Goodwill & Int. Ass.	94	105	114	105	101	133	132	125	148	174
Total Liabilities	119	119	127	123	93	114	89	91	107	128
Accounts Payable	16	19	16	19	18	29	22	32	35	42
Long-Term Debt	67	70	76	71	38	45	18	4	-	-
Shareholder’s Equity	171	197	214	232	256	277	304	331	361	403
LTD/E Ratio	0.39	0.36	0.35	0.31	0.15	0.16	0.06	0.01	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.0%	8.1%	9.0%	7.4%	9.2%	9.3%	7.1%	11.6%	11.1%	12.2%
Return on Equity	16.0%	13.4%	14.4%	11.6%	13.2%	13.0%	9.6%	14.9%	14.3%	15.9%
ROIC	13.4%	9.8%	10.7%	8.7%	10.8%	11.2%	8.6%	14.4%	14.2%	15.9%
Shares Out.	29	29	29	29	29	29	29	29	29	29
Revenue/Share	11.10	11.57	12.68	13.07	13.55	13.82	14.86	14.53	14.56	17.22
FCF/Share	0.92	0.71	0.81	0.56	1.57	1.19	1.77	2.51	2.75	2.75

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