



BASF SE (BASFY)

Updated October 30th, 2022 by Derek English

Key Metrics

Current Price:	\$11.50	5-Year CAGR Estimate:	19.3%	Market Cap:	\$62.2 B
Fair Value Price:	\$19.60	5-Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/28/23 ¹
% Fair Value:	58%	5-Year Valuation Multiple Estimate:	9.7%	Dividend Payment Date:	05/15/23 ²
Dividend Yield:	7.8%	5-Year Price Target	\$23	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	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 from the NYSE in 2007³; 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 Q3 2022 results on October 26th, 2022. The company had a solid third quarter, as sales increased 11.6% to ~\$22 billion, while net income declined by 27%, mainly due to higher interest expenses. Revenue in the Chemicals division rose by 2.7%, Materials grew by 18%, and Nutrition & Care increased by 32%. Notably, the sales volume had declined in each of these segments, but 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 were the only segment that decreased compared with last year. The 5.3% year-over-year decrease was primarily due to significantly lower precious metal prices in the Catalysts division. Free cash flow increased ~\$218 million to \$1,295 million from Q3 2021 due to a reduction in receivables and the simultaneous decrease in operating liabilities.

Growth on a Per-Share Basis

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

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 \$1.03 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 affect these estimations negatively. 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. This might be a conservative estimate if the Price of a barrel of oil stays above \$100. In addition, the company has increased the dividend in euros by 3% for 2021, which was distributed on May 4th, 2022.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ <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	8.2	13.0
Avg. Yld.	3.7%	3.7%	3.2%	3.2%	4.0%	3.4%	3.5%	4.5%	6.0%	5.2%	7.8%	4.6%

At 7.8%, 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 1.67%⁴. The cost of energy has been increasing, particularly in Europe, while the sales volume has been declining. Both have been contributing to the share price decline over the past year. However, the company is generating stable free cash flow and has demonstrated the ability to pass on its higher costs to its customers. The current P/E ratio of 8.2 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

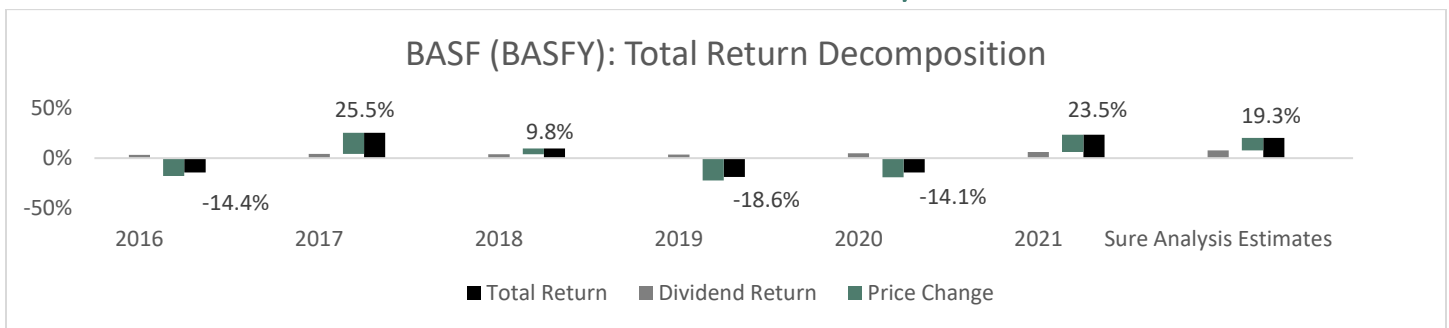
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47%	50%	49%	65%	66%	45%	61%	35%	-166%	73%	61%	59%

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% yearly, with Asia being a key growth driver. After a difficult 2020, we saw 2021 and 2022 return to growth. However, macroeconomic factors, rising energy costs, and supply chain issues have contributed to declining sales volume in Q3 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 F.Y. 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 7.8%, and a low single-digit contribution from valuation expansion, we estimate a total return of 19.3% annually for BASF SE through 2027. Our 2027 price target is \$19.6. Despite supply chain issues, the company's guidance has been maintained for 2022. 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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⁴ <https://www.multip.com/s-p-500-dividend-yield>

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Income Statement Metrics

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

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	77060	82882	88657	86774	77445	80869	94498	99011	97399	98940
Cash & Equivalents	2465	2187	2523	2089	2450	1454	7792	2631	2719	2971
Accounts Receivable	13149	14321	14130	12628	10404	11578	12958	12200	10186	13520
Inventories	12533	13581	13881	13585	10522	10482	12278	13782	12457	15570
Goodwill & Int. Ass.	15349	16246	17018	15768	13707	16029	16309	18936	16270	15280
Total Liabilities	44399	49062	50445	52488	42957	46439	52801	57706	49960	51290
Accounts Payable	6252	7645	7116	5911	4395	4874	5964	5859	5698	8861
Long-Term Debt	16195	16925	20928	19844	17266	17751	22227	24369	21240	20070
Shareholder's Equity	31314	32535	37343	33579	33800	33625	40594	40098	46484	46190
LTD/E Ratio	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
Return on Assets	11.1%	7.7%	7.4%	7.8%	5.4%	5.7%	7.9%	5.7%	9.6%	6.6%
Return on Equity	28.9%	19.4%	18.2%	19.3%	13.1%	13.3%	18.5%	13.8%	21.8%	14.9%
ROIC	17.4%	12.4%	11.6%	12.1%	8.4%	8.6%	11.9%	8.6%	14.0%	9.7%
Shares Out.	3678	3674	3679	3682	3683	3679	3678	3685	3681	3682
Revenue/Share	27.86	25.24	26.70	26.84	21.23	17.31	18.85	19.30	18.04	25.26
FCF/Share	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.

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