Badger Meter (BMI)

Updated October 20th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$139	**5 Year CAGR Estimate:**	0.9%	**Market Cap:**	$4.1 billion
Fair Value Price:	$94	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/23/23
% Fair Value:	148%	**5 Year Valuation Multiple Estimate:**	-7.5%	**Dividend Payment Date:**	12/08/23[1]
Dividend Yield:	0.8%	**5 Year Price Target**	$138	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**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 ~$700 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 August 14th, 2023, Badger Meter increased its quarterly dividend 20% to $0.27 per share for the September 8th payment date, extending the company's dividend growth streak to 31 consecutive years.

On October 19th, 2023, Badger Meter announced third quarter earnings results for the period ending September 30th, 2023. For the quarter, revenue was higher by 25.8% to $186.2 million, which was $7.1 million above estimates. Earnings-per-share of $0.88 compared favorably to earnings-per-share of $0.61 in the prior year and was $0.07 more than expected.

The utility water business grew 31%. As with prior quarters, this growth was led by high demand for ORION Cellular endpoint, E-Series Ultrasonic meters, and BEACON Software as a Service. Easing supply chain constraints continue to be a tailwind as well. Revenue for flow instrumentation products grew 2% due to demand for water-focused end markets and HVAC, offset by lower growth rates in other industrial markets. Gross margins improved 20 basis points to 39.1% while the operating margin expanded by 80 basis points to 16.9%.

We now forecast that Badger Meter will earn $3.13 per share in 2023, up from $2.71 and $2.57 previously. This would be a 38.5% increase from the prior year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.85	$1.03	$0.90	$1.11	$1.19	$1.54	$1.61	$1.69	$2.08	$2.26	***$3.13***	***$4.60***
DPS	$0.35	$0.37	$0.39	$0.43	$0.49	$0.56	$0.68	$0.72	$0.76	$0.85	***$1.08***	***$1.68***
Shares[2]	29	29	29	29	29	29	29	29	29	29	***29***	***29***

Badger Meter has increased earnings per share by 11.5% per year over the past decade and 10.9% over the last five years. The company's business was resilient in the face of the pandemic in 2020, showing Badger Meter's underlying strength. We have increased our projected earnings growth to 8% from 7% to reflect the quality of results over the medium- and long-term. 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.

[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.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	28.8	25.6	33.2	30.6	34.8	31.8	34.9	39.1	51.2	48.2	***44.4***	***30.0***
Avg. Yld.	1.4%	1.4%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	0.7%	0.8%	***0.8%***	***1.2%***

Shares of Badger Meter have decreased $14, or 9.2%, since our July 20th, 2023 update. Excluding the last two years, shares of the company have an average P/E ~32 since 2013. We raise our target P/E ratio to 30 from 26 to bring it more in-line with the stock's long-term average valuation. The stock has a current P/E ratio of more than 44 times expected earnings, meaning that shareholders are very likely to see significant headwinds from valuation reversion in the coming years. Reverting to our target valuation by 2028 would reduce annual returns by 7.5% over this period. We see a declining valuation as the catalyst for the yield to rise to 1.2% from the current yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	36%	43%	39%	41%	36%	42%	43%	37%	38%	***35%***	***37%***

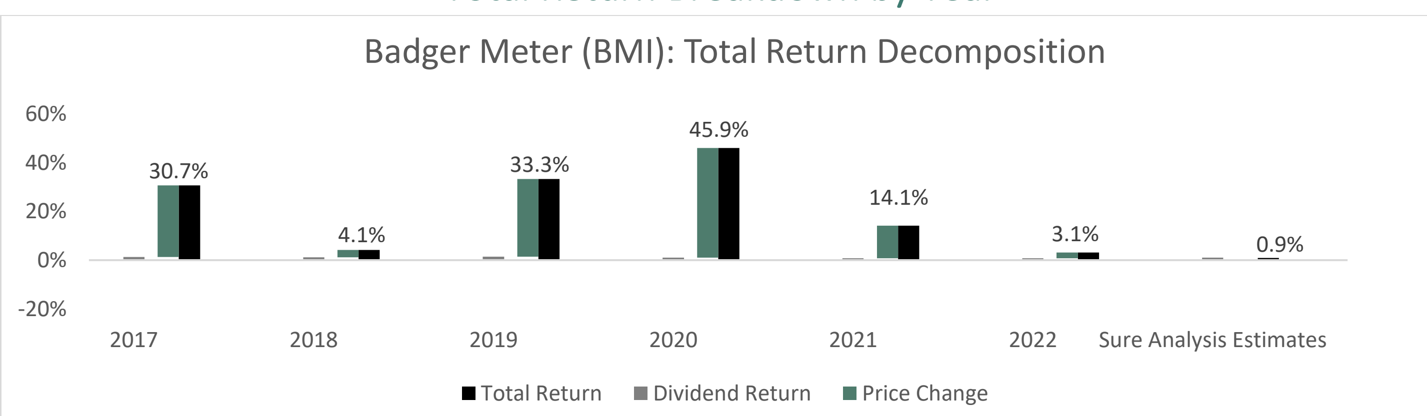
Given Badger Meter's 31-year dividend increase streak and reasonable payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

Unlike many companies at the height of the last recession, earnings-per-share for Badger Meter improved. Most 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 third quarter earnings results, Badger Meter is projected to return 0.9% annually through 2028, compared to our prior estimate of a loss of 3.9% per year. This projected loss stems from an 8% earnings growth rate and starting yield of 0.8% that are nearly offset by multiple compression. Badger Meter continues to see impressive results from its water utility business and flow instrumentation shows growth as well. We have raised our five-year price target $19 to $138 due to earnings estimates for the year, Badger Meter continues to earn a sell rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	334	365	378	394	402	434	425	426	505	566
Gross Profit	117	131	136	151	156	162	164	168	205	220
Gross Margin	35.0%	36.0%	35.9%	38.2%	38.7%	37.4%	38.5%	39.5%	40.7%	38.9%
SG&A Exp.	78	85	93	98	99	105	101	103	127	133
D&A Exp.	13	16	21	22	24	24	24	25	28	26
Operating Profit	39	46	42	53	57	57	62	65	79	87
Operating Margin	11.7%	12.6%	11.2%	13.4%	14.1%	13.1%	14.6%	15.3%	15.6%	15.4%
Net Profit	25	30	26	32	35	28	47	49	61	66
Net Margin	7.4%	8.1%	6.9%	8.2%	8.6%	6.4%	11.1%	11.6%	12.1%	11.8%
Free Cash Flow	21	23	16	46	35	52	73	81	81	77
Income Tax	13	15	15	18	20	8	14	16	18	21

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	316	341	355	350	392	393	422	468	531	603
Cash & Equivalents	7	7	8	7	11	13	49	72	87	138
Accounts Receivable	50	54	57	60	58	66	61	62	66	77
Inventories	61	72	79	78	85	81	82	82	100	120
Goodwill & Int. Ass.	105	114	105	101	133	132	125	148	174	155
Total Liabilities	119	127	123	93	114	89	91	107	128	161
Accounts Payable	19	16	19	18	29	22	32	35	42	71
Long-Term Debt	70	76	71	38	45	18	4	-	-	-
Shareholder's Equity	197	214	232	256	277	304	331	361	403	442
LTD/E Ratio	0.36	0.35	0.31	0.15	0.16	0.06	0.01	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.1%	9.0%	7.4%	9.2%	9.3%	7.1%	11.6%	11.1%	12.2%	11.7%
Return on Equity	13.4%	14.4%	11.6%	13.2%	13.0%	9.6%	14.9%	14.3%	15.9%	15.7%
ROIC	9.8%	10.7%	8.7%	10.8%	11.2%	8.6%	14.4%	14.2%	15.9%	15.7%
Shares Out.	29	29	29	29	29	29	29	29	29	29
Revenue/Share	11.57	12.68	13.07	13.55	13.82	14.86	14.53	14.56	17.22	19.25
FCF/Share	0.71	0.81	0.56	1.57	1.19	1.77	2.51	2.75	2.75	2.61

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