



Badger Meter (BMI)

Updated October 18th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$207	5 Year CAGR Estimate:	3.7%	Market Cap:	\$6.1 billion
Fair Value Price:	\$149	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/22/24 ¹
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Dividend Payment Date:	12/09/24 ²
Dividend Yield:	0.7%	5 Year Price Target	\$240	Years Of Dividend Growth:	32
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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 ~\$750 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 12th, 2024, Badger Meter increased its quarterly dividend 25.9% to \$0.34 per share for the September 6th payment date, extending the company's dividend growth streak to 32 consecutive years.

On October 17th, 2024, Badger Meter reported third quarter earnings results for the period ending September 30th, 2024. For the quarter, revenue grew 11.9% to \$208.4 million, but this was \$3.75 million less than expected. Earnings-per-share of \$1.08 compared favorably to earnings-per-share of \$0.88 in the prior year and was \$0.07 above estimates.

The utility water business improved 14% for the quarter. As with prior periods, this growth was led by an increase in demand for ORION Cellular endpoint, E-Series Ultrasonic meters, and BEACON Software as a Service. Once again, higher demand for water quality and pressure monitoring products also aided results. Revenue for flow instrumentation products were flat year-over-year as modest gains in the water-focused end markets were offset by deemphasized applications globally. Gross margins expanded 110 basis points to 40.2% while the operating margin improved by 260 basis points to a new record 19.5%.

We now forecast that Badger Meter will earn \$4.25 in 2024, up from \$3.99, \$3.53, and \$3.46 previously. This would represent a 35.4% increase from last year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.03	\$0.90	\$1.11	\$1.19	\$1.54	\$1.61	\$1.69	\$2.08	\$2.26	\$3.14	\$4.25	\$6.84
DPS	\$0.37	\$0.39	\$0.43	\$0.49	\$0.56	\$0.68	\$0.72	\$0.76	\$0.85	\$0.99	\$1.36	\$2.19
Shares³	29	29	29	29	29	29	29	29	29	29	29	29

Badger Meter has increased earnings per share by 13.2% per year over the past decade and 17.0% 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 projected earnings growth rate to 10% from 8% 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. We expect that dividend growth will mirror earnings growth.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.6	33.2	30.6	34.8	31.8	34.9	39.1	51.2	48.2	49.2	48.7	35.0
Avg. Yld.	1.4%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	0.7%	0.8%	0.6%	0.7%	0.9%

Shares of Badger Meter have increased \$16, or 8.4%, since our July 20th, 2024 update. The stock has an average price-to-earnings ratio of 37.9 over the last decade. We reaffirm our target P/E ratio of 35.0 to bring it more in-line with the stock's long-term average valuation. The stock has a current P/E ratio of nearly 49 times expected earnings, meaning that shareholders are very likely to see headwinds from valuation reversion in the coming years. Reverting to our target valuation by 2029 would reduce annual returns by 6.4% over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	36%	43%	39%	41%	36%	42%	43%	37%	38%	32%	32%	32%

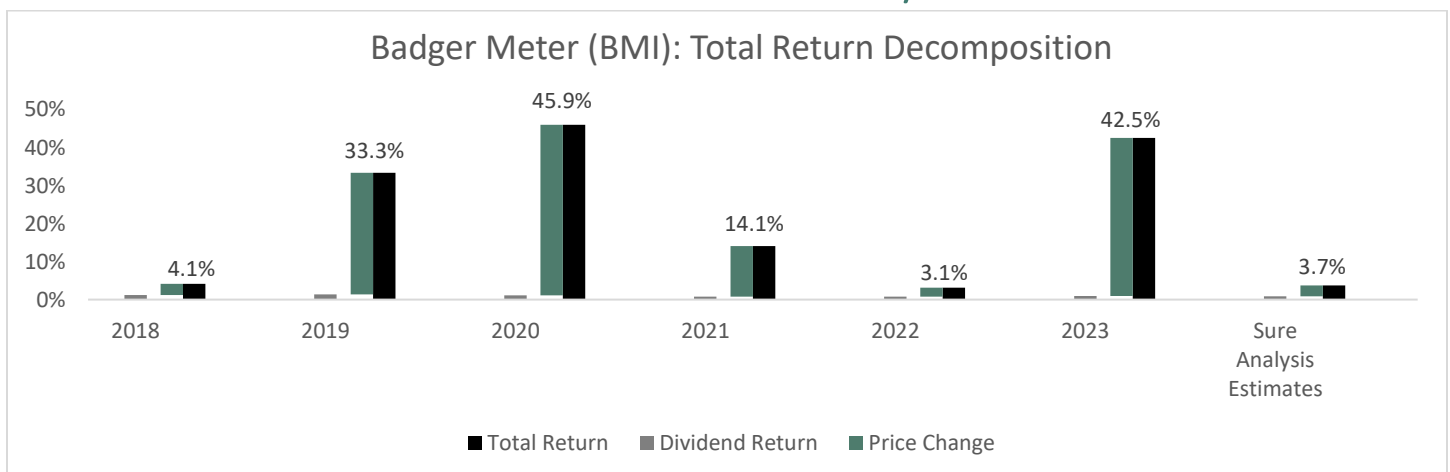
Given Badger Meter's 32-year dividend increase streak and reasonable payout ratio, the dividend is very safe today. We also see plenty of room for growth in the payout, so Badger Meter is certainly attractive from a dividend growth perspective.

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 3.7% annually through 2029, down from our prior estimate of 4.0%. This projected return stems from an 10% earnings growth rate and starting yield of 0.7% that are offset by multiple compression. Badger Meter continues to see impressive results from its water utility business as demand remains very high nearly across the board. The margin improvement is also notable. We have raised our five-year price target \$15 to \$240 due to earnings estimates for the year, but continue to view shares of Badger Meter as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	365	378	394	402	434	425	426	505	566	704
Gross Profit	131	136	151	156	162	164	168	205	220	276
Gross Margin	36.0%	35.9%	38.2%	38.7%	37.4%	38.5%	39.5%	40.7%	38.9%	39.3%
SG&A Exp.	85	93	100	100	125	102	103	127	133	159
D&A Exp.	16	21	22	24	24	24	25	28	26	28
Operating Profit	46	42	51	56	37	62	65	79	87	118
Operating Margin	12.6%	11.2%	12.9%	13.8%	8.5%	14.6%	15.3%	15.6%	15.4%	16.8%
Net Profit	30	26	32	35	28	47	49	61	66	93
Net Margin	8.1%	6.9%	8.2%	8.6%	6.4%	11.1%	11.6%	12.1%	11.8%	13.2%
Free Cash Flow	23	16	46	35	52	73	81	81	77	98
Income Tax	15	15	18	20	8	14	16	18	21	29

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	341	355	350	392	393	422	471	531	603	717
Cash & Equivalents	7	8	7	11	13	49	72	87	138	192
Accounts Receivable	54	57	60	58	66	61	62	66	77	84
Inventories	72	79	78	85	81	82	82	100	120	154
Goodwill & Int. Ass.	114	105	101	133	132	125	148	174	155	167
Total Liabilities	127	123	93	114	89	91	110	128	161	200
Accounts Payable	16	19	18	29	22	32	35	42	71	82
Long-Term Debt	76	71	38	45	18	4	-	-	-	-
Shareholder's Equity	214	232	256	277	304	331	361	403	442	516
LTD/E Ratio	0.35	0.31	0.15	0.16	0.06	0.01	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.0%	7.4%	9.2%	9.3%	7.1%	11.6%	11.0%	12.2%	11.7%	14.0%
Return on Equity	14.4%	11.6%	13.2%	13.0%	9.6%	14.9%	14.3%	15.9%	15.7%	19.3%
ROIC	10.7%	8.7%	10.8%	11.2%	8.6%	14.4%	14.2%	15.9%	15.7%	19.3%
Shares Out.	29	29	29	29	29	29	29	29	29	29
Revenue/Share	12.68	13.07	13.55	13.82	14.86	14.53	14.56	17.22	19.25	23.89
FCF/Share	0.81	0.56	1.57	1.19	1.77	2.51	2.75	2.75	2.61	3.33

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

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