# General Electric (GE)

*Updated January 29th, 2020 by Eli Inkrot*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $12.90 | **5 Year CAGR Estimate:** | 0.4% | **Market Cap:** | $112.8B |
| **Fair Value Price:** | $7.20 | **5 Year Growth Estimate:** | 12.7% | **Ex-Dividend Date[1]:** | 02/15/20 |
| **% Fair Value:** | 181% | **5 Year Valuation Multiple Estimate:** | -11.2% | **Dividend Payment Date[1]:** | 04/25/20 |
| **Dividend Yield:** | 0.3% | **5 Year Price Target** | $13 | **Years Of Dividend Growth:** | 0 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | D | **Last Dividend Increase:** | N/A |

## Overview & Current Events

Tracing its roots back to Thomas Edison in the 1870's, General Electric is a $113 billion diversified manufacturer headquartered in Boston, MA. The company previously operated eight segments: Power, Renewable Energy, Aviation, Oil & Gas, Healthcare, Transportation, Lighting and GE Capital. However, the company is undergoing a major transformation. General Electric has taken a variety of actions to de-leverage its balance sheet including reducing the quarterly dividend, accelerating the sell down of Baker Hughes and selling industrial and capital assets. The company continued this path in Q1 2019, with the sale of BioPharma to Danaher and closing the merger with Wabtec, including a 24.9% ownership stake. In Q2 2019, GE reduced its stake in Wabtec down to ~12% resulting in $1.8 billion of proceeds. In Q3 2019, the remainder of Wabtec stake was sold, resulting in $1.6 billion in proceeds.

On January 29th, 2020 General Electric released Q4 and full year results for the period ending December 31st, 2019. For the quarter revenue came in at $26.2 billion, a -1.0% decline compared to Q4 2018. Revenue gains of 2% and 6% in Renewable Energy and Aviation were offset by a -15% decline in GE Capital. Adjusted earnings-per-share equaled $0.21 compared to $0.14 in the year ago quarter. For the year General Electric generated $95.2 billion in revenue, representing a -1.9% year-over-year decline. Strong results of 7% and 8% growth in the Renewable Energy and Aviation segments were offset by -16% and -8% declines in Power and GE Capital. Adjusted earnings-per-share equaled $0.65.

General Electric also provided a 2020 outlook. For the year Industrial segment revenue is expected to be up low single-digit range, adjusted Industrial free cash flow is expected to be in the $2 to $4 billion range and adjusted earnings-per-share are anticipated to be in the $0.59 to $0.60 range. We have initiated our 2020 forecast accordingly.

## Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.15 | $1.31 | $1.52 | $1.64 | $1.65 | $1.32 | $1.49 | $1.05 | $0.65 | $0.65 | ***$0.55*** | ***$1.00*** |
| **DPS** | $0.46 | $0.61 | $0.70 | $0.79 | $0.89 | $0.92 | $0.92 | $0.84 | $0.48 | $0.04 | ***$0.04*** | ***$0.04*** |
| **Shares[2]** | 10,615 | 10573 | 10,406 | 10,061 | 10,057 | 9,373 | 8,742 | 8,680 | 8,702 | 8,724 | ***8,730*** | ***8,700*** |

GE's growth history leaves much to be desired. Earnings for 2018 and 2019 came in much lower than the company's performance during the last recession. General Electric's plan to transform portions of its business, pay down debt and continue to sharpen its focus are generally positive as the company is recognizing that it is too leveraged and is taking direct actions to reduce its debt. However, we are cautious in that it is difficult to cut your way to growth.

GE faces continued challenges in the power business, too much debt, and ongoing liabilities in the GE Capital segment. All of these areas are being addressed but will require patience. While some growth is expected, this is basically just getting back to average operating results after stumbling in the last few years. Our above average expected growth rate near 13% is offset by the dip in earnings in 2018 and 2019 and balances out with the valuation headwind.

Don't be fooled by GE's claim of having paid a dividend for more than 100 years. The company has cut its dividend three times in the last decade - in 2009, 2017 and now 2019. The company's current dividend is a negligible $0.01 per quarter.

[1] Estimate

[2] In millions.

*Disclosure: This analyst is long the security discussed in this research report.*

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While the company has stated that it anticipates a dividend payout ratio that is in-line with peers over time, we believe it is prudent to keep the payout low and continue shoring up the balance sheet.

## Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 14.4 | 13.9 | 13.3 | 14.7 | 15.7 | 20.3 | 20.4 | 24.8 | 19.8 | 14.8 | ***23.5*** | ***13.0*** |
| **Avg. Yld.** | 2.8% | 3.4% | 3.5% | 3.3% | 3.4% | 3.4% | 3.0% | 3.2% | 2.9% | 0.4% | ***0.3%*** | ***0.4%*** |

GE's share price has recovered a decent amount since going below $7 per share in 2018. The company's average P/E ratio over the last decade has been about 17 times earnings. However, we believe a much lower multiple of 13 times earnings is warranted considering the difficulties the firm has and will continue to face, along with the uncertain growth prospects from this point. The current valuation implies a significant valuation headwind; however, this is largely a result of currently depressed earnings.

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

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 40% | 47% | 46% | 48% | 54% | 70% | 62% | 80% | 74% | 6% | ***7%*** | ***4%*** |

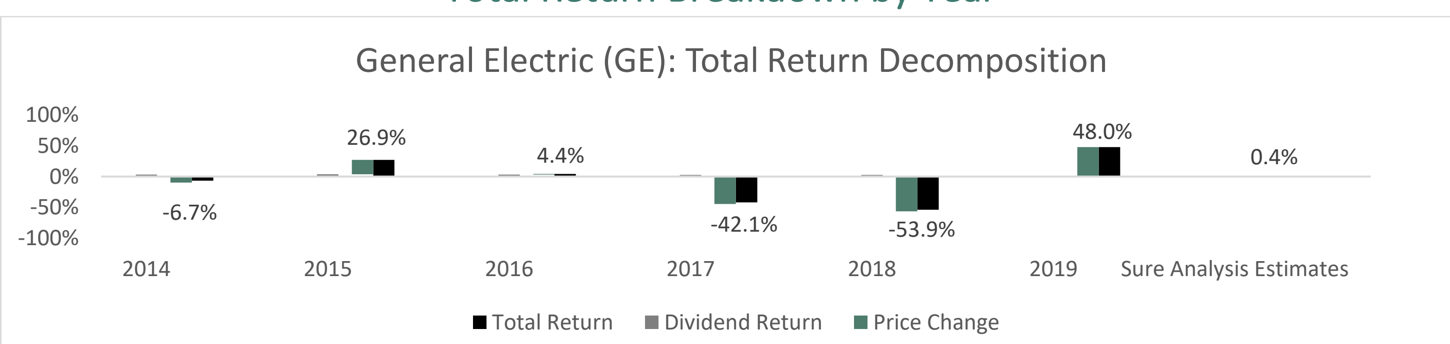
GE has competitive advantages in its Aviation and Healthcare segments, as it offers a best-in-breed product that tends to create sticky customer relationships. However, the problem is that the other segments do not enjoy the same type of advantages and indeed have even been a drag on the business. During the last recession GE posted earnings-per-share of $2.20, $1.78, $1.03 and $1.15 for the 2007 through 2010 stretch and cut its dividend. Then, it faltered again seeing earnings of $1.65 in 2014 erode to $0.65 in 2018 and again cutting its dividend, twice more. This is not just a cautionary tale but an example to remember – even the seemingly best businesses in the world can falter.

Still, there are positives. The dividend cuts are not welcome by income investors, but they do make it easier to refocus the company's profits on fixing the business. Moreover, we are encouraged by GE's acknowledgement and plans to attack the debt load at every angle. Still, time will tell whether or not adequate progress is being made.

## Final Thoughts & Recommendation

Shares are up 26% since our last report, while earnings are expected to be lower. GE has gone from being a storied business, admired for its industrial conglomerate might, to hoping to be a turn-around story stock. While there are some bright spots, there are too many unknowns for us to be encouraged. The 0.4% total annual return expectation is based on an artificially high expected growth rate being netted out against a significant valuation drag, as a result of depressed earnings. Should GE regain its footing, shares could be attractive from this point as the "snap back" effect related to growth, valuation and the dividend would be significant. However, that is speculation, and we rate shares as a hold.

## Total Return Breakdown by Year

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*Disclosure: This analyst is long the security discussed in this research report.*

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## Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue ($B) | 148.4 | 141.5 | 144.1 | 110.14 | 116.4 | 115.2 | 119.69 | 120.5 | 121.6 | |
| Gross Profit | 62193 | 59441 | 58215 | 28275 | 31064 | 30164 | 28414 | 25389 | 23885 | |
| Gross Margin | 41.9% | 42.0% | 40.4% | 25.7% | 26.7% | 26.2% | 23.7% | 21.1% | 19.6% | |
| SG&A Exp. | 38033 | 36841 | 35897 | 18773 | 17963 | 20439 | 19359 | 21912 | 18575 | |
| D&A Exp. | 9786 | 8986 | 9192 | 5202 | 4953 | 4847 | 4997 | 5139 | N/A | |
| Operating Profit | 18226 | 23733 | 21049 | 12609 | 13879 | 11952 | 13060 | 5102 | 5310 | |
| Op. Margin | 12.3% | 16.8% | 14.6% | 11.4% | 11.9% | 10.4% | 10.9% | 4.2% | 4.4% | |
| Net Profit | 11644 | 14151 | 13641 | 13057 | 15233 | -6126 | 8831 | -5786 | -22B | |
| Net Margin | 7.8% | 10.0% | 9.5% | 11.9% | 13.1% | -5.3% | 7.4% | -4.8% | -18% | |
| Free Cash Flow | 26324 | 20722 | 16212 | 21756 | 20575 | 11804 | -8192 | 2506 | N/A | |
| Income Tax | 1039 | 5745 | 2534 | 1219 | 773 | 6485 | -464 | -3043 | 583 | |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets ($B) | 747.79 | 718.19 | 685.00 | 656.56 | 654.95 | 493.07 | 365.18 | 377.95 | 309.10 | |
| Cash & Equivalents | 78943 | 84501 | 77268 | 88555 | 70025 | 70483 | 48129 | 43299 | N/A | |
| Acc. Rec. ($B) | 321.63 | 300.40 | 277.14 | 263.33 | 36.68 | 39.08 | 36.32 | 34.77 | 27.60 | |
| Inventories | 11526 | 13792 | 15374 | 17325 | 17689 | 22515 | 22354 | 21923 | 19300 | |
| Goodwill/Int. ($B) | 74.36 | 84.69 | 85.09 | 91.96 | 66.39 | 83.33 | 86.88 | 104.24 | 77.80 | |
| Total Liab. ($B) | 623.60 | 600.06 | 556.53 | 519.78 | 518.12 | 392.93 | 287.69 | 295.96 | 257.60 | |
| Accounts Payable | 14656 | 16400 | 15654 | 16471 | 12067 | 13680 | 14435 | 15153 | N/A | |
| LT Debt ($B) | 478.6 | 453.4 | 413.8 | 383.0 | 261.4 | 197.6 | 136.2 | 134.6 | 110.0 | |
| Total Equity ($B) | 118.9 | 116.4 | 123.0 | 130.6 | 128.2 | 98.3 | 75.8 | 64.3 | 31.0 | |
| D/E Ratio | 4.02 | 3.89 | 3.36 | 2.93 | 2.04 | 2.01 | 1.80 | 2.09 | 3.55 | |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 1.5% | 1.9% | 1.9% | 1.9% | 2.3% | -1.1% | 2.1% | -1.6% | -6.5% | |
| Return on Equity | 9.9% | 12.0% | 11.4% | 10.3% | 11.8% | -5.4% | 10.1% | -8.3% | -46.9% | |
| ROIC | 1.9% | 2.4% | 2.4% | 2.5% | 3.3% | -1.8% | 3.5% | -2.7% | -11.8% | |
| Shares Out. | 10,615 | 10573 | 10,406 | 10,061 | 10,057 | 9,373 | 8,742 | 8,680 | 8,700 | |
| Revenue/Share | 13.90 | 13.32 | 13.64 | 10.70 | 11.50 | 11.50 | 13.11 | 13.87 | 13.99 | |
| FCF/Share | 2.47 | 1.95 | 1.53 | 2.11 | 2.03 | 1.18 | -0.90 | 0.29 | N/A | |

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