General Electric (GE)

Updated January 26th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$11.50	**5 Year CAGR Estimate:**	-4.6%	**Market Cap:**	$101 B
Fair Value Price:	$5.50	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	03/06/21
% Fair Value:	209%	**5 Year Valuation Multiple Estimate:**	-13.7%	**Dividend Payment Date[1]:**	04/27/21
Dividend Yield:	0.3%	**5 Year Price Target**	$9	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	N/A

Overview & Current Events

Tracing its roots back to Thomas Edison in the 1870's, General Electric is a $101 billion diversified manufacturer headquartered in Boston, MA. The company operates in five segments: Power, Renewable Energy, Aviation, Healthcare and Capital. General Electric continues to work through ha major transformation. The company has taken a variety of actions to de-leverage its balance sheet including reducing the quarterly dividend, accelerating the sell down of Baker Hughes (to be fully monetized in three years) and selling industrial and capital assets. Previously GE sold Biopharma and GE Transportation.

On January 26th, 2021 General Electric released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter revenue came in at $21.93 billion, representing a -16.4% decline compared to Q4 2019. Declines were across the board with Power, Renewable Energy, Aviation and Healthcare posting decreases of -0.3%, -6.4%, -34.6% and -10.7% respectively. Reported earnings-per-share equaled $0.27 compared to $0.06 prior. On an adjusted basis, earnings-per-share equaled $0.08 versus $0.20 in the year ago quarter.

For the year General Electric reported revenue of $79.62 billion, a -16.4% decline compared to 2019. Revenue was up 2.1% in the Renewable Energy segment, but otherwise down across the board. Adjusted earnings-per-share equaled $0.01 compared to $0.61 in 2019.

General Electric also provided a 2021 outlook, anticipating Industrial revenue to grow in the low-single-digit range and adjusted earnings-per-share of $0.15 to $0.25. We are forecasting $0.20 in earnings for this year, at the midpoint of guidance, but we will continue to use $0.50 in underlying earnings power for fair value calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.31	$1.52	$1.64	$1.65	$1.32	$1.49	$1.05	$0.65	$0.65	$0.01	***$0.20***	***$0.81***
DPS	$0.61	$0.70	$0.79	$0.89	$0.92	$0.92	$0.84	$0.48	$0.04	$0.04	***$0.04***	***$0.04***
Shares[2]	10573	10,406	10,061	10,057	9,373	8,742	8,680	8,702	8,724	8,753	***8,800***	***8,800***

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, and the company's 2020 pandemic performance was especially poor. 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. And this was before the COVID-19 pandemic. After posting barely positive results for 2020, management expects a small uptick in 2021 results. For the purposes of valuation and calculating a fair value estimate, we are using $0.50 in underlying earnings power – in-line with the lower end of the company's guidance prior to the crisis taking hold. Potential growth of 10% appears outsized, due to coming off a reduced base.

[1] Estimate
[2] In millions.

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

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.9	13.3	14.7	15.7	20.3	20.4	24.8	19.8	15.2	---	***23.0***	***11.0***
Avg. Yld.	3.4%	3.5%	3.3%	3.4%	3.4%	3.0%	3.2%	2.9%	0.4%	0.4%	***0.3%***	***0.5%***

General Electric's average P/E ratio over the last decade has been about 17 times earnings. However, we believe a much lower multiple of 11 times earnings is warranted considering the difficulties the firm has and will continue to face, along with the uncertain growth prospects from this point. With shares trading at 23 times our underlying earnings power estimate (and 57 times the midpoint of management's 2021 guidance) this implies a significant 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 2019. The company's current dividend is a negligible $0.01 per quarter.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47%	46%	48%	54%	70%	62%	80%	74%	6%	---	***8%***	***5%***

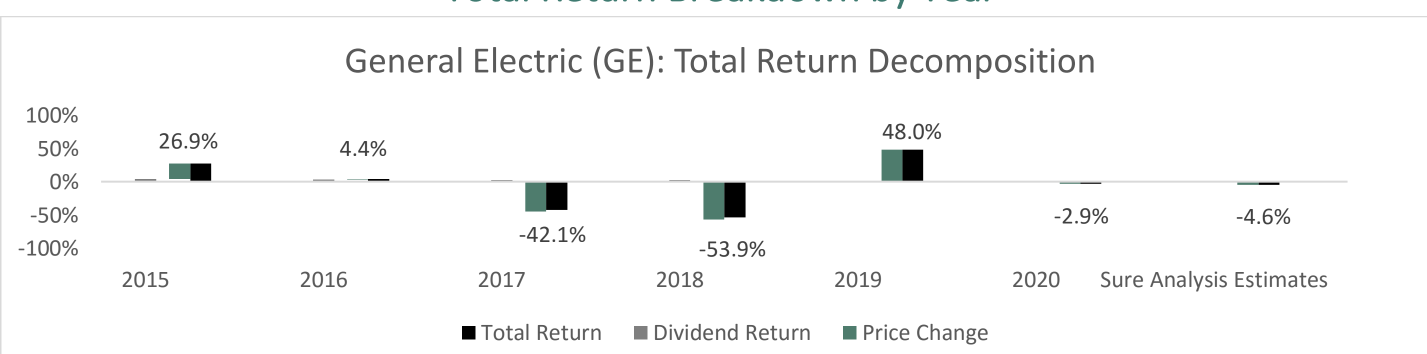
GE has competitive advantages in its Aviation and Healthcare segments, as it offers a best-in-breed product that tends to create sticky customer relationships. However, the problem is that the other segments do not enjoy the same type of advantages and indeed have even been a drag on the business. Moreover, Aviation in particular will be tested during the ongoing COVID-19 pandemic and its aftermath. 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 $0.01 in 2020 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 55% since our last update. 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 especially amid the current crisis. Total return potential comes in at -4.6% per annum, stemming from 10% growth and a 0.3% dividend, offset by a significant valuation headwind. Should GE regain its footing, shares could be attractive as the "snap back" effect related to growth, valuation and the dividend could be substantial. However, that is speculation at this point. Shares earn a sell rating due to the materially higher valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($B)	141.5	144.1	110.1	116.4	115.2	119.7	120.5	121.6	95.2
Gross Profit	59441	58215	28275	31064	30164	28414	25389	23885	22655
Gross Margin	42.0%	40.4%	25.7%	26.7%	26.2%	23.7%	21.1%	19.6%	23.8%
SG&A Exp.	36841	35897	18773	17963	20439	19359	21912	18575	17243
D&A Exp.	8986	9192	5202	4953	4847	4997	5139	N/A	5595
Operating Profit	23733	21049	12609	13879	11952	13060	5102	5310	5412
Op. Margin	16.8%	14.6%	11.4%	11.9%	10.4%	10.9%	4.2%	4.4%	5.7%
Net Profit	14151	13641	13057	15233	-6126	8831	-5786	-22B	-4979
Net Margin	10.0%	9.5%	11.9%	13.1%	-5.3%	7.4%	-4.8%	-18%	-5.2%
Free Cash Flow	20722	16212	21756	20575	11804	-8192	2506	N/A	2677
Income Tax	5745	2534	1219	773	6485	-464	-3043	583	726

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	718.19	685.00	656.56	654.95	493.07	365.18	377.95	309.10	266.05
Cash & Equivalents	84501	77268	88555	70025	70483	48129	43299		36394
Acc. Rec. ($B)	300.40	277.14	263.33	36.68	39.08	36.32	34.77	27.60	15.73
Inventories	13792	15374	17325	17689	22515	22354	21923	19300	14104
Goodwill/Int. ($B)	84.69	85.09	91.96	66.39	83.33	86.88	104.24	77.80	37.39
Total Liab. ($B)	600.06	556.53	519.78	518.12	392.93	287.69	295.96	257.60	236.19
Accounts Payable	16400	15654	16471	12067	13680	14435	15153	N/A	15926
LT Debt ($B)	453.4	413.8	383.0	261.4	197.6	136.2	134.6	110.0	90.9
Total Equity ($B)	116.4	123.0	130.6	128.2	98.3	75.8	64.3	31.0	28.3
D/E Ratio	3.89	3.36	2.93	2.04	2.01	1.80	2.09	3.55	3.21

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.9%	1.9%	1.9%	2.3%	-1.1%	2.1%	-1.6%	-6.5%	-1.7%
Return on Equity	12.0%	11.4%	10.3%	11.8%	-5.4%	10.1%	-8.3%	-46.9%	-16.8%
ROIC	2.4%	2.4%	2.5%	3.3%	-1.8%	3.5%	-2.7%	-11.8%	-3.6%
Shares Out.	10573	10,406	10,061	10,057	9,373	8,742	8,680	8,702	8,724
Revenue/Share	13.32	13.64	10.70	11.50	11.50	13.11	13.87	13.99	10.91
FCF/Share	1.95	1.53	2.11	2.03	1.18	-0.90	0.29		0.31

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