General Electric (GE)

Updated January 27th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	2.7%	**Market Cap:**	$97.8 B
Fair Value Price:	$57	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date[1]:**	03/05/22
% Fair Value:	157%	**5 Year Valuation Multiple Estimate:**	-8.7%	**Dividend Payment Date[1]:**	04/26/22
Dividend Yield:	0.4%	**5 Year Price Target**	$100	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**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 $97.8 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 a 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 two years) and selling industrial and capital assets. Previously GE sold Biopharma and GE Transportation.

On August 2nd, 2021, General Electric completed its 1-for-8 reverse stock split. We have adjusted all the relevant figures in this report accordingly.

On January 25th, 2022, General Electric released Q4-2021 results for the period ending December 31st, 2021. Revenues came in at $20.3 billion for the quarter, implying a 3.5% decline compared to Q4-2020. While aviation revenues grew 4%, healthcare, renewable, and power revenues declined by 4%, 6%, and 13%, respectively. Losses-per-share equaled $3.55 compared to net income-per-share of $2.20 during the prior-year period. On an adjusted basis, earnings-per-share equaled $0.82 compared to $0.49 in the prior-year period. This was due to the company recording more than $1 billion of debt extinguishment costs during the quarter.

General Electric also shared its initial 2022 outlook. The company now expects organic revenue growth in the high-single-digit range, adjusted organic profit margin to expand by 150+ basis points, and adjusted earnings per share of $2.80 to $3.50. We have set our estimates at the midpoint of this range.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$10.36	$10.21	$12.12	($4.94)	$6.05	($8.24)	($21.0)	($4.99)	$4.63	($6.16)	***$3.15***	***$5.55***
DPS	$5.60	$6.32	$7.12	$7.36	$7.44	$6.72	$2.96	$0.32	$0.32	$0.32	***$0.32***	***$0.52***
Shares[2]	1,320	1,286	1,265	1,252	1,141	1,085	1,086	1,090	1,097	1,099	***1,099***	***1,100***

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. The company recognizes 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. The company reduced its long-term borrowings from $70.1 billion to $30.8 billion during FY-2021, which is admittedly impressive, nonetheless. This has positioned the company to achieve free cash flow between $5.5 to $6.5 billion in 2022 and more than $7 billion in 2023.

[1] Estimated dates based on past dividend dates
[2] Share count in millions

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.

Consequently, we expect GE to grow EPS by a CAGR of 12% from management's $3.15 adjusted EPS outlook moving forward. We have also utilized a DPS CAGR of 12% in the medium term, though DPS hikes are highly speculative based on GE's current priority board.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.3	14.7	15.7	20.3	20.4	24.8	19.8	15.2	10.79	---	***28.3***	***18.0***
Avg. Yld.	3.5%	3.3%	3.4%	3.4%	3.0%	3.2%	2.9%	0.4%	0.6%	0.3%	***0.4%***	***0.5%***

General Electric's average P/E ratio over the last decade has been about 17.6 times earnings. We believe that a multiple of 18 times earnings would be appropriate in the medium term following the company's restructuring efforts. Shares trade at around 28.3 times next year's expected adjusted EPS, which could be reasonable considering that strong EPS growth is expected. That said, it still implies a natural 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 $0.08 per quarter.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	54%	62%	59%	---	123%	---	---	---	7%	---	***10%***	***9%***

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 while despite Aviation's sight recovery, it still remains under pressure as global traveling restrictions persist. During the last recession, GE posted earnings-per-share of $17.60, $14.24, $8.24, and $9.20 for the 2007 through 2010 stretch and cut its dividend. Then, it faltered again, seeing earnings of $12.12 in 2014 erode to losses of ($21.00) in 2018 and ($4.99) in 2019, while the dividend was cut again. 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. Income investors do not welcome the dividend cuts, but they do make it easier to refocus the company's profits on fixing the business. Moreover, we are encouraged by GE's acknowledgment 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

GE has gone from being a storied business, admired for its industrial conglomerate might, to hoping to be a turn-around story. While there are some bright spots on the deleveraging story, there are too many unknowns to be enthused. Hence our rather conservative estimates. Total return potential comes in at 2.7% per annum, stemming from strong EPS growth expectations, a 0.4% dividend offset by a significant valuation headwind. Should GE regains its footing and beats our growth estimates, 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.

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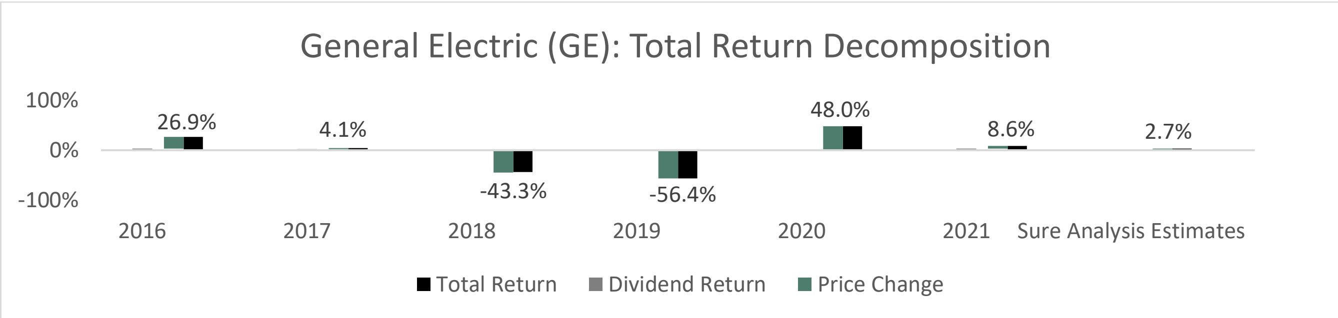
Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue ($B)	141.5	144.1	110.1	116.4	115.2	119.7	120.5	121.6	95.2	79.6
Gross Profit	59441	58215	28275	31064	30164	28414	25389	23885	22655	19200
Gross Margin	42.0%	40.4%	25.7%	26.7%	26.2%	23.7%	21.1%	19.6%	23.8%	25.1%
SG&A Exp.	36841	35897	18773	17963	20439	19359	21912	18575	17243	15020
D&A Exp.	8986	9192	5202	4953	4847	4997	5139	---	5595	6018
Operating Profit	23733	21049	12609	13879	11952	13060	5102	5310	5412	1615
Op. Margin	16.8%	14.6%	11.4%	11.9%	10.4%	10.9%	4.2%	4.4%	5.7%	2.0%
Net Profit	14151	13641	13057	15233	-6126	8831	-5786	-22B	-4979	5704
Net Margin	10.0%	9.5%	11.9%	13.1%	-5.3%	7.4%	-4.8%	-18%	-5.2%	7.2%
Free Cash Flow	20722	16212	21756	20575	11804	-8192	2506	---	2677	194
Income Tax	5745	2534	1219	773	6485	-464	-3043	583	726	-474

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	718.19	685.00	656.56	654.95	493.07	365.18	377.95	309.10	266.05	253.45
Cash & Equivalents	84501	77268	88555	70025	70483	48129	43299	---	36394	36300
Acc. Rec. ($B)	300.40	277.14	263.33	36.68	39.08	36.32	34.77	27.60	15.73	14.72
Inventories	13792	15374	17325	17689	22515	22354	21923	19300	14104	15890
Goodwill/Int. ($B)	84.69	85.09	91.96	66.39	83.33	86.88	104.24	77.80	37.39	35.30
Total Liab. ($B)	600.06	556.53	519.78	518.12	392.93	287.69	295.96	257.60	236.19	75.07
Accounts Payable	16400	15654	16471	12067	13680	14435	15153	N/A	15926	16480
LT Debt ($B)	453.4	413.8	383.0	261.4	197.6	136.2	134.6	110.0	90.9	75.07
Total Equity ($B)	116.4	123.0	130.6	128.2	98.3	75.8	64.3	31.0	28.3	35.55
D/E Ratio	3.89	3.36	2.93	2.04	2.01	1.80	2.09	3.55	3.21	2.11

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.9%	1.9%	1.9%	2.3%	-1.1%	2.1%	-1.6%	-6.5%	-1.7%	2.2%
Return on Equity	12.0%	11.4%	10.3%	11.8%	-5.4%	10.1%	-8.3%	-46.9%	-16.8%	17.9%
ROIC	2.4%	2.4%	2.5%	3.3%	-1.8%	3.5%	-2.7%	-11.8%	-3.6%	4.9%
Shares Out.	10573	10,406	10,061	10,057	9,373	8,742	8,680	8,702	8,724	8,761
Revenue/Share	13.32	13.64	10.70	11.50	11.50	13.11	13.87	13.99	10.91	9.09
FCF/Share	1.95	1.53	2.11	2.03	1.18	-0.90	0.29	---	0.31	0.02

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