General Electric (GE)

Updated July 26th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	$73	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$80.0 B
Fair Value Price:	$47	**5 Year Growth Estimate:**	20.0%	**Ex-Dividend Date[1]:**	09/24/22
% Fair Value:	154%	**5 Year Valuation Multiple Estimate:**	-8.3%	**Dividend Payment Date[1]:**	10/25/22
Dividend Yield:	0.4%	**5 Year Price Target**	$117	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating**	Buy

Overview & Current Events

Tracing its roots back to Thomas Edison in the 1870's, General Electric is a $99 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 July 26th, 2022, General Electric released Q2-2022 results for the period ending June 30th, 2022. Revenues came in at $18.6 billion for the quarter, implying 1.6% growth compared to Q2-2021. While aviation and healthcare revenues grew by 27% and 1%, renewable and power revenues declined by 23% and 2%, respectively. Aviation should continue to drive the company's top line in the upcoming quarters, with its orders growing 26% to $6.9 billion.

Adjusted operating margin expanded 380 basis points, driven largely by higher services growth and General Electric's focus on pricing, with aerospace and power being the sources of strength despite the latter's minor revenue decline. Accordingly, on an adjusted basis, earnings-per-share equaled $0.78 compared to $0.22 in the prior-year period.

General Electric reiterated its initial 2022 outlook. The company 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. However, due to inflation and other evolving pressures, management expects adjusted EPS to land toward the low end of this range. Thus, we have set our fiscal 2022 EPS estimate at $2.95.

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)	***$2.95***	***$7.34***
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***	***1,000***

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 plans to transform portions of its business, including spinning off its healthcare business, paying down debt, and continuing to sharpen its focus, are generally positive.

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. Consequently, we expect GE to grow EPS by a CAGR of 20% from a $2.95 adjusted EPS base moving forward. We have also utilized a DPS CAGR of 10% in the medium term, though DPS hikes are highly speculative based on GE's current priority board.

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

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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	---	***24.7***	***16.0***
Avg. Yld.	3.5%	3.3%	3.4%	3.4%	3.0%	3.2%	2.9%	0.4%	0.6%	0.3%	***0.4%***	***0.4%***

Over the past decade, General Electric's P/E ratio has averaged 17.6 times earnings. We believe that a multiple of 16 times earnings would be appropriate in the medium-term following the company's restructuring efforts and current market environment. Shares trade at 24.7 times this year's expected adjusted EPS, which could be reasonable considering that EPS is expected to grow substantially in the medium-term. That said, it still implies a natural valuation headwind. The company's current dividend is a negligible $0.08 per quarter – hence the tiny yield.

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%	---	***11%***	***7%***

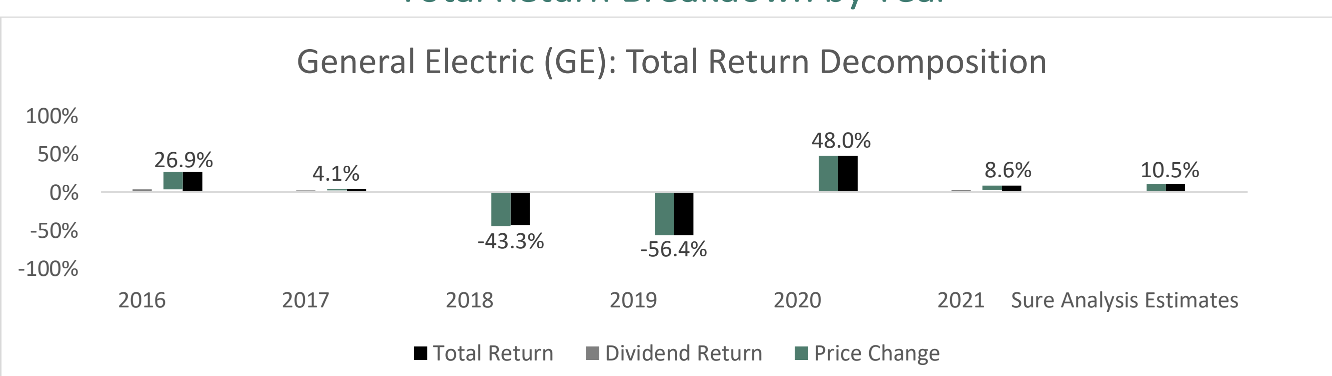
GE has competitive advantages in its Aviation and Healthcare segments, as it offers a best-in-breed product that tends to create sticky customer relationships. However, the problem is that the other segments do not enjoy the same type of advantages. Despite the noteworthy recovery in the aviation segment, the renewables and power segments continue to underperform.

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 in the deleveraging story, there are too many unknowns to be enthused about. Total return potential comes in at 10.5% per annum, stemming from strong EPS growth expectations and a 0.4% dividend yield, 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 guesswork at this point. We rate General Electric a buy, but for speculative investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue ($B)	144.1	110.1	116.4	115.2	119.7	120.5	121.6	95.2	79.6	74.2
Gross Profit	58215	28275	31064	30164	28414	25389	23885	22655	19200	20300
Gross Margin	40.4%	25.7%	26.7%	26.2%	23.7%	21.1%	19.6%	23.8%	25.1%	27.4%
SG&A Exp.	35897	18773	17963	20439	19359	21912	18575	17243	15020	13990
D&A Exp.	9192	5202	4953	4847	4997	5139	---	5595	6018	3009
Operating Profit	21049	12609	13879	11952	13060	5102	5310	5412	1615	3813
Op. Margin	14.6%	11.4%	11.9%	10.4%	10.9%	4.2%	4.4%	5.7%	2.0%	5.1%
Net Profit	13641	13057	15233	-6126	8831	-5786	-22B	-4979	5704	-6520
Net Margin	9.5%	11.9%	13.1%	-5.3%	7.4%	-4.8%	-18%	-5.2%	7.2%	8.8%
Free Cash Flow	16212	21756	20575	11804	-8192	2506	---	2677	194	1971
Income Tax	2534	1219	773	6485	-464	-3043	583	726	-474	-286

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	685.00	656.56	654.95	493.07	365.18	377.95	309.10	266.05	253.45	198.87
Cash & Equivalents	77268	88555	70025	70483	48129	43299	---	36394	36300	15770
Acc. Rec. ($B)	277.14	263.33	36.68	39.08	36.32	34.77	27.60	15.73	14.72	13.08
Inventories	15374	17325	17689	22515	22354	21923	19300	14104	15890	15850
Goodwill/Int. ($B)	85.09	91.96	66.39	83.33	86.88	104.24	77.80	37.39	35.30	35.46
Total Liab. ($B)	556.53	519.78	518.12	392.93	287.69	295.96	257.60	236.19	75.07	157.26
Accounts Payable	15654	16471	12067	13680	14435	15153	N/A	15926	16480	16240
LT Debt ($B)	413.8	383.0	261.4	197.6	136.2	134.6	110.0	90.9	75.07	35.18
Total Equity ($B)	123.0	130.6	128.2	98.3	75.8	64.3	31.0	28.3	35.55	40.30
LTD/E Ratio	3.36	2.93	2.04	2.01	1.80	2.09	3.55	3.21	2.11	0.87

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.9%	1.9%	2.3%	-1.1%	2.1%	-1.6%	-6.5%	-1.7%	2.2%	-2.9%
Return on Equity	11.4%	10.3%	11.8%	-5.4%	10.1%	-8.3%	-46.9%	-16.8%	17.9%	-17.2%
ROIC	2.4%	2.5%	3.3%	-1.8%	3.5%	-2.7%	-11.8%	-3.6%	4.9%	-6.9%
Shares Out.	10,406	10,061	10,057	9,373	8,742	8,680	8,702	8,724	8,761	1,098
Revenue/Share	13.64	10.70	11.50	11.50	13.11	13.87	13.99	10.91	9.09	67.57
FCF/Share	1.53	2.11	2.03	1.18	-0.90	0.29	---	0.31	0.02	1.80

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