General Electric (GE)

Updated January 25th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	-1.8%	**Market Cap:**	$88.2 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	20.0%	**Ex-Dividend Date[1]:**	03/07/23
% Fair Value:	280%	**5 Year Valuation Multiple Estimate:**	-18.6%	**Dividend Payment Date[1]:**	04/25/23
Dividend Yield:	0.4%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating**	Sell

Overview & Current Events

Tracing its roots back to Thomas Edison in the 1870's, General Electric is an $88.2 billion diversified manufacturer headquartered in Boston, MA. The company operates in four segments: Power, Renewable Energy, Aviation, 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, and selling industrial, capital, and healthcare assets. Previously GE sold Biopharma, GE Transportation, and now GE Healthcare.

On January 24th, 2023, General Electric released Q4-2022 results for the period ending December 31st, 2022. Revenues came in at $21.8 billion for the quarter, up 7% compared to Q4-2021. Specifically, aviation, healthcare, and power revenues grew by 25%, 7%, and 8%, respectively, while renewable energy revenues declined by 19% compared to last year. Aviation should continue to drive the company's top line in the upcoming quarters, with its orders growing 26% year-over-year to $9.7 billion.

Adjusted profit margin expanded 220 basis points, pushing adjusted earnings-per-share to $1.24 compared to $0.82 in the prior-year period. Nevertheless, the company posted losses once again on a GAAP basis for the year, with earnings-per-share landing at ($0.05). For fiscal 2023, the company expects organic revenue growth in the high single-digits, adjusted earnings-per-share to be between $1.60 and $2.00, and free cash flow to be between $3.4 billion and $4.2 billion. We have utilized the midpoint of this guidance in our estimates.
Subsequent to the quarter, GE completed the separation of its HealthCare business to a separate publically-traded company. Proceeds are to be used to further pay down GE's debt. GE's fiscal 2023 outlook excludes GE HealthCare.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$10.21	$12.12	($4.94)	$6.05	($8.24)	($21.00)	($4.99)	$4.63	($6.16)	($0.05)	***$1.80[2]***	***$4.48***
DPS	$6.32	$7.12	$7.36	$7.44	$6.72	$2.96	$0.32	$0.32	$0.32	$0.32	***$0.32***	***$0.52***
Shares[3]	1286	1265	1252	1141	1086	1086	1091	1094	1098	1096	***1096***	***1000***

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 has been trying to enhance its structure, including spinning off its healthcare business, paying down debt, and continuing to sharpen its focus, which we generally find positive actions.

However, we remain cautious in that it is difficult to cut your way to growth. The company reduced its long-term borrowings from $108 billion at the end of 2017 to $28.6 billion at the end of 2022, which is admittedly impressive, nonetheless. Overall, we expect GE to grow EPS by a CAGR of 20% from a $1.80 adjusted EPS base moving forward, assuming that its profitability gradually improves. 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] Note that apart from 2023's estimate, all numbers in our tables reflect GAAP results.
[3] Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.7	15.7	20.3	20.4	24.8	19.8	15.2	10.8	---	---	***44.8***	***16.0***
Avg. Yld.	3.3%	3.4%	3.4%	3.0%	3.2%	2.9%	0.4%	0.6%	0.3%	0.5%	***0.4%***	***0.7%***

Over the past decade, General Electric's P/E ratio has averaged 17.7 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 44.8 times this year's expected adjusted EPS, which reflects the market's expectations of rapid bottom-line growth in the medium-term. That said, it still implies a natural valuation headwind. The company's current dividend per share remains a negligible $0.08 per quarter – hence the small yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

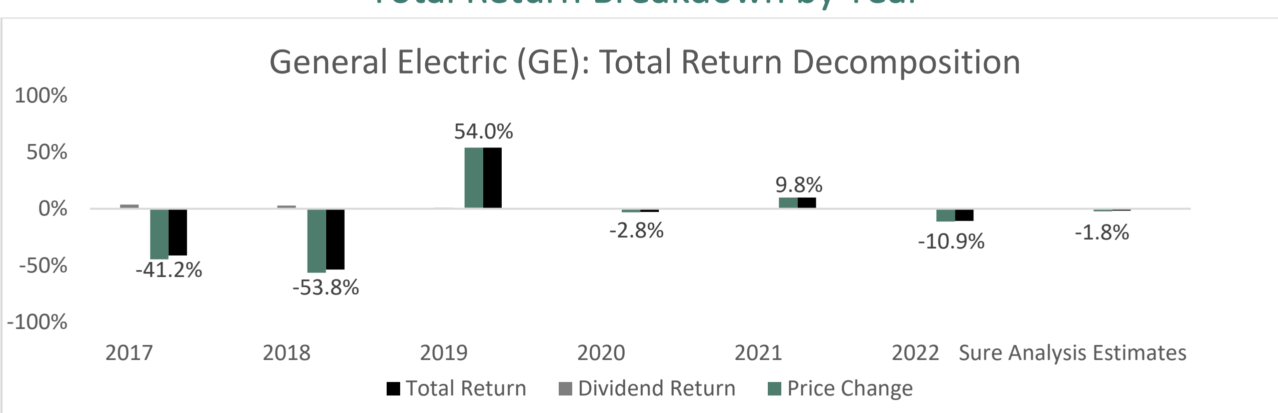
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	59%	---	123%	---	---	---	7%	---	---	***18%***	***12%***

GE has a competitive edge in its Aviation segment, 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 performance in the aviation segment, the renewables and power segments continue to lag. 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 from every angle. Still, time will tell whether or not adequate progress is being made.

Final Thoughts & Recommendation

General Electric has gone from being a storied business, admired for its industrial conglomerate might, to hoping to be a turnaround story. While there are some bright spots in the deleveraging story, and the recent spinoff of GE HealthCare should help the company pay down debt even faster, there are too many unknowns to be enthused about. At the same time, we believe shares are quite overvalued. In fact, we believe the stock could produce negative returns over the medium-term, as valuation headwinds could more than offset any growth to be realized in earnings or the dividend. Thus, we downgrade General Electric to a sell.

Total Return Breakdown by Year



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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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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.