



Baker Hughes (BKR)

Updated October 26th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	5.6%	Market Cap:	\$34.8 B
Fair Value Price:	\$25	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/3/23
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Dividend Payment Date:	11/17/23
Dividend Yield:	2.4%	5 Year Price Target	\$40	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	F	Rating:	Hold

Overview & Current Events

Baker Hughes has operations in more than 120 countries, a market cap of \$34.8 billion and provides integrated oilfield products, services and digital solutions. On October 17th, 2019, Baker Hughes, a GE company with ticker BHGE, changed its name to Baker Hughes, which has BKR as a ticker. The change of the name followed the reduction of the stake of General Electric in the company below 50% (to 36.8%). On July 29th, 2020, General Electric announced that it would sell its whole stake in Baker Hughes over the next three years to reduce its debt. In 2022, the oilfield services segment and the Industrial & Energy Technology segment of Baker Hughes generated 63% and 37% of its total revenues, respectively. In late October, Baker Hughes reported (10/25/23) financial results for the third quarter of fiscal 2023. Its revenue of \$6.6 billion grew 5% sequentially and its orders of \$8.5 billion grew 14% thanks to strong drilling activity amid high oil prices. Adjusted earnings-per-share grew 8%, from \$0.39 to \$0.42, and exceeded the analysts' consensus by \$0.02. Baker Hughes grew its sales, its orders and its earnings faster than Halliburton in the third quarter. Baker Hughes raised its dividend by 5% and reiterated that it expects to keep growing its business significantly in the upcoming years, as the industry will have to make up for many years of low investment levels. We agree for the near future and still expect Baker Hughes to post 9-year high earnings-per-share of \$1.50 this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.52	\$3.92	-\$4.49	-\$6.31	-\$0.17	\$0.65	\$0.85	\$0.03	\$0.63	\$0.90	\$1.50	\$2.42
DPS	\$0.60	\$0.64	\$0.68	\$0.68	\$0.69	\$0.72	\$0.72	\$0.72	\$0.72	\$0.73	\$0.80	\$0.88
Shares¹	438.0	434.0	437.0	424.0	422.0	463.0	653.0	713.0	906.0	1009.0	1010.0	1100.0

The recovery of Baker Hughes was lackluster before the pandemic. Major technological advances have made it possible to produce more oil with fewer operating rigs. In essence, providers of oilfield services and equipment have been victims of their own success. This helps explain the weak recovery of the results of Baker Hughes amid all-time high global and U.S. oil production in 2018-2019. However, the energy market is recovering strongly from the pandemic right now. The return of the U.S. and global oil production to their long-term growth trajectories will provide a tailwind to the business results of Baker Hughes in the upcoming years, particularly given that oil producers will have to make up for their depressed investment in new projects in the last three years. Moreover, a major growth driver could be the increasing demand from LNG projects. Overall, we expect Baker Hughes to grow its earnings-per-share at a 10.0% average annual rate until 2028. On the other hand, we note the extremely volatile and unreliable performance record of the company.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.3	16.3	---	---	---	47.4	28.1	---	36.8	32.4	22.7	16.7
Avg. Yld.	1.2%	1.0%	1.2%	1.4%	2.0%	2.3%	3.0%	4.3%	3.1%	2.5%	2.4%	2.2%

¹ In millions.

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Excluding the years in which depressed earnings resulted in abnormally high price-to-earnings ratios, Baker Hughes has traded at an average price-to-earnings ratio of 16.7 during the last decade. The stock is currently trading at 22.7 times its expected earnings this year. As its business recovers over the next five years, Baker Hughes could revert to its average valuation level during this period. If this occurs, the stock will incur a -5.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

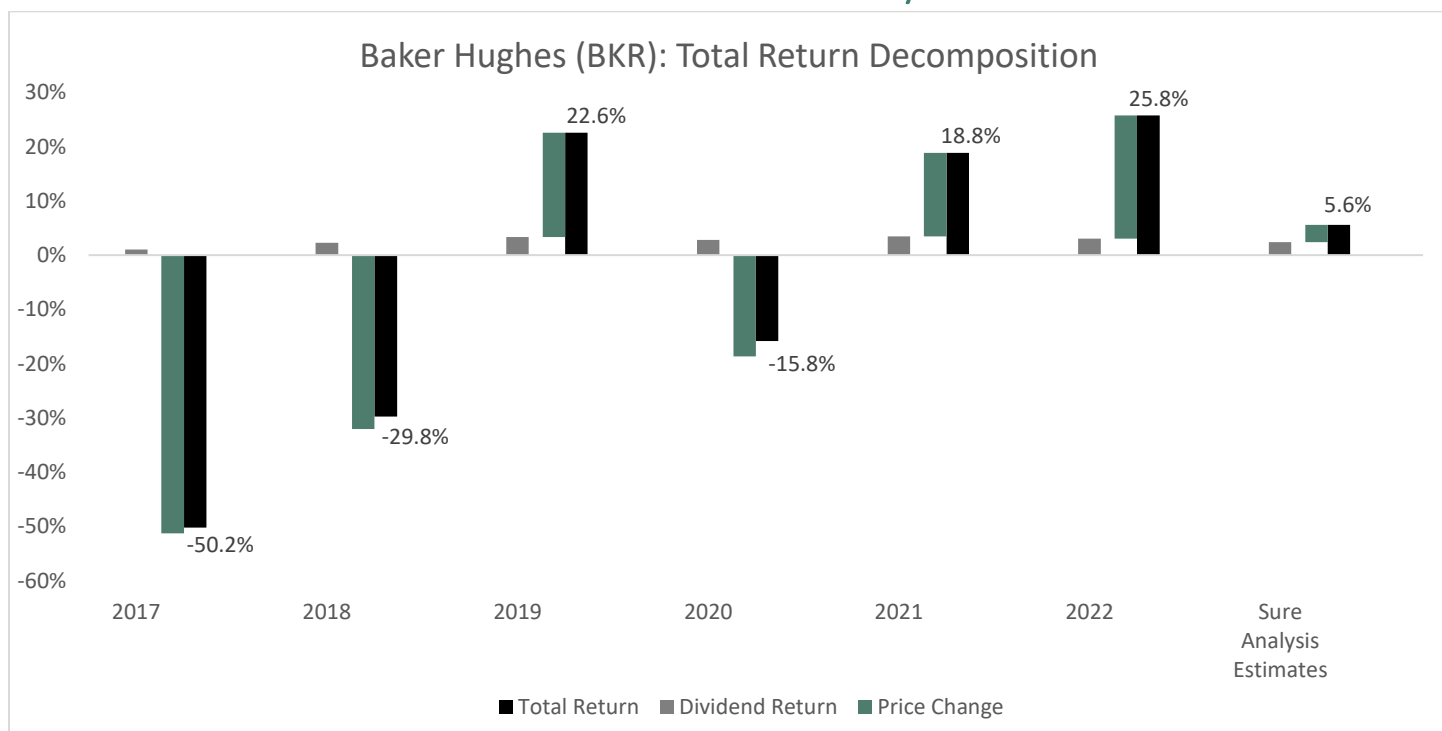
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23.8%	16.3%	---	---	---	111%	84.7%	---	114%	81.1%	53.3%	36.6%

While Baker Hughes has great expertise in oilfield services, it lacks a durable competitive advantage. Just like its peers, Baker Hughes is highly cyclical and vulnerable to recessions and downturns in the oil market. The company saw its earnings-per-share plunge -74% in the Great Recession and incurred hefty losses for three consecutive years in the recent downturn of the energy sector (2015-2017). It was also severely hurt by the pandemic, though the company is now recovering from this crisis. Moreover, the stock tends to underperform during broad market corrections or bear markets. Investors should be aware of these risks.

Final Thoughts & Recommendation

The energy market is recovering strongly from the pandemic and oil producers have begun to make up for their depressed investment in new projects in the last three years. As a result, the stock of Baker Hughes has rallied 70% off its bottom last year and thus it has become less attractive. We expect Baker Hughes to offer a 5.6% average annual return over the next five years thanks to 10.0% earnings growth and its 2.4% dividend, partly offset by a -5.9% valuation headwind. The stock maintains its hold rating. While the next downturn of the energy market may not show up anytime soon, investors should be aware of the high cyclical nature of the stock and its high sensitivity to the downturns of the energy market.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	16688	13269	17259	22877	23,838	20,705	20,502	21,156
Gross Profit	---	---	4495	3146	3213	3986	4,432	3,199	4,049	4,400
Gross Margin	---	---	26.9%	23.7%	18.6%	17.4%	18.6%	15.5%	19.7%	20.8%
SG&A Exp.	---	---	2115	1938	2535	2699	2,832	2,404	2,470	2,510
D&A Exp.	---	---	530	550	1103	1486	1,418	1,317	1,105	1,061
Operating Profit	---	---	2380	1208	678	1287	1,600	795	1,579	1,890
Operating Margin	---	---	14.3%	9.1%	3.9%	5.6%	6.7%	3.8%	7.7%	8.9%
Net Profit	---	---	-1262	668	-73	195	128	-9,940	(219)	(601)
Net Margin	---	---	-7.6%	5.0%	-0.4%	0.9%	0.5%	-48.0%	-1.1%	-2.8%
Free Cash Flow	---	---	670	-162	-1464	767	886	517	1,518	1,116
Income Tax	---	---	473	250	71	258	482	559	758	600

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	21,721	56,500	52,439	53,369	38,007	35,308	34,181
Cash & Equivalents	---	---	---	981	7,030	3,723	3,249	4,132	3,853	2,488
Accounts Receivable	---	---	---	1,699	4,700	4,974	5,448	4,676	4,724	5,958
Inventories	---	---	---	3,224	4,507	4,620	4,608	4,421	3,979	4,587
Goodwill & Int. Ass.	---	---	---	9,129	26,285	26,436	26,071	10,374	10,090	10,110
Total Liabilities	---	---	---	6,866	18,090	17,426	18,870	19,765	18,562	19,656
Accounts Payable	---	---	---	1,898	3,377	4,025	4,268	3,532	3,745	4,298
Long-Term Debt	---	---	---	276	8,262	7,227	6,622	7,633	6,727	6,657
Shareholder's Equity	---	---	---	14,688	14,277	17,465	21,929	12,893	14,830	14,525
LTD/E Ratio	---	---	---	0.02	0.58	0.41	0.30	0.59	0.45	0.46

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	-0.2%	0.4%	0.2%	-21.8%	-0.6%	-1.7%
Return on Equity	---	---	---	---	-0.4%	1.2%	0.6%	-57.1%	-1.6%	-4.1%
ROIC	---	---	---	---	-0.2%	0.4%	0.3%	-29.7%	-0.9%	-2.7%
Shares Out.	438.0	434.0	437.0	424.0	422.0	463.0	653.0	713.0	906.0	987
Revenue/Share	---	---	38.81	30.42	40.23	53.33	42.80	30.67	24.88	21.43
FCF/Share	---	---	1.56	(0.38)	(3.43)	1.79	1.59	0.49	1.84	1.13

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

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