



General Electric (GE)

Updated October 25th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$114	5 Year CAGR Estimate:	6.6%	Market Cap:	\$123.7 B
Fair Value Price:	\$42	5 Year Growth Estimate:	30.0%	Ex-Dividend Date¹:	12/14/23
% Fair Value:	273%	5 Year Valuation Multiple Estimate:	-18.2%	Dividend Payment Date¹:	01/25/24
Dividend Yield:	0.3%	5 Year Price Target	\$154	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating	Hold

Overview & Current Events

Tracing its roots back to Thomas Edison in the 1870's, General Electric is a \$123.7 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 October 24th, 2023, General Electric released Q3-2023 results for the period ending September 30th, 2023. Revenues came in at \$17.3 billion for the quarter, up 19.6% compared to Q3-2022. Specifically, Aviation revenues grew by 25%, Renewable Energy revenues grew by 15%, and Power revenues rose by 13% compared to last year. Aviation should continue to drive the company's top line in the upcoming quarters, with its orders growing 34% year-over-year to \$9.73 billion.

Adjusted profit margin expanded 760 basis points, pushing adjusted earnings-per-share to \$0.82 compared to an adjusted loss-per-share of \$0.17 in the prior-year period.

Following a strong Q3 performance, management raised their outlook for FY2023. They now expect organic revenue growth in the low-teens (from low-double-digit), adjusted earnings-per-share to be between \$2.55 and \$2.65 (up from \$2.10 to \$2.30 previously), and free cash flow to be between \$4.7 billion and \$5.1 billion (up from \$4.1 billion and \$4.6 billion). We have utilized the midpoint of the updated adjusted earnings-per-share guidance in our estimates.

Management also announced they intend to spin-off GE Vernova (the Power and Renewable Energy business) as a separate publically traded company, similar to GE Healthcare. This is subject to board approval. The core Aerospace business will continue to trade under the symbol GE.

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)	\$2.60²	\$9.65
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
Shares³	1286	1265	1252	1141	1086	1086	1091	1094	1098	1096	1083	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.

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.

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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Overall, we expect GE to grow EPS by a CAGR of 30% from a \$2.60 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.

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	---	---	43.7	16.0
Avg. Yld.	3.3%	3.4%	3.4%	3.0%	3.2%	2.9%	0.4%	0.6%	0.3%	0.5%	0.3%	0.3%

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 43.7 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

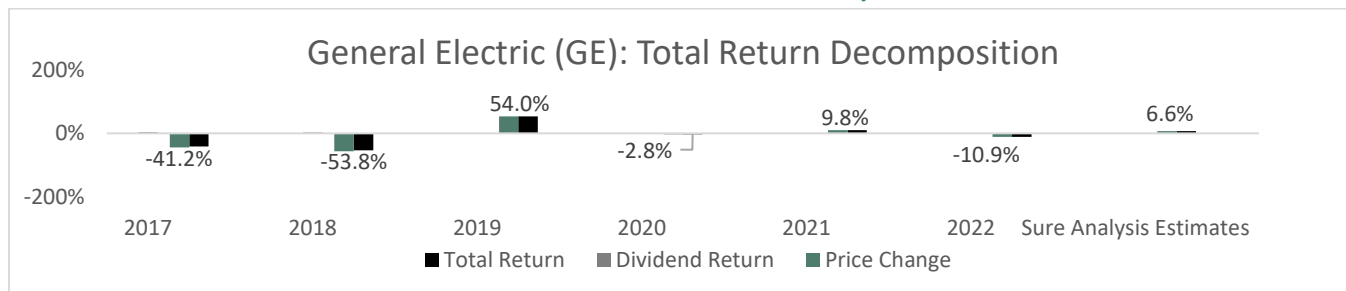
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	59%	---	123%	---	---	---	7%	---	---	12%	5%

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, including the recent spinoff of GE HealthCare, and the possibly beneficial spinoff of GE Vernova, there are too many unknowns to be enthused about. At the same time, we believe shares are quite overvalued. We estimate the stock could produce mid-single-digit returns over the medium-term, as valuation headwinds could offset any growth to be realized in earnings or the dividend. Thus, we now rate General Electric a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	110.1	116.4	115.2	119.7	120.5	121.6	95.2	79.6	74.2	74.2
Gross Profit	28275	31064	30164	28414	25389	23885	22655	19200	20300	20300
Gross Margin	25.7%	26.7%	26.2%	23.7%	21.1%	19.6%	23.8%	25.1%	27.4%	27.4%
SG&A Exp.	18773	17963	20439	19359	21912	18575	17243	15020	13990	13990
D&A Exp.	5202	4953	4847	4997	5139	---	5595	6018	3009	3009
Operating Profit	12609	13879	11952	13060	5102	5310	5412	1615	3813	3813
Op. Margin	11.4%	11.9%	10.4%	10.9%	4.2%	4.4%	5.7%	2.0%	5.1%	5.1%
Net Profit	13057	15233	-6126	8831	-5786	-22B	-4979	5704	-6520	-6520
Net Margin	11.9%	13.1%	-5.3%	7.4%	-4.8%	-18%	-5.2%	7.2%	8.8%	8.8%
Free Cash Flow	21756	20575	11804	-8192	2506	---	2677	194	1971	1971
Income Tax	1219	773	6485	-464	-3043	583	726	-474	-286	286

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	656.56	654.95	493.07	365.18	377.95	309.10	266.05	253.45	198.87	
Cash & Equivalents	88555	70025	70483	48129	43299	---	36394	36300	15770	
Acc. Rec. (\$B)	263.33	36.68	39.08	36.32	34.77	27.60	15.73	14.72	13.08	
Inventories	17325	17689	22515	22354	21923	19300	14104	15890	15850	
Goodwill/Int. (\$B)	91.96	66.39	83.33	86.88	104.24	77.80	37.39	35.30	35.46	
Total Liab. (\$B)	519.78	518.12	392.93	287.69	295.96	257.60	236.19	75.07	157.26	
Accounts Payable	16471	12067	13680	14435	15153	N/A	15926	16480	16240	
LT Debt (\$B)	383.0	261.4	197.6	136.2	134.6	110.0	90.9	75.07	35.18	
Total Equity (\$B)	130.6	128.2	98.3	75.8	64.3	31.0	28.3	35.55	40.30	
LTD/E Ratio	2.93	2.04	2.01	1.80	2.09	3.55	3.21	2.11	0.87	

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.9%	2.3%	-1.1%	2.1%	-1.6%	-6.5%	-1.7%	2.2%	-2.9%	
Return on Equity	10.3%	11.8%	-5.4%	10.1%	-8.3%	-46.9%	-16.8%	17.9%	-17.2%	
ROIC	2.5%	3.3%	-1.8%	3.5%	-2.7%	-11.8%	-3.6%	4.9%	-6.9%	
Shares Out.	10,061	10,057	9,373	8,742	8,680	8,702	8,724	8,761	1,098	
Revenue/Share	10.70	11.50	11.50	13.11	13.87	13.99	10.91	9.09	67.57	
FCF/Share	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.

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