



General Electric (GE)

Updated January 23rd, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	\$130	5 Year CAGR Estimate:	4.2%	Market Cap:	\$140.8 B
Fair Value Price:	\$42	5 Year Growth Estimate:	30.0%	Ex-Dividend Date¹:	03/06/24
% Fair Value:	307%	5 Year Valuation Multiple Estimate:	-20.1%	Dividend Payment Date¹:	04/25/24
Dividend Yield:	0.2%	5 Year Price Target	\$157	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 a \$140.8 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 23rd, 2024, General Electric released Q4-2023 and full year results for the period ending December 31st, 2023. Revenues came in at \$19.4 billion for the quarter, up 15% compared to Q4-2022. Specifically, Aerospace revenues grew by 12%, Renewable Energy revenues grew by 15%, and Power revenues rose by 23% versus last year. Aerospace should continue to drive the company's top line in the upcoming quarters, with its orders growing 10% year-over-year to \$10.62 billion.

Adjusted profit margin expanded 50 basis points, pushing adjusted earnings-per-share to \$1.03 compared to adjusted earnings-per-share of \$0.66 in the prior-year period. For the year, adjusted earnings-per-share came in at \$2.81, up from \$0.77. Note that we use GAAP figures in our table below for all past years. GAAP EPS for the year was \$7.98.

Looking ahead to the first quarter of 2024, General Electric anticipates adjusted EPS to fall within the range of \$0.60 to \$0.65. Providing a comprehensive full-year outlook proves challenging for the company, given the recent spin-off of GE Healthcare and the impending spin-off of GE Vernova, where the company will retain only partial ownership. Regardless, we believe the company an earnings power of \$2.65.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$12.12	(\$4.94)	\$6.05	(\$8.24)	(\$21.0)	(\$4.99)	\$4.63	(\$6.16)	(\$0.05)	\$7.98	\$2.65	\$9.84
DPS	\$7.12	\$7.36	\$7.44	\$6.72	\$2.96	\$0.32	\$0.32	\$0.32	\$0.32	\$0.32	\$0.32	\$0.52
Shares²	1265	1252	1141	1086	1086	1091	1094	1098	1097	1100	1100	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 and renewable energy businesses, 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 \$336.2 billion at the end of 2009 to \$19.7 billion at the end of 2023, which is admittedly impressive, nonetheless.

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.

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.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.7	20.3	20.4	24.8	19.8	15.2	10.79	---	---	11.2	49.1	16.0
Avg. Yld.	3.4%	3.4%	3.0%	3.2%	2.9%	0.4%	0.6%	0.3%	0.5%	0.4%	0.2%	0.3%

Over the past decade, General Electric's P/E ratio has averaged 17.3 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 nearly 50 times our expected earnings power for this year, which mirrors 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

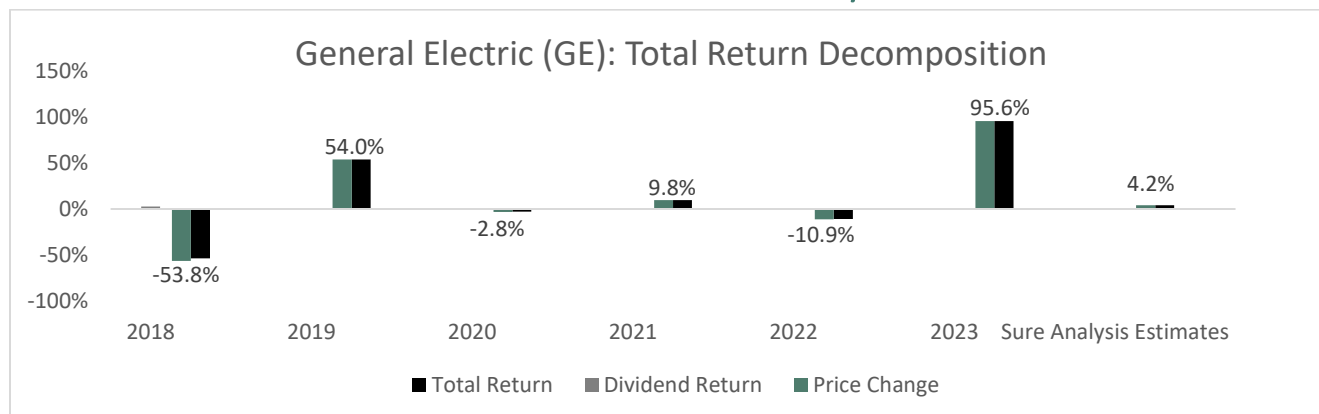
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	59%	---	123%	---	---	---	7%	---	---	12%	5%

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

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	187.79
Cash & Equivalents	88555	70025	70483	48129	43299	---	36394	36300	15770	17260
Acc. Rec. (\$B)	263.33	36.68	39.08	36.32	34.77	27.60	15.73	14.72	13.08	17.98
Inventories	17325	17689	22515	22354	21923	19300	14104	15890	15850	17400
Goodwill/Int. (\$B)	91.96	66.39	83.33	86.88	104.24	77.80	37.39	35.30	35.46	33360
Total Liab. (\$B)	519.78	518.12	392.93	287.69	295.96	257.60	236.19	75.07	157.26	150.21
Accounts Payable	16471	12067	13680	14435	15153	N/A	15926	16480	16240	18640
LT Debt (\$B)	383.0	261.4	197.6	136.2	134.6	110.0	90.9	75.07	35.18	32350
Total Equity (\$B)	130.6	128.2	98.3	75.8	64.3	31.0	28.3	35.55	40.30	36.36
LTD/E Ratio	2.93	2.04	2.01	1.80	2.09	3.55	3.21	2.11	0.87	0.89

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%	0.12%
Return on Equity	10.3%	11.8%	-5.4%	10.1%	-8.3%	-46.9%	-16.8%	17.9%	-17.2%	0.59%
ROIC	2.5%	3.3%	-1.8%	3.5%	-2.7%	-11.8%	-3.6%	4.9%	-6.9%	0.31%
Shares Out.	10,061	10,057	9,373	8,742	8,680	8,702	8,724	8,761	1,098	1,101
Revenue/Share	10.70	11.50	11.50	13.11	13.87	13.99	10.91	9.09	67.57	69.53
FCF/Share	2.11	2.03	1.18	-0.90	0.29	---	0.31	0.02	1.80	4.03

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

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