Baker Hughes (BKR)

Updated October 23rd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$35.8 B
Fair Value Price:	$34	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/4/24
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	11/14/24
Dividend Yield:	2.3%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Baker Hughes has operations in more than 120 countries, a market cap of $35.8 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 2023, the oilfield services segment and the Industrial & Energy Technology segment of Baker Hughes generated 60% and 40% of its total revenues, respectively.

In late October, Baker Hughes reported (10/22/24) financial results for the third quarter of fiscal 2024. Its revenue of $6.9 billion grew 4% over the prior year's quarter while its orders of $6.7 billion declined -22%. Adjusted earnings-per-share grew 59%, from $0.42 to $0.67, and exceeded the analysts' consensus by $0.06. Baker Hughes 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 still expect Baker Hughes to grow its earnings-per-share approximately 28% this year, to a 10-year high of $2.05. Nevertheless, we note a significant decrease in orders in the last two quarters, which may signal business deceleration next year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.92	-$4.49	-$6.31	-$0.17	$0.65	$0.85	$0.03	$0.63	$0.90	$1.60	***$2.05***	***$3.01***
DPS	$0.64	$0.68	$0.68	$0.69	$0.72	$0.72	$0.72	$0.72	$0.73	$0.78	***$0.84***	***$0.92***
Shares[1]	434.0	437.0	424.0	422.0	463.0	653.0	713.0	906.0	1009.0	1010.0	***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 2019-2022. 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 an 8.0% average annual rate until 2029. On the other hand, we note the extremely volatile and unreliable performance record of the company.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.3	---	---	---	47.4	28.1	---	36.8	32.4	20.1	***17.6***	***16.7***
Avg. Yld.	1.0%	1.2%	1.4%	2.0%	2.3%	3.0%	4.3%	3.1%	2.5%	2.4%	***2.3%***	***1.8%***

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[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 17.6 times its expected earnings this year. We expect Baker Hughes to trade close to its average valuation level in five years from now. If this occurs, the stock will incur a -1.0% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

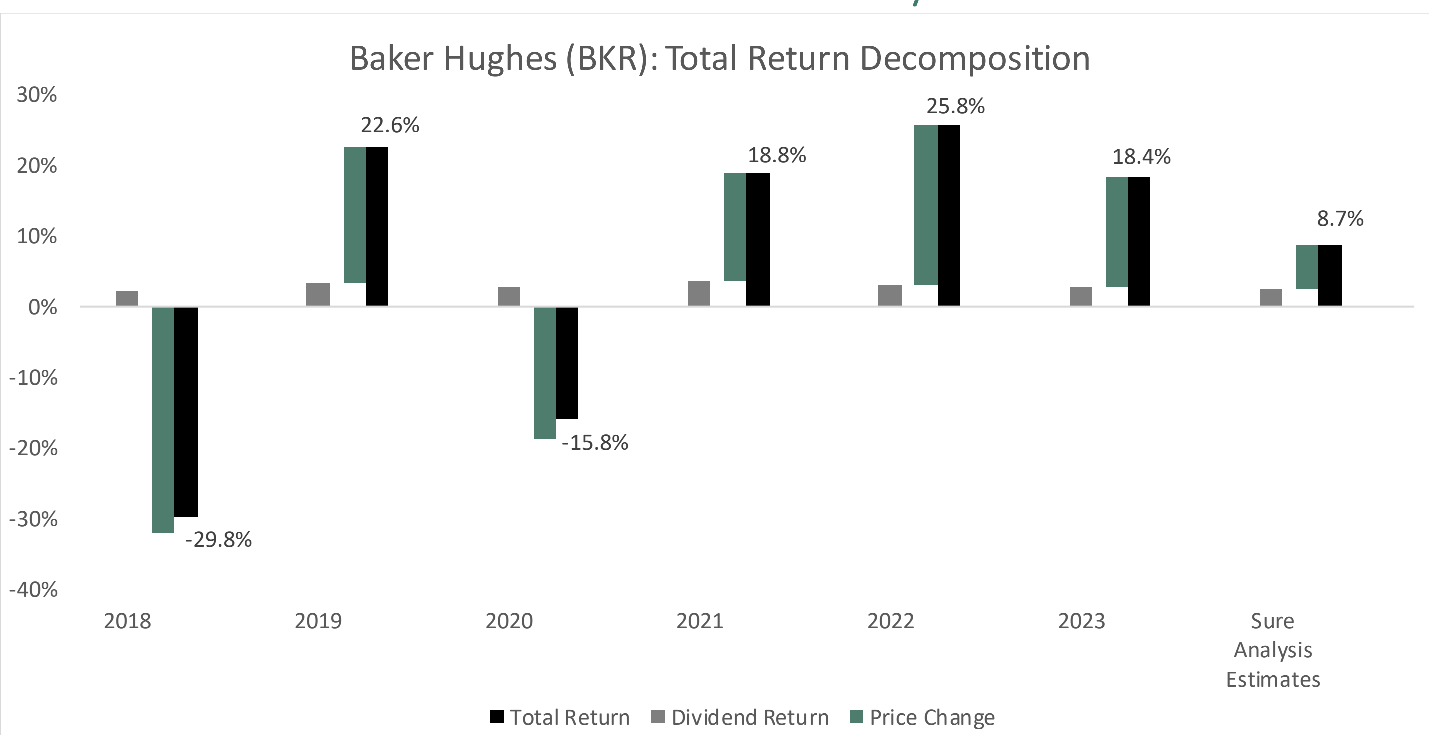
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	16.3%	---	---	---	111%	84.7%	---	114%	81.1%	48.8%	***41.0%***	***30.6%***

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 downturn of the energy sector from 2015 to 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 2019-2022. As a result, the stock of Baker Hughes has rallied 80% off its bottom in 2022 but it has not become overvalued. Baker Hughes could offer an 8.7% average annual return over the next five years thanks to 8.0% earnings growth and its 2.3% dividend, partly offset by a -1.0% 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 cyclicality of the stock and its high sensitivity to the downturns of the energy market. We need a higher expected return to upgrade the rating of this stock to "buy".

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	16688	13269	17259	22877	23,838	20,705	20,502	21,156	25,506
Gross Profit	---	4495	3146	3213	3986	4,432	3,199	4,049	4,400	5,251
Gross Margin	---	26.9%	23.7%	18.6%	17.4%	18.6%	15.5%	19.7%	20.8%	20.6%
SG&A Exp.	---	2115	1938	2535	2699	2,832	2,404	2,470	2,510	2,611
D&A Exp.	---	530	550	1103	1486	1,418	1,317	1,105	1,061	1,087
Operating Profit	---	2380	1208	678	1287	1,600	795	1,579	1,890	2,640
Operating Margin	---	14.3%	9.1%	3.9%	5.6%	6.7%	3.8%	7.7%	8.9%	10.4%
Net Profit	---	-1262	668	-73	195	128	-9,940	(219)	(601)	1,943
Net Margin	---	-7.6%	5.0%	-0.4%	0.9%	0.5%	-48.0%	-1.1%	-2.8%	7.6%
Free Cash Flow	---	670	-162	-1464	767	886	517	1,518	899	1,838
Income Tax	---	473	250	71	258	482	559	758	600	685

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	21,721	56,500	52,439	53,369	38,007	35,308	34,181	36,945
Cash & Equivalents	---	---	981	7,030	3,723	3,249	4,132	3,853	2,488	2,646
Accounts Receivable	---	---	1,699	4,700	4,974	5,448	4,676	4,724	5,958	7,075
Inventories	---	---	3,224	4,507	4,620	4,608	4,421	3,979	4,587	5,094
Goodwill & Int. Ass.	---	---	9,129	26,285	26,436	26,071	10,374	10,090	10,110	10,230
Total Liabilities	---	---	6,866	18,090	17,426	18,870	19,765	18,562	19,656	21,426
Accounts Payable	---	---	1,898	3,377	4,025	4,268	3,532	3,745	4,298	4,471
Long-Term Debt	---	---	276	8,262	7,227	6,622	7,633	6,727	6,657	6,020
Shareholder's Equity	---	---	14,688	14,277	17,465	21,929	12,893	14,830	14,525	15,519
LTD/E Ratio	---	---	0.02	0.58	0.41	0.30	0.59	0.45	0.46	0.39

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	-0.2%	0.4%	0.2%	-21.8%	-0.6%	-1.7%	5.5%
Return on Equity	---	---	---	-0.4%	1.2%	0.6%	-57.1%	-1.6%	-4.1%	13.0%
ROIC	---	---	---	-0.2%	0.4%	0.3%	-29.7%	-0.9%	-2.7%	9.1%
Shares Out.	434.0	437.0	424.0	422.0	463.0	653.0	713.0	906.0	987	1015
Revenue/Share	---	38.81	30.42	40.23	53.33	42.80	30.67	24.88	21.43	25.13
FCF/Share	---	1.56	(0.38)	(3.43)	1.79	1.59	0.49	1.84	0.91	1.81

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