

General Electric (GE)

\$12.95 (As of 02/06/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

In the past three months, General Electric's shares have outperformed its industry. The company is poised to gain from its portfolio restructuring program, digital business, efforts to reduce leverage and international commercial presence in the quarters ahead. It expects adjusted earnings per share of 50-60 cents for 2020 and organic sales for Industrial to grow in a low-single-digit range. In fourth-quarter 2019, the company's earnings surpassed estimates by 16.7%. Also, the bottom line surged 50% year over year. However, tariffs, issues with 737 MAX and forex woes might continue to be a drag in the quarters ahead. Also, persistence of internal and external challenges within the Power segment might hurt. In the past 30 days, the company's earnings estimates have been lowered for the first quarter of 2020 as well as the full year.

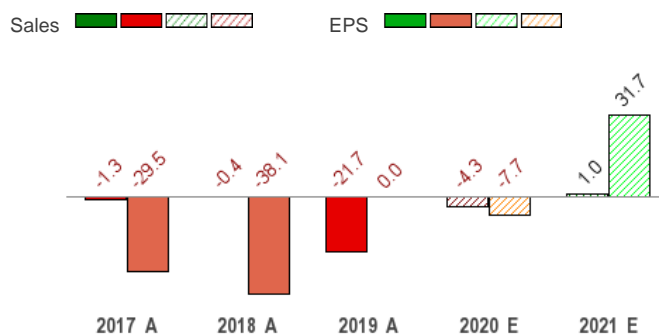
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$13.00 - \$7.65
20 Day Average Volume (sh)	62,546,728
Market Cap	\$113.1 B
YTD Price Change	16.0%
Beta	1.14
Dividend / Div Yld	\$0.04 / 0.3%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 21% (201 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-15.1%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	21,906 E	23,214 E	23,600 E	27,117 E	92,044 E
2020	20,829 E	22,064 E	22,946 E	26,188 E	91,152 E
2019	27,286 A	28,831 A	23,360 A	26,238 A	95,214 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.13 E	\$0.12 E	\$0.16 E	\$0.23 E	\$0.79 E
2020	\$0.13 E	\$0.10 E	\$0.14 E	\$0.21 E	\$0.60 E
2019	\$0.14 A	\$0.17 A	\$0.15 A	\$0.21 A	\$0.65 A

*Quarterly figures may not add up to annual.

P/E TTM	19.3
P/E F1	21.6
PEG F1	3.0
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

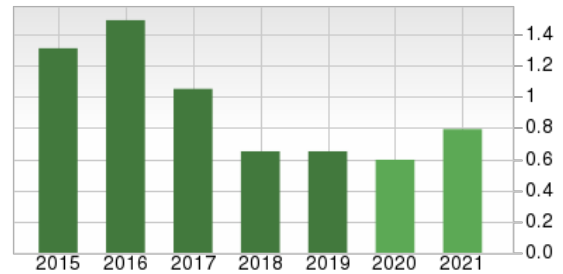
Founded in 1892, General Electric Company is currently headquartered in Boston, MA. It is one of the largest and most diversified technology firms in the world. Its products and services range from jet engines, airframes, energy production solutions to offshore wind turbines, technologies in medical imaging and leasing and financing services, among others.

The company's industrial manufacturing and services business are grouped under the Industrial segment. Results of the segment, in turn, are the summation of four industrial operating segments — Power, Renewable Energy, Aviation and Healthcare. The company's financial services operating segment includes results of GE Capital.

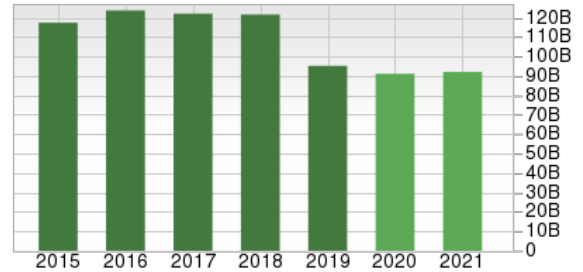
In short, General Electric currently has the following operating segments:

- GE Capital meets the financial needs of businesses of all sizes with a diverse range of products. Efforts are on track to reduce exposure in the GE Capital business.
- Power produces steam and gas turbines, power generation services, and generators. Effective from the first quarter of 2019, the company restructured businesses within its Power segment to include Gas Power and Power Portfolio. While Gas Power includes General Electric's gas lifecycle business (including Power Services and Gas Power Systems businesses), Power Portfolio comprises Steam Power Systems, GE Hitachi Nuclear and Power Conversion businesses.
- Aviation offers commercial jet engines and components, and aftermarket services.
- Healthcare provides technologies in patient monitoring, medical imaging, drug discovery, patient monitoring and others. Also, the segment provides biopharmaceutical manufacturing technologies.
- Renewable Energy provides offshore wind turbines, high-voltage equipment, blades for wind turbines (onshore and offshore), and other products and services.

EPS Hist. and Est.



Sales Hist. and Est.



Reasons To Buy:

- ▲ In the past three months, General Electric's shares have rallied 12.5% compared with the industry's growth of 5.2%. In the fourth quarter, the company fared better than expected with earnings surpassing estimates by 16.7%. In the quarters ahead, growth in digital business, efforts to reduce leverage and lowering exposure to the GE Capital business might be beneficial. It is worth noting here that asset disposition in GE Capital amounted to approximately \$12 billion in 2019. Last December, GE Capital completed the divestment of the aviation lending business, PK AirFinance. Also, international commercial presence and restructuring initiatives might be boons. For 2020, the company anticipates adjusted earnings of 50-60 cents per share. Also, organic revenues in the Industrial segment are projected to grow in a low-single-digit range. It aims to achieve debt-to-equity ratio of less than 4 for GE Capital and net debt-to-EBITDA ratio is expected to be less than 2.5 for Industrial in 2020.
- ▲ In a bid to become a high-tech industrial company, General Electric rolled out a business portfolio-restructuring program in June 2018. Per the program, the behemoth's core businesses will be Power, Aviation and Renewable Energy while it will gradually exit all other businesses. The company divested GE Transportation to Wabtec in February 2019. It will also sell off the BioPharma business (part of the Healthcare segment) to Danaher Corporation in the first quarter of 2020. Further, General Electric has lost its controlling shareholding in Baker Hughes. In addition, the company's slashed dividend rate (from 12 cents to a penny) and reorganized Power segment (Gas Power and Power Portfolio) are proving beneficial. For 2020, General Electric predicts organic revenues in the Industrial segment to grow in a low-single-digit range.
- ▲ General Electric is working diligently to improve its liquidity. In 2019, the company raised approximately \$6 billion from transactions related to Wabtec. Also, disposition of its stake in Baker Hughes helped it raise roughly \$3 billion in 2019. Notably, total proceeds from transaction related to Baker Hughes are forecast to fetch approximately \$12 billion in cash proceeds (including \$3 billion realized in 2019) by 2020. Also, General Electric expects that the divestment of the BioPharma business will help raise \$20 billion in proceeds during 2020. Solid cash proceeds will likely be advantageous for Industrial. For 2020, General Electric envisions adjusted free cash flow of \$2-\$4 billion for Industrial.

Portfolio-restructuring program, leverage-reduction actions, international presence and healthy liquidity position will bode well for General Electric in the quarters ahead.

Reasons To Sell:

- ▼ Despite better-than-expected earnings results for the fourth quarter of 2019 and progress on transformation plans, adverse impacts of tariffs, 737 MAX-related issues and others might be concerning in the quarters ahead. Notably, tariffs adversely impacted fourth-quarter results of Renewable Energy and Healthcare segments. Also, 737 MAX-woes caused a cash headwind of \$1.4 billion in Aviation. In the past 30 days, earnings estimates have been lowered by 18.8% to 13 cents per share for the first quarter of 2020 and 14.3% to 60 cents for 2020, respectively. This makes us cautious about the stock.
- ▼ Though General Electric is working toward improving operations and reducing costs in the Power segment, persistence of external and internal challenges including pricing issues, operational overhangs, overcapacity in the industry, issues related to project execution and others in the segment remains a downside. In the fourth quarter, Power's top line was flat year over year while quarterly orders were down 30% from the year-ago period. Sales performance was affected by weak Power Portfolio sales, offset by an improvement in Gas Power.
- ▼ Geographical diversification reflects General Electric's flourishing business. However, the diversity exposes the company to risks arising from geopolitical issues and an unfavorable foreign currency movement. In the fourth quarter of 2019, forex woes dented its Industrial revenues by \$211 million. Such lingering woes may hurt results, going forward.

Persistence of challenges within the Power segment might be concerning for General Electric in the quarters ahead. Also, forex woes and tariffs might be spoilsports.

Last Earnings Report

General Electric Q4 Earnings and Sales Beat Estimates

General Electric delivered better-than-expected results for fourth-quarter 2019 with earnings surpassing estimates by 16.7%.

The industrial conglomerate's adjusted earnings in the reported quarter were 21 cents per share, surpassing the Zacks Consensus Estimate of 18 cents. Also, the bottom line grew 50% from the year-ago quarter figure of 14 cents.

For 2019, the company's adjusted earnings were 65 cents per share, increasing 14% from the previous year. Also, the bottom line surpassed the Zacks Consensus Estimate of 61 cents.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.29%
EPS Surprise	16.67%
Quarterly EPS	0.21
Annual EPS (TTM)	0.67

Revenues

In the quarter under review, General Electric's consolidated revenues totaled \$26,238 million, reflecting a year-over-year decline of 1%. Healthy Industrial performance was offset by weakness in GE Capital. However, the company's revenues surpassed the Zacks Consensus Estimate of \$26,162 million by 0.3%.

On a segmental basis, its Industrial revenues grew 2.5% year over year to \$24,486 million. The segment's organic revenues rose 4.6% from the year-ago quarter to \$24,672 million. Industrial orders declined 3% organically while backlog (at the end of the quarter) was \$405 billion.

Performance of the Industrial segment's components business is discussed below:

Aviation revenues grew 5.7% year over year to \$8,936 million, while orders increased 22%. Organically, revenues expanded 7% on 23% growth in orders. Notably, fourth-quarter shipment of LEAP engines totaled 420, reflecting increase of 41 from the year-ago quarter.

Healthcare revenues in the reported quarter totaled \$5,402 million, flat year over year. The segment's orders grew 2%. On an organic basis, revenues rose 1% on 3% growth in orders.

Renewable Energy revenues totaled \$4,747 million, up 2.2% year over year. Its orders declined 11% in the reported quarter. Organically, the segment's sales rose 4% year over year while orders were down 10%.

The Power segment's revenues were flat year over year to \$5,401 million as growth of 8% in Gas Power revenues were offset by 16% decline in Power Portfolio revenues. The segment's orders declined 30%. On an organic basis, the segment's sales were up 5% while orders declined 28%.

GE Capital's revenues in the reported quarter totaled \$2,096 million, down 15.3% year over year.

For 2019, the company's consolidated revenues were \$95,214 million, decreasing 1.9% year over year. However, the top line surpassed the Zacks Consensus Estimate of \$94.5 billion.

Margin

In the quarter under review, General Electric's cost of sales declined 7.3% year over year to \$19,080 million. It represented 72.7% of the quarter's revenues versus 77.6% in the year-ago quarter. Selling, general and administrative expenses in the quarter increased 5.5% year over year to \$3,829 million. It was 14.6% of the quarter's revenues versus 13.7% in the year-ago quarter.

The Industrial segment's adjusted operating profit in the quarter rose 57.8% year over year to \$2,767 million while margins grew 410 basis points to 11.3%. On a reported basis, the Industrial segment recorded profit of \$3,344 million, up 59.8% year over year. The Power segment recorded profit of \$302 million versus \$786 million loss in the year-ago quarter, while Renewable Energy's loss was \$197 million against \$21 million loss in fourth-quarter 2018. Aviation and Healthcare segments' profit rose 19.3% and 0.6% year over year, respectively.

The GE Capital segment witnessed profit of \$69 million against loss of \$86 million in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the fourth quarter of 2019, General Electric had cash and cash equivalents of \$84.9 billion, up from \$76 billion recorded at the end of the previous quarter. Borrowings were \$90.9 billion versus \$93.2 billion at the end of the third quarter.

Adjusted free cash flow for GE Industrial totaled \$3,884 million in the fourth quarter, down from \$4,644 million in the year-ago quarter.

Restructuring

In June 2018, General Electric communicated plans to transform into a high-tech industrial company — focused on Aviation, Power and Renewable Energy.

In sync with its plans, the company completed the sale of its transportation business to Wabtec Corporation in the first quarter of 2019. Further, General Electric has agreed to divest the BioPharma business to Danaher Corporation. Subject to the receipt of regulatory approvals and fulfillment of customary closing conditions, the divestment is anticipated to be completed in the first quarter of 2020.

Further, General Electric has lost its controlling shareholding in Baker Hughes and hence, has been classified as discontinued operations.

Efforts are on track to reduce exposure to the GE Capital business. Asset disposition has amounted to approximately \$12 billion in 2019, including roughly \$8 billion completed in the fourth quarter of 2019. Also, it reduced debt by \$7 billion in 2019.

Outlook

In the quarters ahead, General Electric is committed toward enhancing its long-term growth opportunities, reducing leverage and strengthening businesses.

The company projects organic revenues in the Industrial segment to grow in a low-single-digit range. The segment's adjusted margin (on an organic basis) will increase 0-75 basis points.

The company's adjusted earnings are predicted to be 50-60 cents per share in 2020. Industrial free cash flow is expected to be \$2-\$4 billion.

Recent News

On **Feb 5, 2020**, General Electric signed an agreement with Hitachi Zosen Corporation to provide Japan-based Kamisu Biomass Power Generation plant with renewable steam technology.

On **Jan 31, 2020**, GE Renewable Energy announced that it clinched an onshore wind turbine contract from OX2. Per the deal, the company will supply 24 Cypress turbines to Finland-based Metsälamminkangas wind farm.

On **Jan 27, 2020**, General Electric paid out a quarterly cash dividend of a penny per share to its shareholders of record as of Dec 23, 2019.

On **Jan 21, 2020**, GE Hitachi Nuclear Energy announced that along with TerraPower, it will work on the U.S. Department of Energy's Versatile Test Reactor program.

On **Jan 16, 2020**, GE Renewable Energy secured a contract for its Grid Solutions business. Per the deal, it will work on offshore and onshore wind substations for Scotland-based Neart na Gaoithe (NnG) offshore wind farm.

On **Jan 15, 2020**, General Electric won a contract from MRC Group. Per the 15-year service contract, the company will work for MRC Group's Alon Tavor power plant.

On **Jan 14, 2020**, General Electric received a contract for supplying 9HA.01 heavy-duty gas turbine to Israel Electric Corporation.

On **Dec 18, 2019**, GE Renewable Energy announced that it has clinched an onshore wind turbine contract from Rio Energy. Per the deal, Rio Energy will utilize General Electric's biggest onshore wind turbine solution — Cypress platform — for catering to consumers' growing requirements of renewable and sustainable energy.

On **Dec 18, 2019**, GE Hitachi Nuclear Energy announced the completion of the decommissioning work of the Oskarshamn, Sweden-based nuclear power plant.

On **Dec 17, 2019**, GE Renewable Energy announced that Eneco, Future Wind, a joint venture between Pondera Development and SIF Holding Netherlands, has decided to buy all of the electricity generated by its Haliade-X 12 MW prototype.

Valuation

General Electric's shares have moved up 16% in the year-to-date period and grew 32% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 3.5% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have moved up 19.1%. The S&P 500 index has moved up 3.7% year to date and 22.5% in the past year.

The stock is currently trading at 9.08x forward 12-month EBITDA, which compares to 26.85x for both the Zacks sub-industry and the Zacks sector as well as 12.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.85x and as low as 6.78x, with a 5-year median of 10.7x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$14 price target reflects 21.79x forward 12-month earnings per share.

The table below shows summary valuation data for GE.

Valuation Multiples - GE					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	9.08	26.85	26.85	12.66
	5-Year High	19.85	81.18	81.18	12.66
	5-Year Low	6.78	17.86	17.86	9.08
	5-Year Median	10.7	22.15	22.15	10.78
P/E F12M	Current	20.75	20.31	20.31	19.17
	5-Year High	21.28	20.31	20.31	19.34
	5-Year Low	9.01	15.31	15.31	15.18
	5-Year Median	16.38	17.76	17.76	17.46
EV/Sales F12M	Current	0.95	4.22	4.22	3.26
	5-Year High	3.16	4.24	4.24	3.37
	5-Year Low	0.88	2.84	2.84	2.3
	5-Year Median	2.12	3.65	3.65	2.78

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 255)



Top Peers

Carlisle Companies Incorporated (CSL)	Neutral
Danaher Corporation (DHR)	Neutral
Flowserve Corporation (FLS)	Neutral
Honeywell International Inc. (HON)	Neutral
ITT Inc. (ITT)	Neutral
Macquarie Infrastructure Company (MIC)	Neutral
3M Company (MMM)	Neutral
United Technologies Corporation (UTX)	Underperform

Industry Comparison Industry: Diversified Operations				Industry Peers		
	GE Neutral	X Industry	S&P 500	DHR Neutral	HON Neutral	UTX Underperform
VGM Score	D	-	-	D	C	C
Market Cap	113.10 B	7.41 B	24.40 B	117.78 B	126.01 B	134.84 B
# of Analysts	7	2.5	13	8	10	7
Dividend Yield	0.31%	1.44%	1.75%	0.41%	2.04%	1.88%
Value Score	D	-	-	D	C	C
Cash/Price	0.78	0.14	0.04	0.17	0.08	0.06
EV/EBITDA	-17.85	9.11	14.17	26.28	14.07	12.28
PEG Ratio	2.98	2.08	2.05	2.59	2.08	2.28
Price/Book (P/B)	3.80	1.34	3.31	4.11	6.74	3.05
Price/Cash Flow (P/CF)	15.80	12.22	13.63	26.39	17.88	12.35
P/E (F1)	21.58	17.30	19.08	30.10	19.98	18.78
Price/Sales (P/S)	1.07	1.47	2.67	5.91	3.43	1.75
Earnings Yield	4.63%	5.56%	5.24%	3.32%	5.00%	5.33%
Debt/Equity	3.16	0.75	0.71	0.75	0.59	0.90
Cash Flow (\$/share)	0.82	1.94	6.89	6.21	9.86	12.65
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-20.84%	9.90%	10.80%	2.72%	8.56%	4.27%
Proj. EPS Growth (F1/F0)	-8.35%	5.71%	7.23%	23.25%	8.15%	0.69%
Curr. Cash Flow Growth	-48.47%	2.93%	9.51%	-1.09%	-1.43%	26.99%
Hist. Cash Flow Growth (3-5 yrs)	-19.88%	4.88%	8.55%	5.87%	5.69%	5.99%
Current Ratio	1.84	2.05	1.20	5.19	1.34	1.08
Debt/Capital	75.95%	41.54%	42.90%	41.54%	37.28%	47.51%
Net Margin	-4.71%	5.35%	11.76%	15.09%	16.73%	7.19%
Return on Equity	14.13%	10.89%	16.98%	11.50%	32.21%	16.60%
Sales/Assets	0.37	0.77	0.54	0.35	0.62	0.56
Proj. Sales Growth (F1/F0)	-13.78%	2.79%	4.15%	6.62%	2.13%	1.52%
Momentum Score	F	-	-	C	C	F
Daily Price Chg	0.70%	0.00%	-0.11%	0.67%	-0.31%	0.37%
1 Week Price Chg	6.32%	-1.99%	-2.60%	-0.85%	-2.21%	-1.95%
4 Week Price Chg	8.73%	-1.52%	1.51%	4.00%	-1.52%	1.66%
12 Week Price Chg	14.70%	0.00%	5.63%	20.44%	-1.84%	5.46%
52 Week Price Chg	28.73%	-9.13%	17.01%	51.01%	19.03%	29.39%
20 Day Average Volume	62,546,728	42,158	1,961,054	2,332,143	2,500,855	3,766,119
(F1) EPS Est 1 week change	-1.37%	0.00%	0.00%	0.01%	0.28%	-0.68%
(F1) EPS Est 4 week change	-15.07%	-0.28%	-0.00%	-1.58%	0.18%	-4.82%
(F1) EPS Est 12 week change	-15.76%	-0.98%	-0.16%	-3.30%	0.18%	-4.90%
(Q1) EPS Est Mthly Chg	-18.71%	-4.09%	0.00%	-5.21%	-0.56%	-11.25%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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