

General Electric (GE)

\$8.12 (As of 03/26/20)

Price Target (6-12 Months): **\$9.00**

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:B

Value: B

Growth: B

Momentum: F

Summary

General Electric 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 low single-digit organic sales growth for Industrial. For 2020, the company envisions adjusted free cash flow of \$2-\$4 billion for Industrial. However, its shares have underperformed its industry in the past month. Tariffs, issues with 737 MAX and forex woes might continue to affect it in the quarters ahead. Also, the persistence of internal and external challenges within the Power segment might hurt. For first-quarter 2020, it expects the coronavirus outbreak to have an adverse impact of \$300-\$500 million on its Industrial free cash flow and \$200-\$300 million on operating profit.

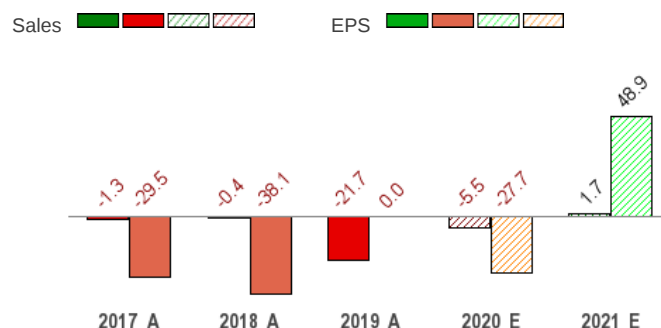
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$13.26 - \$5.90
20 Day Average Volume (sh)	120,195,520
Market Cap	\$71.0 B
YTD Price Change	-27.2%
Beta	1.12
Dividend / Div Yld	\$0.04 / 0.5%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 34% (168 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-17.9%
Expected Report Date	04/29/2020
Earnings ESP	-2.0%
P/E TTM	12.1
P/E F1	17.3
PEG F1	2.4
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	21,768 E	22,999 E	23,539 E	27,601 E	91,446 E
2020	20,726 E	21,739 E	22,385 E	25,872 E	89,930 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	\$0.16 E	\$0.14 E	\$0.17 E	\$0.26 E	\$0.70 E
2020	\$0.10 E	\$0.07 E	\$0.12 E	\$0.19 E	\$0.47 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

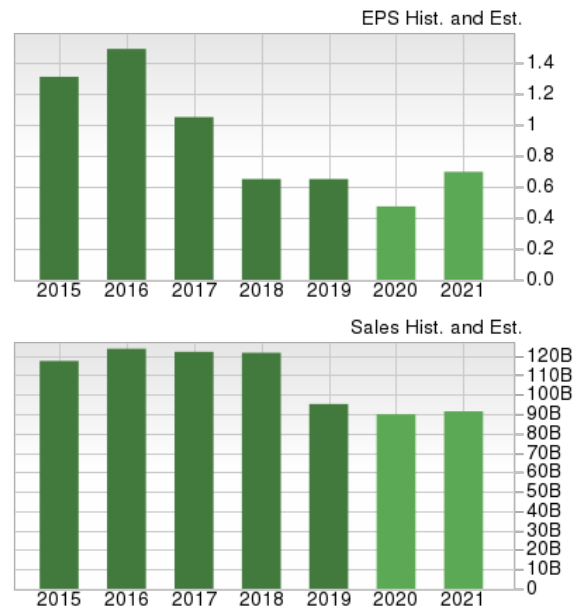
Overview

General Electric Company is popular for its LEAP aircraft engines, Heavy-Duty gas turbines, Haliade-X and Cypress wind turbines, and healthcare solutions. Its zeal to invest in upgrades and innovation of products along with outstanding service capabilities and technological expertise raises its competitive appeal. Also, the high-tech giant's plan to strengthen its industrial businesses — with a focus on Power, Aviation and Renewable Energy — and deleverage the balance sheet will boost fundamentals and shareholders' value.

Founded in 1892, General Electric is currently headquartered in Boston, MA. 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. The Power segment 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.



Reasons To Buy:

- ▲ In the fourth quarter, General Electric 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 by end of March 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.
- ▲ 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 addition, the company communicated that its first-quarter 2020 performance will likely reflect the adverse impacts of the coronavirus outbreak. The conglomerate quantified the adverse impacts of the virus to be \$300-\$500 million on its Industrial free cash flow and \$200-\$300 million on its operating profit.
- ▼ 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. In the past 60 days, earnings estimates have been lowered by 25.4% to 47 cents per share for 2020 and decreased by 6.7% to 70 cents for 2021. This makes us cautious about the stock. In the past month, General Electric's shares have moved down 25.3% compared with the industry's decline of 20.4%.

The persistence of challenges within the Power segment and the coronavirus outbreak 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. The divestment is anticipated to be completed on Mar 31, 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 **Mar 24, 2020**, General Electric announced its decision to collaborate with Ford Motor in the fight against the deadly coronavirus. Notably, the company will partner Ford for expanding its production scale of ventilators, equipping clinicians with medical equipment for the treatment of COVID-19 patients. As noted, the companies will work on producing a simplified design of GE Healthcare's existing ventilator to address critical requirements amid the pandemic.

On **Mar 23, 2020**, General Electric provided an update on measures that intends on taking in the light of the coronavirus (COVID-19) outbreak. The conglomerate's chairman and CEO — H. Lawrence Culp, Jr. — stressed on workers' safety, the continuation of providing services to customers, and preserving the business strength during the difficult period.

Its GE Aviation intends on lowering the U.S. workforce by 10%, while its president and CEO — David Joyce — will give up 50% of his salary, beginning April 2020. Also, other actions, including the reduction in the contingent workforce, refraining from hiring and lowering spending (non-essential), are being considered. In the coming three months, maintenance, repair and overhaul ("MRO") activities will be hurt badly, resulting in no work for 50% employees. General Electric believes that the actions will result in cost savings of \$500 million to \$1 billion for 2020.

On **Mar 19, 2020**, General Electric received a green signal from the U.S. Federal Trade Commission for the divestment of its BioPharma business to Danaher. The approval completed all requirements for getting antitrust clearances for the divestment. The deal will be completed on Mar 31, 2020.

Also, the same day, GE Healthcare announced that it scaled up production of scanning and other monitoring products (including mobile X-ray systems, ventilators, CTs, patient monitors and ultrasound devices). The initiatives have been taken to help better diagnose patients infected with the coronavirus.

On **Mar 9, 2020**, GE Renewable Energy announced that it secured an onshore wind turbine contract from Sanko Enerji. Per the deal, the company will be responsible for delivering 12 of its Cypress units and two units of 3 MW for the Guney wind farm located in Bursa, Turkey.

On **Mar 4, 2020**, General Electric highlighted its financial targets and outlook for 2020. For 2020, the company reaffirmed its organic revenues outlook for the Industrial segment, which is projected to grow in a low single-digit range. The company anticipates the segment's adjusted margin (on an organic basis) to expand 0-75 basis points.

Also, 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. In addition, it continues to aim achieving debt-to-equity ratio of less than 4 for GE Capital and net debt-to-EBITDA ratio of less than 2.5 for GE Industrial.

The company communicated that its annual outlook assumes lower free cash flow and profit from its BioPharma, on account of planned divestment of the business in the first quarter.

On **Mar 3, 2020**, GE Steam Power India announced a contract from Central Power Research Institute (CPRI) Bengaluru to provide two 2500 MVA short circuit generator systems.

On **Mar 2, 2020**, General Electric's Power Conversion business and Hanwha Aerospace announced the signing of a Memorandum of Understanding. It will involve both the parties to bring electric propulsion solutions to the Republic of Korea Navy.

On **Feb 26, 2020**, General Electric's business unit, GE Renewable Energy, clinched a contract from the EDF Renewables / SITAC Group joint venture to deliver its state-of-the-art wind turbines.

Per the deal, GE Renewable Energy will be responsible for delivering 112 units of its 2.7 MW wind turbines with 132m rotor to the Sitac Kabini wind farm based in Gujarat, India. As noted, the installation and commissioning of wind turbines, which will be completed over the coming year, will bring the total installed capacity of the wind farm to 300 MW. This will facilitate the production of adequate green energy for more than 1.3 million people, catering to the growing demands for electricity.

On **Feb 20, 2020**, General Electric announced the launch of a new cybersecurity service offering. Notably the solution incorporates medical device expertise, artificial intelligence as well as process management tools to mitigate cybersecurity threats.

On **Feb 14, 2020**, General Electric's board of directors approved payout of a quarterly cash dividend of a penny per share to shareholders of record as on Mar 9, 2020. The payment will be made on Apr 27, 2020.

On **Feb 10, 2020**, General Electric secured a contract from Angat Hydropower for rehabilitating the 218 MW Angat hydropower plant based in the Philippines.

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.

Valuation

General Electric's shares have declined 27.3% in the year-to-date period and decreased 17.9% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have decreased 27.8% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have moved down 21.8%.

The S&P 500 Index has moved down 23.1% year to date and 12.9% in the past year.

The stock is currently trading at 5.66x forward 12-month EBITDA, which compares to 20.17x for both the Zacks sub-industry and the Zacks sector as well as 9.82x for the S&P 500 index.

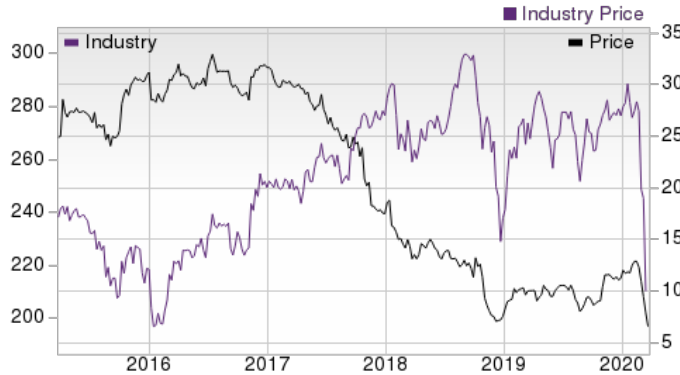
Over the past five years, the stock has traded as high as 22.61x and as low as 5.66x, with a 5-year median of 11.98x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$9 price target reflects 16.73x forward 12-month earnings per share.

The table below shows summary valuation data for GE.

Valuation Multiples - GE					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	5.66	20.17	20.17	9.82
	5-Year High	22.61	81.18	81.18	14.18
	5-Year Low	5.66	17.86	17.86	9.07
	5-Year Median	11.98	22.9	22.9	10.84
P/E F12M	Current	15.09	15.63	15.63	14.92
	5-Year High	21.37	20.06	20.06	19.34
	5-Year Low	9.01	15.31	15.31	14.92
	5-Year Median	16.55	17.76	17.76	17.42
EV/Sales F12M	Current	0.71	2.75	2.75	2.35
	5-Year High	3.16	4.32	4.32	3.52
	5-Year Low	0.71	2.75	2.75	2.3
	5-Year Median	2.03	3.65	3.65	2.8

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 253)



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)	Underperform
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	B	-	-	D	C	B
Market Cap	70.98 B	4.04 B	18.50 B	96.54 B	97.91 B	90.64 B
# of Analysts	8	2	13	7	10	7
Dividend Yield	0.49%	2.32%	2.35%	0.52%	2.62%	2.81%
Value Score	B	-	-	D	C	C
Cash/Price	1.49	0.25	0.07	0.23	0.13	0.10
EV/EBITDA	5.14	7.02	11.16	21.67	10.95	9.03
PEG Ratio	2.24	1.71	1.74	2.30	2.03	1.64
Price/Book (P/B)	2.38	0.83	2.44	3.47	5.23	2.04
Price/Cash Flow (P/CF)	6.29	6.16	9.87	22.31	13.89	8.27
P/E (F1)	16.23	12.78	15.29	25.76	16.63	13.28
Price/Sales (P/S)	0.67	0.80	1.93	4.84	2.67	1.18
Earnings Yield	5.79%	6.83%	6.47%	3.88%	6.01%	7.53%
Debt/Equity	2.36	0.75	0.70	0.75	0.59	0.90
Cash Flow (\$/share)	1.29	2.19	7.01	6.21	9.89	12.65
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	-20.84%	9.12%	10.85%	2.72%	8.56%	4.27%
Proj. EPS Growth (F1/F0)	-27.12%	1.00%	2.89%	21.79%	1.26%	-4.58%
Curr. Cash Flow Growth	-8.00%	8.17%	5.93%	1.84%	-1.43%	26.99%
Hist. Cash Flow Growth (3-5 yrs)	-12.27%	5.29%	8.55%	5.87%	5.69%	5.99%
Current Ratio	1.70	2.00	1.23	5.19	1.34	1.08
Debt/Capital	70.19%	42.18%	42.57%	41.54%	37.28%	47.51%
Net Margin	-4.71%	5.33%	11.64%	15.09%	16.73%	7.19%
Return on Equity	14.12%	10.89%	16.74%	11.50%	32.21%	16.60%
Sales/Assets	0.37	0.78	0.54	0.35	0.62	0.56
Proj. Sales Growth (F1/F0)	-14.93%	0.00%	2.37%	5.70%	-1.66%	-2.04%
Momentum Score	F	-	-	C	D	D
Daily Price Chg	7.41%	4.48%	6.21%	7.22%	5.98%	8.78%
1 Week Price Chg	-16.94%	-13.95%	-16.96%	-12.43%	-24.70%	-21.70%
4 Week Price Chg	-21.85%	-19.81%	-15.70%	-5.71%	-13.88%	-20.84%
12 Week Price Chg	-31.94%	-30.48%	-23.67%	-10.61%	-24.00%	-31.67%
52 Week Price Chg	-17.90%	-33.68%	-13.99%	6.79%	-13.33%	-17.78%
20 Day Average Volume	120,195,520	136,601	4,286,768	5,178,577	6,471,451	12,528,210
(F1) EPS Est 1 week change	-1.56%	0.00%	-0.15%	0.00%	-2.51%	0.00%
(F1) EPS Est 4 week change	-17.92%	-3.25%	-2.28%	-1.19%	-6.33%	-5.24%
(F1) EPS Est 12 week change	-32.46%	-6.20%	-3.22%	-3.05%	-6.20%	-9.78%
(Q1) EPS Est Mthly Chg	-20.64%	-1.28%	-1.60%	-0.83%	-0.98%	-6.23%

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	B
Growth Score	B
Momentum Score	F
VGM Score	B

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.

Disclosures

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