General Electric Company (GE US)

Planned spin-offs on track

- Total revenues up 3% y/y driven by Aerospace and Healthcare; Operating Income down 25% y/y due to increased losses at Renewables
- GE is on track to spin-off its Healthcare unit in January 2023. Major rating firms(*) affirmed GE's credit ratings
- Outlook positive given the continued strong performance of GE Aerospace, the good liquidity profile and the creditor- friendly financial policy

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Credit Opinion

We maintain our credit positive outlook given the continued strong performance of GE Aerospace (GE's largest business segment), the good liquidity profile and the creditor-friendly financial policy. In 3Q22, GE Aerospace's revenues increased 24% y/y to $6.7bn driven by growth in Commercial Services, strong spare part sales and favorable price. Profit margin expanded 340bps y/y to 19.1% driven by Commercial Services growth and favorable price exceeding cost inflation. On an annual basis, GE Aerospace is expected to have over 20% revenue growth and margins to be high-teens in FY22.

GE has a good liquidity profile supported by $12.6bn of cash holdings vs $4.3bn of short-term borrowings at September 30, 2022. GE expects approximately $4.5bn of FCF for FY22. GE has also in place committed revolving credit facilities totaling $14.3bn, comprising a $10bn unused back-up revolving syndicated credit facility.

We also evaluate as credit positive GE's credit- friendly financial policy. Total borrowings decreased 6.4% q/q to $30.4bn. GE doesn't anticipate any funding requirements to its pension fund in the near future. The funded status of the insurance liabilities is improving as GE is providing capital contributions according to the previous announced plans. We expect GE to continue its creditor- friendly financial policy and use the proceeds from future asset sales toward further debt reduction.

GE is on track to spin-off its Healthcare segment in January 2023. As a result of the spin-off, GE is expected to receive approximately $8bn in cash, most of which we expect to be used to further reduce debt. GE also plans to transfer about $5.2bn of pension liabilities to GE Healthcare. GE will maintain 19.9% stake in GE Healthcare. Both S&P(*) and Moody's(*) affirmed GE's ratings following the disclosure of the details of the transaction. S&P(*) affirmed "BBB+" issuer credit rating (Stable Outlook) as the loss of diversification resulting from the spin-off should be offset by significant deleverage. Moody's(*) maintained its "Baa1" issuer rating (Negative Outlook) as Moody's(*) expects GE Aerospace segment to continue to strengthen and GE to continue to deleverage.

(*) indicates non-registered domestic rating; please see the disclaimer at the end

3Q22 Financial Highlights

Orders decreased 7% y/y organically (excluding the effects of acquisitions, dispositions and foreign currency translation) to $20bn due to a difficult prior year comparison in Offshore Wind. Excluding Renewables, orders increased 8% y/y with gross across all segments.

Remaining performance obligation (RPO) was $240.8bn as of September 30, 2022. RPO is unfilled customer orders for products and product services (expected life of contract sales for product services) excluding any purchase order that provides the customer with the ability to cancel or terminate without incurring a substantive penalty.

Total revenues increased 3% y/y to $19.1bn driven by increases at Aerospace and HealthCare, partially offset by decreases at Renewable Energy and Power.

Operating income decreased 25% y/y to $1.2bn driven by increased losses at Renewables and lower profit at Power, partially offset by increased profit at Aerospace.

Continuing earnings turned negative to $(153)m from $603m in 3Q21 due to a net loss on the value of equity securities of $0.5bn compared to the prior year gain, a decrease in segment profit of $0.4bn, a decrease in Insurance profit of $0.4bn and separation costs of $0.2bn.

FCF (excluding discontinued factoring) declined 11% y/y to $1.2bn driven by lower earnings. Working capital had a limited impact on FCF. Year-to-date, FCF was approximately $500m. In 4Q22, GE expects higher collections, given the large receivables balance and reduced inventory due to strong quarterly deliveries. As a result, GE expects approximately $4.5bn of FCF for FY22.

Total cash, cash equivalents and restricted cash totaled $12.6bn vs $4.3bn of short-term borrowings at September 30, 2022. As a source of liquidity, GE has also in place committed revolving credit facilities totaling $14.3bn, comprising a $10bn unused back-up revolving syndicated credit facility.

Total borrowings decreased 6.4% q/q to $30.4bn.

GE completed its annual premium deficiency test for its run-off insurance portfolio, resulting in positive margin with no impact to earnings. GE also terminated several reinsurance contracts, reducing its counterparty risk.

The management reiterated they are on track with plans to split into three public companies which should have investment-grade ratings.The names of the new companies will be GE Aerospace, GE Healthcare and GE Vernova. GE Vernova will comprise energy businesses including Renewable energy, Power and Digital. GE intends to execute tax-free spin-offs of Healthcare unit in January 2023 and the Energy unit in early 2024.

Chart 1: 3Q22 results summary ($m)

	Three months ended September 30			Nine months ended September 30		
SUMMARY OF REPORTABLE SEGMENTS	2022	2021	V %	2022	2021	V %
Aerospace	$ 6,705	$ 5,398	24 %	$ 18,434	$ 15,230	21 %
HealthCare	4,613	4,339	6 %	13,494	13,100	3 %
Renewable Energy	3,594	4,208	(15) %	9,564	11,505	(17) %
Power	3,529	4,026	(12) %	11,233	12,242	(8) %
Total segment revenues	18,440	17,970	3 %	52,725	52,076	1 %
Corporate	643	599	7 %	2,044	1,816	13 %
Total revenues	$ 19,084	$ 18,569	3 %	$ 54,769	$ 53,893	2 %
Aerospace	$ 1,284	$ 846	52 %	$ 3,341	$ 1,664	F
HealthCare	712	704	1 %	1,901	2,203	(14) %
Renewable Energy	(934)	(151)	U	(1,786)	(484)	U
Power	141	204	(31) %	524	416	26 %
Total segment profit (loss)	1,204	1,603	(25) %	3,980	3,799	5 %
Corporate(a)	(960)	(40)	U	(3,947)	361	U
Interest and other financial charges	(377)	(446)	15 %	(1,146)	(1,403)	18 %
Debt extinguishment costs	—	—	F	—	(1,416)	F
Non-operating benefit income (cost)	125	(427)	F	396	(1,374)	F
Benefit (provision) for income taxes	(72)	(35)	U	(701)	211	U
Preferred stock dividends	(73)	(52)	(40) %	(192)	(180)	(7) %
Earnings (loss) from continuing operations attributable to GE common shareholders	(153)	603	U	(1,609)	(1)	U
Earnings (loss) from discontinued operations attributable to GE common shareholders	(85)	602	U	(580)	(2,856)	80 %
Net earnings (loss) attributable to GE common shareholders	$ (238)	$ 1,205	U	$ (2,189)	$ (2,857)	23 %

(a) Includes interest and other financial charges of $ 13 million and $ 16 million, and $ 45 million and $ 47 million; and benefit for income taxes of $ 52 million and $ 33 million, and $ 160 million and $ 111 million related to Energy Financial Services (EFS) within Corporate for the three and nine months ended September 30, 2022 and 2021, respectively.

Source: Company materials

Segment Results

GE Aerospace

Revenues increased 24% y/y to $6.7bn driven by growth in Commercial Services, strong spare part sales and favorable price. Commercial Engines revenue also grew, with shipments up double-digits y/y.

Profit margin expanded 340bps y/y to 19.1% driven by Commercial Services growth and favorable price exceeding cost inflation.

For FY22, GE expects over 20% revenue growth and margins to be high-teens.

GE HealthCare

Revenues increased 6% y/y to $4.6bn with services growing 10% y/y organically and equipment increasing 10% y/y organically. Growth was driven by Imaging and Ultrasound.

Profit margin decreased 80bps y/y to 15.4% driven by ongoing supply and inflation impacts.

For FY22, GE expects mid-single-digit revenue growth and at least $2.6bn of operating profit.

Renewable Energy (will be part of GE Vernova)

Revenues decreased 15% y/y to $3.6bn mainly due to lower Onshore Wind equipment deliveries in North America from the PTC lapse.

Profit margin decreased 2,240bps y/y to (26)% driven by the higher $0.5bn warranty and related reserves, lower US volume in Onshore Wind and inflationary pressure.

For FY22, GE expects losses of approximately $2bn, largely due to higher than anticipated warranty pressure, inflation and lower demand. GE plans to initiate a restructuring program across its GE Vernova businesses, primarily at Renewable Energy, that is expected to deliver $0.5bn in annualized savings. GE expects Renewables to become profitable in 2024.

Power (will be part of GE Vernova)

Revenues decreased 12% y/y to $3.5bn driven by fewer equipment deliveries at Gas Power and the continued exit of GE's new build coal business at Steam.

Profit margin declined 110bps y/y to 4% due to lower contractual services outages and unfavorable equipment mix at Gas Power.

For FY22, GE expects low-single-digit revenue growth and margin expansion.

FY22 Financial Guidance

For FY22, GE expects organic revenues growth to be at the low-end of the high-single-digit range. GE lowered the profitability guidance due to the weak performance of the Renewable energy segment in 3Q22. The growth of the adjusted organic profit margin was reduced from 150+ to 125-150bps range. Adjusted earnings per share was reduced from $2.8-$3.5 to $2.4-$2.8 range. GE also expects FCF to be approximately $4.5bn. (FCF previous guidance was $4.5bn- $5.5bn range)

Chart 2: FY22 Financial Guidance

	Investor Day (Mar 10, 2022)	1Q Earnings (Apr 26, 2022)	2Q Earnings (Jul 26, 2022)	3Q Earnings (Oct 25, 2022)
Organic revenue growth*	HSD	Trending towards low end of range		
Adjusted organic margin expansion*	150+ bps	Trending towards low end of range		125 - 150 bps
Adjusted EPS*	$2.80 - $3.50	Trending towards low end of range		$2.40 - $2.80
Free cash flow*	$5.5B - $6.5B	Trending towards low end of range	Likely to push out ~$1B	~$4.5B

Source: Company materials

Back Numbers

Industrials

Boeing	Commercial deliveries below expectations	2022/09/02
GE	Aerospace remains the key growth driver	2022/08/10
GE	Aviation recovery continues	2022/06/16
Boeing	Limited impact from Russia-Ukraine conflict	2022/05/30
Keppel	Agreed on the combination of Keppel O&M and Sembcorp Marine	2022/05/10
Airbus	Strong resilience	2022/04/21
Boeing	Aircraft delivery remains uncertain	2022/03/01
Keppel	Does the increased dividends mark a change in the firm's financial policy?	2022/02/17

Information Technology

Microsoft	Excellent execution abilities	2022/09/09
Amazon	Increased capital spending requirements	2022/04/28
Apple	Strong demand drives new revenue records	2021/12/15
Microsoft	Well-balanced growth	2021/09/22

Communication Services

AT&T	On track to achieve the annual financial targets	2022/11/11
AT&T	Warning of the challenging operating environment	2022/08/09
AT&T	Exited media business	2022/05/26
Disney	Could Genie grant Disney's wish?	2022/02/14

Energy

ExxonMobil	Record profits	2022/09/08
ExxonMobil	Recorded losses from Russia exit	2022/06/24

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