General Electric Company (GE US)

Global Credit Research GCRE097

FICC Research Dept.

Raised financial guidance for FY23

- 2Q23 Revenues increased 18% y/y driven by Aerospace and Renewable Energy; Adjusted profit increased 37% y/y to $1.4bn driven by Aerospace and Power
- GE is on track to spin off GE Vernova in early 2024 as an independent investment-grade company
- We maintain our positive outlook given the strong performance in the quarter, continuous debt reduction and the strong liquidity profile

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Credit Opinion

We maintain our positive outlook given GE's strong results in 2Q23, continuous debt reduction and the strong liquidity profile. GE's orders and revenues grew double- digits driven by robust services growth across all business segments and increased demand at GE Aerospace. GE raised its financial guidance for FY23 as it expects the demand to remain strong and to benefit from the cost reduction actions taken so far. GE Aerospace is expected to remain the main profitability driver reflecting growing demand for commercial air travel.

GE continues to deleverage. Over the past years GE's first priority was to strengthen its balance sheet and it reduced over $100bn of debt since 2018. In FY23, total borrowings decreased 9.5% ytd to $21.8bn due to net maturities and repayments of debt. We expect GE to continue its creditor- friendly financial policy and to maintain a strong balance sheet supported by the current earnings momentum.

GE has a good liquidity profile supported by $12.8bn of cash holdings vs $1.9bn of short-term borrowings as of June 30, 2023. The liquidity profile is also supported by the growing free cash flows (FCF). 2Q23 free cash flow (FCF) increased $0.2bn y/y to $0.4bn driven by the strong earnings in the quarter. Based on the strong performance in 1H23, GE has raised its FCF guidance for FY23. GE now expects FY23 free cash flows to be between $4.1- $4.6bn, up from previous guidance of $3.6-$4.2bn range.

2Q23 Financial Highlights

Total orders increased 59% y/y to $22bn with gross in all business segments. On an organic basis (excluding the effects of acquisitions, business dispositions and foreign currency effect), total orders increased 58% y/y with services orders up 21% y/y.

As of June 30, 2023, remaining performance obligation (RPO= unfilled customer orders for equipment and services) was $245.79bn.

Total revenues increased 18% y/y to $16.7bn. On an organic basis, adjusted revenues (excluding Insurance revenues) increased 19% y/y to $15.9bn driven by increases at Aerospace and Renewable Energy, partially offset by lower revenues at Power. Services revenue increased 13% y/y organically and equipment revenues increased 28% y/y organically.

Adjusted profit (excludes Insurance profit and non-operating items) increased 37% y/y to $1.4bn driven by Aerospace and Power, partially offset by continuous losses at Renewable Energy. Adjusted profit margin increased 120bps y/y to 8.8%.

Free cash flow (FCF) increased $0.2bn y/y to $0.4bn driven by the strong earnings in the quarter.

Total cash, cash equivalents and restricted cash totaled $12.8bn vs $1.9bn of short-term borrowings as of June 30, 2023. GE monetized approximately 32% of its stake in GE Healthcare for total proceeds of $2.2bn.

GE repurchased approximately 3m common shares for $0.3bn, with $1.4bn remaining under the share repurchases program of up to $3bn.

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GE spun off its healthcare business at the start of FY23 and confirmed it is on track to spin off its energy operations (GE Vernova) in early 2024.

Chart 1: Summary of Financial Results ($m)

SUMMARY OF REPORTABLE SEGMENTS	Three months ended June 30			Six months ended June 30		
	2023	2022	V %	2023	2022	V %
Aerospace	$ 7,860	$ 6,127	28 %	$ 14,841	$ 11,730	27 %
Renewable Energy	3,849	3,099	24 %	6,687	5,970	12 %
Power	4,152	4,202	(1) %	7,971	7,703	3 %
Total segment revenues	15,861	13,428	18 %	29,499	25,403	16 %
Corporate	839	699	20 %	1,686	1,399	21 %
Total revenues	$ 16,699	$ 14,127	18 %	$ 31,185	$ 26,802	16 %
Aerospace	$ 1,479	$ 1,148	29 %	$ 2,805	$ 2,057	36 %
Renewable Energy	(359)	(419)	14 %	(773)	(853)	9 %
Power	377	320	18 %	453	383	18 %
Total segment profit (loss)	1,497	1,050	43 %	2,484	1,587	57 %
Corporate(a)	(199)	(1,710)	90 %	5,257	(3,129)	F
Interest and other financial charges	(254)	(353)	28 %	(511)	(724)	29 %
Non-operating benefit income (cost)	402	101	F	787	206	F
Benefit (provision) for income taxes	(393)	(222)	(77) %	(714)	(298)	U
Preferred stock dividends	(58)	(67)	13 %	(204)	(119)	(71) %
Earnings (loss) from continuing operations attributable to GE common shareholders	996	(1,201)	F	7,099	(2,476)	F
Earnings (loss) from discontinued operations attributable to GE common shareholders	(1,019)	252	U	238	339	(30) %
Net earnings (loss) attributable to GE common shareholders	$ (23)	$ (949)	98 %	$ 7,337	$ (2,137)	F

(a) Includes interest and other financial charges of $13 million and $15 million and $25 million and $32 million; and benefit for income taxes of $60 million and $61 million and $111 million and $108 million related to EFS within Corporate for the three and six months ended June 30, 2023 and 2022, respectively.

Source: Company materials

Financial Guidance for FY23

GE has raised its financial guidance for FY23 based on the strong performance in 1H23 and expectations for continued strength in 2H23. GE expects FY23 organic revenue to grow in the low double-digit range, up from previous guidance of high single-digit range. FY23 adjusted EPS should be in $2.1-$2.3 range, up from previous guidance of $1.7-$2 range. Free cash flows should be between $4.1- $4.6bn, up from previous guidance of $3.6-$4.2bn range.

Chart 2: FY23 Financial Guidance

GE Aerospace

- High teens to 20% organic revenue growth*
- $5.6B - $5.9B operating profit
- FCF* up year-over-year

GE VERNOVA-a)

- MSD organic revenue growth*
- $(0.4)B - $(0.1)B operating profit
- FCF* flat to slightly improved

Total company

	2023
Revenue growth*-b)	+LDD *prior: +HSD*
Adjusted EPS*	$2.10 - $2.30 *prior: $1.70 - $2.00*
Free cash flow*	$4.1B - $4.6B *prior: $3.6B - $4.2B*

Source: Company materials

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Back Numbers

Industrials

Boeing	Near-term delivery delays	2023/05/19
Boeing	Towards operations stability?	2023/02/24
GE	Positioned to drive further growth	2023/02/07
Boeing	An asset or a liability?	2022/11/24
GE	Planned spin-offs on track	2022/11/22
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

Amazon	Retail business into red	2023/03/14
Apple	Another record-breaking year	2022/12/13
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	CapEx requirements to remain high in 2023	2023/03/24
Disney	Record results at theme parks	2023/02/01
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

US and European Energy Majors	Update on 3Q22 Results	2023/01/11
ExxonMobil	Record profits	2022/09/08
ExxonMobil	Recorded losses from Russia exit	2022/06/24

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