General Electric Company (GE US)

Outperformed the market in 2023

- 4Q23 Revenues increased 15% y/y with double-digits growth in all segments; Segment profit increased 20%
- GE is on track to spin off GE Vernova in early April
- GE's strong performance in 4Q23 and the financial guidance for FY24 are credit positive; GE outperformed the market in 2023 both in equity and credit markets reflecting the company's improving fundamentals

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Credit Opinion

GE's strong performance in 4Q23 and the financial guidance for FY24 are credit positive. 4Q23 Revenues increased 15% y/y to $19.4bn with double-digits growth in all business segments. Total segment profit increased 20% y/y to $2.0bn with profitability improving in all segments. The main profit drivers are the recovery in the air travel demand and operational improvements.

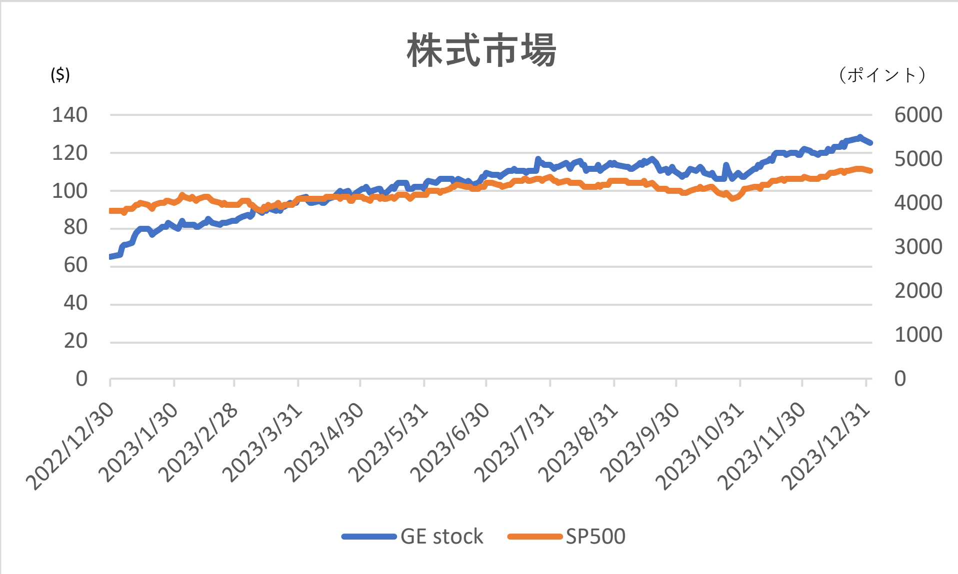
GE plans to spin-off its energy operations (GE Vernova) in early April as previously announced. Revenue growth is expected to continue in 2024 for both GE Vernova and GE Aerospace. GE Vernova expects to deliver revenue of $34bn- $35bn and free cash flow of $0.7bn- $1.1bn. GE Aerospace expects adjusted revenue to grow low double digits or more and free cash flow of greater than $5bn.

Over the past years, GE's priority has been to strengthen its balance sheet and it has reduced over $100bn of debt since 2018. As the end of 4Q23, total borrowings decreased 4% q/q to $21bn as GE continues its efforts to deleverage. 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 $17bn of cash holdings vs $1.3bn of short-term borrowings as of end of 4Q23. The liquidity profile is also supported by its positive free cash flows (FCF). In 4Q23, GE generated $3bn of free cash flows, which is 11% lower y/y due to changes in working capital.

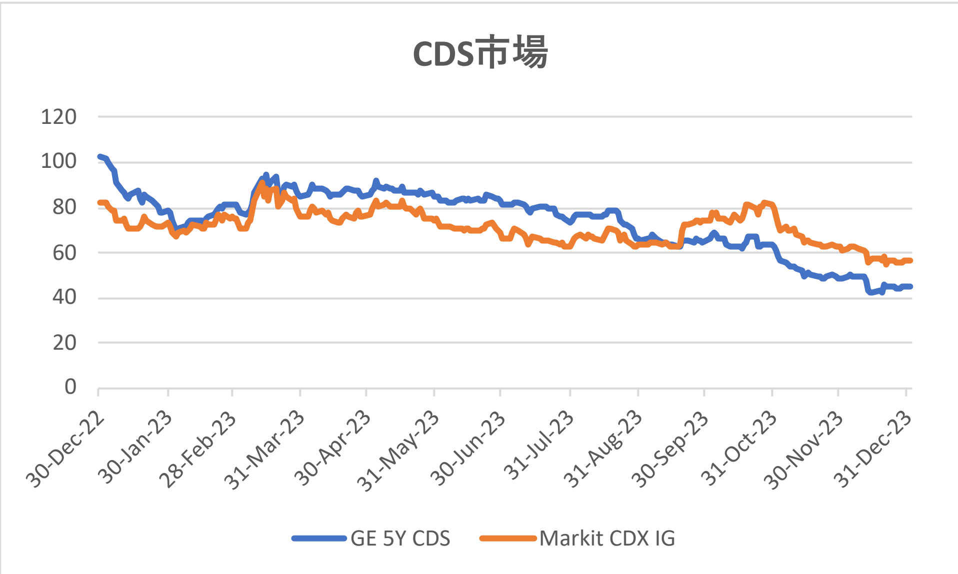
GE's improving fundamentals are reflected in its performance in the capital markets. GE outperformed the market in 2023, both in equity and credit markets. GE stock was up 95% compared to 24% increase of SP500. In the CDS market, GE 5Y CDS spread tighten 57bps compared with 25bps tightening of the Markit CDX North America IG index. We expect GE's fundamentals to continue to improve in 2024, but there is little room for further spread tightening of GE 5Y CDS as it is already trading at historical low levels. Going forward, we expect GE 5Y CDS spread to trade range bound between 30-50bps, levels last seen before 2018.

Chart 1: GE stock performance in 2023（$）



Source: Bloomberg; compiled by Daiwa

Chart 2: GE 5Y CDS performance in 2023 (bps)



Source: IHS Markit; compiled by Daiwa

4Q23 Financial Highlights

Total orders increased 8% y/y to $21.7bn. On an organic basis (excluding the effects of acquisitions, business dispositions and foreign currency effect), total orders increased 7% y/y with growth in all business segments.

As of end of December 2023, remaining performance obligation (RPO= unfilled customer orders for equipment and services) was $267.2bn. Services RPO accounts for 80% of the total amount. GE Aerospace RPO accounts for 58% of the total amount.

Total revenues increased 15% y/y to $19.4bn. On an organic basis, adjusted revenues (excluding Insurance revenues) increased 13% y/y to $18.5bn with double-digits growth in all business segments. GE Aerospace revenues increased 12% y/y to $8.5bn driven by Commercial Engines and Services. Renewable Energy revenues increased 23% y/y to

$4.2bn driven by Grid and Offshore Wind. Power revenues increased 15% y/y to $5.8bn driven by Gas Power with strength in both equipment and services.

Segment profit increased 20% y/y to $2.0bn as results improved in all business segments. Profit margin increased 90bps y/y to 10.3%. GE Aerospace profit margin was flat y/y at 18.8% as increased services volume and pricing was offset by unfavorable equipment mix and investments. Renewable Energy margin improved 510bps y/y to (8.2)% with Onshore Wind and Grid both profitable again this quarter from better price and productivity, more than offsetting pressure at Offshore Wind. Power margin decreased 70bps y/y to 13.1% driven by higher equipment volume.

Free cash flow (FCF) decreased 11% y/y to $3bn. Cash from operating activities decreased 12% y/y to $3.2bn mainly due to the impact from the accounts payable.

Net debt was $4bn as of end of December 2023. Net debt/ EBITDA ratio was 0.5.
Total borrowings decreased 4% q/q to $21bn.
Total cash, cash equivalents and restricted cash totaled $17bn vs $1.3bn of short-term borrowings as of end of December 2023. GE received total proceeds of $2bn in the quarter from the sale of its remaining AerCap shares. During 2023, GE monetized approximately $9bn in proceeds from exiting its Baker Hughes and AerCap stakes and a portion of its GE HealthCare shares.

GE spun off its healthcare business at the start of FY23 and it plans to spin off its energy operations (GE Vernova) in early April.

Chart 3: Summary of Financial Results ($m)

GENERAL ELECTRIC COMPANY

SUMMARY OF REPORTABLE SEGMENTS (UNAUDITED)	Three months ended December 31			Twelve months ended December 31		
(In millions)	2023	2022	V%	2023	2022	V%
Aerospace	$ 8,520	$ 7,615	12 %	$ 31,770	$ 26,050	22 %
Renewable Energy	4,213	3,413	23 %	15,050	12,977	16 %
Power	5,786	5,030	15 %	17,731	16,262	9 %
Total segment revenues(a)	18,518	16,058	15 %	64,551	55,289	17 %
Corporate	905	770	18 %	3,403	2,812	21 %
Total revenues	$ 19,423	$ 16,828	15 %	$ 67,954	$ 58,100	17 %
Aerospace	$ 1,598	$ 1,434	11 %	$ 6,115	$ 4,775	28 %
Renewable Energy	(347)	(454)	24 %	(1,437)	(2,240)	36 %
Power	759	692	10 %	1,449	1,217	19 %
Total segment profit (loss)(a)	2,010	1,672	20 %	6,126	3,751	63 %
Corporate(b)	(73)	658	U	3,785	(2,875)	F
Interest and other financial charges	(287)	(337)	15 %	(1,073)	(1,423)	25 %
Debt extinguishment costs	—	(465)	F	—	(465)	F
Non-operating benefit income (cost)	402	107	F	1,585	409	F
Benefit (provision) for income taxes	(462)	153	U	(1,357)	(210)	U
Preferred stock dividends	—	(97)	F	(295)	(289)	(2)%
Earnings (loss) from continuing operations attributable to GE common shareholders	1,589	1,692	(6)%	8,772	(1,100)	F
Earnings (loss) from discontinued operations attributable to GE common shareholders	3	408	(99)%	414	1,151	(64)%
Net earnings (loss) attributable to GE common shareholders	$ 1,591	$ 2,100	(24)%	$ 9,186	$ 51	F

(a) Segment revenues include sales of equipment and services related to the segment. Segment profit excludes results reported as discontinued operations, significant, higher-cost restructuring programs and other charges, the portion of earnings or loss attributable to noncontrolling interests of consolidated subsidiaries, and as such only includes the portion of earnings or loss attributable to our share of the consolidated earnings or loss of consolidated subsidiaries. Interest and other financial charges, income taxes and non-operating benefit costs are excluded in determining segment profit. Other income (loss) is included in segment profit. Interest and other financial charges and income taxes for EFS are included within Corporate costs. Certain corporate costs, including those related to shared services, employee benefits, and information technology, are allocated to our segments based on usage or their relative net cost of operations.

(b) Includes interest and other financial charges of $9 million and $9 million and $45 million and $54 million, and benefit for income taxes of $41 million and $53 million and $195 million and $213 million related to EFS within Corporate for the three and twelve months ended December 31, 2023 and 2022, respectively.

Source: Company materials

Financial Guidance for FY24

For FY24, GE's guidance reflects GE Vernova and GE Aerospace operating independently, incorporating standalone and other costs that each will incur separately. GE Vernova expects to deliver revenue of $34bn- $35bn; adjusted EBITDA margin of mid single digits, toward the higher end of the range; and free cash flow of $0.7bn- $1.1bn. GE Aerospace expects adjusted revenue to grow low double digits or more, operating profit of $6.0bn- $6.5bn, and free cash flow of greater than $5bn.

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