Edward Jones

General Electric

Corporate Bond Research

Rating: Appropriate for Income

Investment Classifications

Investment Category: Income
Sector: Industrial
Recommended Sector Weight: 35% - 55%

Entity Description

General Electric (GE) is a diversified services, technology and manufacturing company with operations worldwide.
We expect that following announced restructuring actions, it will largely operate in the aerospace, health care, power and renewable-energy industries. GE maintains a financial services segment, but this is now considerably smaller than it was historically and focuses primarily on providing customers financing for purchases of GE equipment.

Related Bonds

General Electric Capital Corp
General Electric Capital Canada

Credit Ratings

Moody's	Baa1 / Negative
S&P	BBB+ / Stable
Fitch	BBB / Stable

Analyst: Brian Therien, CFA

INVESTMENT SUMMARY

We rate General Electric and GE Capital bonds as Appropriate for Income. We believe General Electric benefits from its strong Aerospace business, the stability and profitability provided by its large share of revenues generated by services, and the predictability of its large revenue backlog. These strengths are partially offset by the company's elevated debt load, the downturn in its Power segment, and risk associated with long-term care insurance policies.

BOND OVERVIEW

GE's Aerospace segment remains strong performer. Despite the inconsistent performance delivered by GE overall in recent years, we believe the company's most prominent business line remain strong. Aerospace benefits long-term agreements to service engines the company manufactures. These agreements provide strong profit margins and tend to be less cyclical than most business lines in the industrial sector. However, the Aerospace segment was negatively impacted by Boeing's 737 Max production suspension (for which GE manufactures engines), and the steep drop in air travel due to COVID-19 that has affected airlines, which lease aircraft from GE Capital. This business accounts for the vast majority of GE's profits.

GE's Power and Renewable Energy segments have been producing weak results. The Power segment was once among the company's most profitable, but a downturn in the industry hit this business soon after GE acquired part of Alstom's power business. While the Power segment has produced weak results in recent years, GE has been restructuring the division and cutting costs. This effort has driven profit margins higher despite declining revenues. Any upturn in the market for power equipment and services would likely further improve performance of this segment. GE's renewable energy business is not profitable.

Long-term care insurance policies present risks. GE has historically contributed cash to its long-term care business due to increased reserves for claims. While GE has not written new long-term care policies for many years, these policies have been far more expensive to service than initially anticipated. Additional capital contributions may be needed if reserves are further increased, but we expect these charges to be manageable.

GE has made simplifying its business and paying down debt top priorities. GE has made progress in simplifying its business, including spinning off its health care business and selling its transportation and biopharmaceutical businesses and its stake in Baker Hughes, with the proceeds used primarily for reducing debt. GE intends to separate into two independent companies - Aerospace and Vernova (Power and Renewable Energy). The spinoff of Vernova is expected to be completed in 2024. Existing GE and GE Capital bonds will remain with the Aerospace business. The company reduced debt with proceeds from new debt offerings by the HealthCare. We believe these efforts benefit bondholders by streamlining GE's operations and reducing debt.

Valuation - Valuation is based on our analysis of credit spreads relative to bonds of comparable quality and potential recovery in the event of bankruptcy. Credit spread is the excess yield over Treasury bonds of comparable maturity.

Risks - Primary downside risks include the possibility that efforts to improve performance of the Power and Energy segments could be delayed or not fully achieved, which could make separating these businesses more difficult.

Please see important disclosures and certification on page 2 of the report.

Required Research Disclosures

February 23, 2023	BUY	HOLD	SELL
Corporate Credits	0%	78%	22%
Investment Banking Services	0%	14%	0%

The table lists the percent of corporate credits we follow globally in each of the equivalent rating categories. We do not assign a "Buy" rating to any corporate credits. Investment banking services indicate the percentage of those subject companies that have been investment banking clients within the last 12 months.

Appropriate for Income	Appropriate for Aggressive Income	Sell	FYI
Appropriate for Income – We consider bonds to be an appropriate holding for investors seeking Income within a well-diversified portfolio. Our time horizon is 3-5 years.	**Appropriate for Aggressive Income –** We consider bonds appropriate only as a small Aggressive Income portion within a well-diversified portfolio. Bonds within this category are riskier, with a higher possibility of loss due to default, than bonds classified as Income. Our time horizon is 3-5 years.	**Sell –** We recommend investors sell these bonds. We believe these bonds are no longer an appropriate fixed-income holding because, in our opinion, they offer an unattractive risk/reward scenario at current prices. Our time horizon is 3-5 years.	FYI - For informational purposes only; factual, no opinion.

Initiated Coverage (Appropriate for Income) 12/14/09-

Analyst Certification

- I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Brian Therien, CFA

- Analysts receive compensation that is derived from revenues of Edward Jones as a whole which include, but are not limited to, investment banking revenue.
- Edward Jones trades as principal in the debt securities that are the subject of this research report.

Other Disclosures

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- If you sell this security prior to maturity, you may receive more, less, or the same dollar amount you originally invested because the security's market value may fluctuate over time due to various market factors (e.g., interest rates).
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- Ratings from Standard & Poor's ("S&P"), Moody's and Fitch may be shown for certain securities. S&P requires we inform you: (1) Ratings are NOT recommendations to buy, hold, sell or make any investment decisions and DO NOT address suitability or future performance; (2) S&P DOES NOT guarantee the accuracy, completeness, or availability of any ratings and is NOT responsible for results obtained from the use of any ratings. Certain disclaimers related to its ratings are more specifically stated at http://www.standardandpoors.com/disclaimers.