Creative Global Investments

General Electric Co. (NYSE: GE $21.58 -2.00 -8.48%)
SELL (3-6 months TP $18)

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General Electric Co. shares dropped -8% to $21.58/share in premarket trading today after closing yesterday at $23.58. The stock had fallen -23.6% this year.

Today, GE today announced its Q3 revenue jumped 14% to $33.5 Bn in Q3, up from $29.3 Bn a year earlier. Analyst's consensus was expecting revenues of $32.56 Bn, boosted by a merger of GE's oil-and-gas unit with Baker Hughes. Oil-and-gas revenue rose 81% y-o-y driven by Baker Hughes; without the new assets, revenue fell -7%.

Revenue growth was mixed with aviation and health care businesses expanding, but power, lighting and transportation all shrinking. Transportation revenues dropped -14%. GE's Q3 earnings fell as it incurred big restructuring charges, reporting a profit of $1.8 Bn, down from $2 Bn in 2016.

Excluding restructuring charges and other items, adjusted EPS fell to 29 cents from 32 cents, still well below consensus expectations of 49 cents. Impairments and restructuring charges during the period dented GE's EPS by 16 cents.

GE lowered its adjusted 2017 EPS profit target to $1.05-$1.10 from a previous view of $1.60-$1.70. Analyst's consensus currently expects EPS of $1.53 a share in 2017. Cash flow from operating activities is now projected to be about $7 Bn, a steep downwards' revision from the previous view of $12 Bn to $14 Bn, with a big part of the drop coming from the power division.

Although GE says it is ahead of its restructuring plan to cut $1 Bn in industrial costs in 2017, cutting $500 Mn in Q3 and hitting $1.2 Bn y-t-d. GE set a goal to cut $1 Bn in costs for both 2017 and 2018, under pressure from investors. Mr. Flannery admitted that Q3 was a very challenging quarter, but stated that GE's management remains focused on redefining our culture, improving operational execution of its businesses, and reducing GE's operational complexity. Mr. Flannery plans to update investors at a Nov. 13 meeting on the details of his strategic review. He has already been cutting jobs, research operations and executive perks, like corporate jets.

GE slashed its 2017 projections as GE's new CEO John Flannery's started to outline his restructuring plans, setting a goal to exit more than $20 Bn of the struggling conglomerate's businesses. Mr. Flannery, who came into the job in August and recently became chairman with the early exit of Jeff Immelt, wants to immediately reduce costs and rethink GE's business strategies.

In addition to lowering earnings targets, GE cut its forecast for 2017 cash flow by -50% from an earlier projection. In a presentation accompanying Friday's results, GE said it is looking to streamline its portfolio of businesses by more than $20 Bn in the next 1 to 2 years, without providing details.

As most of our clients know, we have been negative (underperform) on GE since 1996, and we have repeatedly written and advised in numerous reports and publications over those 21 years that we preferred Siemens, MTU and ABB, Alstom and Honeywell as higher quality investments.

To us, the "Jack Welsh effects" (extracting too much value out of long-cycle businesses, underinvesting in R&D, underinvesting in continuous training of employees, underinvesting outside of the US has but left for GE under the succession of Jeff Immelt to turn into a "crippled Olympian for the past 12 years"), particularly when comparing SIEMENS and ABB and Honeywell.

Another longer-term negative factor, which we repeatedly commented on since 2000, and particularly since the 2014 plans for the Alstom acquisition, was that GE to us seemed continuously very unfocused with regards to M&A strategy, and that we had observed that most of GE's acquisition strategies, particularly outside of the US, over the past two decades have not yielded the claimed and anticipated successes, and some have actually proven to be a shareholder's nightmare.

As we had warned investors for the past 3 years, an additional negative was the fact that the 3-years of parabolic US$-strength (which we see as having ended with Mr. Trump's election and visibly since the beginning of 2017) has hurt GE (like so many US multinational big companies in multiple ways, from a cost competitive comparison, be it from a transactional or translational negative impact on earnings

GE, now under pressure from activist shareholders such as Trian Fund Management, announced it plans to streamline the company's global R&D efforts, which could include shutting down research centers in Shanghai, Munich and Rio de Janeiro.

Will this be the turning point for GE and for its investors?

Maybe, however, there are a few "show me" events that Mr. Flannery will have to face before the skepticism in GE's ability to deliver will cease.

We believe that one determining factor for GE stock to "stop the bleeding" will be "if & when" GE will be cutting its dividend.

We would assume management will provide some clarity on the dividend by November 14th, however, history with company scenario's of similarity to GE's current dilemma shows that in GE's case, the correct action would be to cut the dividend.

We do not see GE capable at this time, and over the next 18 months, with the guidance GE's management has given the market place today regarding GE's restructuring efforts, business operations and execution, that GE is in a situation to maintain the dividend out of operational free cash flow for remaining quarter in 2017 and for all of 2018 and not have to make concessions.

Some of GE's operations are still facing headwinds;

Baker Hughes' CEO Lorenzo Simonelli was very pessimistic today in its Q4 business outlook, and he forecasts the overall oil and gas environment to remain challenging for the rest of the year. Baker Hughes, in its first report to include GE Co's oil and gas business since their merger, reported a Q3 profit that missed analyst's estimates by a wide margin.

GE's wind business, which has faced margin compression for several quarters, continued to be book margin weakness, along with M&A impacts, plant revenue and global investments.

GE's aviation business is still facing margin pressures, partly due to the strong USD headwinds, and will continue to be under pressure in Q4 and in several quarters in 2018 on that basis, and this whilst it ramps up its shipments of its GenX engines.

We believe it is still too soon for investors to see GE shares as a long term investment outperformer, as those headwinds will take likely another year of massive restructuring and related costs will likely go higher before the worst for GE and its management will be behind them.

So, for now, let's turn to the technical outlook for GE shares, which for the very short-term is still very negative, as both the table below and the following charts are showing.

Type	5 mins	15 mins	Hourly	Daily	Monthly
Moving Averages	Sell	Strong Sell	Strong Sell	Strong Sell	Strong Sell
Technical Indicators	Strong Sell	Strong Sell	Strong Sell	Strong Sell	Strong Sell
Summary	Strong Sell	Strong Sell	Strong Sell	Strong Sell	Strong Sell

Looking at the charts for GE, the short-term technicals are negative, with RSI and MACD being negative, but also 50-200-day MV's sloping downwards. General Electric Co shares set a new 52-week low during today's trading session when it reached 22.10. Over the past 12 months period, GE share price is down -30.26%.

We see increasing technical risks for GE stock to be under further pressure towards $20/share, which represents one key level of support.

However, looking at the total picture for GE shares, It appears to us that investors might get a good chance to buy GE shares under $20 in the coming weeks until November 14th, possibly even under $18/share.

When looking at GE's current data, with only under 1.5% of the outstanding stock being shorted, we see more short-selling risks for the shares from that perspective.

OPEN **$22.14**	P/E RATIO **26.46**
DAY RANGE **22.1000 - 23.1800**	EPS **$0.87**
52 WEEK RANGE **22.1000 - 32.3800**	YIELD **4.17%**
MARKET CAP **$204.15B**	DIVIDEND **$0.24**
SHARES OUTSTANDING **8.66B**	EX-DIVIDEND DATE **Sep 15, 2017**
PUBLIC FLOAT **8.61B**	SHORT INTEREST **125.75M** 09/29/17
BETA **0.99**	% OF FLOAT SHORTED **1.46%**
REV. PER EMPLOYEE **$400.64K**	AVERAGE VOLUME **42.96M**

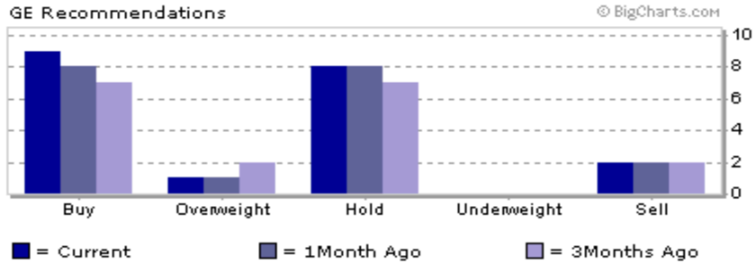
And when looking at where the majority of sell-side analysts are positioned towards GE 2017 EPS estimates and reality, we have serious doubts that the current share price level of around $23 is making any sense. GE should not be trading at a market average P/E multiple to begin with, but now, after today's guidance warning, we see EPS estimates tumbling down by at least -5% to -12%.

Sell-side EPS estimates for GE

	This Quarter	Next Quarter	This Fiscal	Next Fiscal
# of Estimates	15.00	14.00	18.00	18.00
Mean Estimate	0.49	0.54	1.54	1.61
High Estimates	0.51	0.62	1.65	1.85
Low Estimates	0.47	0.43	1.40	1.18
Coefficient Variance	2.34	10.36	4.35	11.24

Sell-side Analyst Recommendations on GE

	current	1 Month Ago	3 Months Ago
BUY	**9**	8	7
OVERWEIGHT	**1**	1	2
HOLD	**8**	8	7
UNDERWEIGHT	**0**	0	0
SELL	**2**	2	2
MEAN	**OVERWEIGHT**	OVERWEIGHT	OVERWEIGHT



Mean Recomendation Conversion Table
1.00 thru 1.24 = Buy
1.25 thru 1.74 = Overweight
1.75 thru 2.24 = Hold
2.25 thru 2.74 = Underweight
2.75 thru 3.00 = Sell

source: FactSet

2017 Dividend Data for GE

GE Annual div (ADY)	USD 0.96
GE Annual div yield (ADY)	4.07%
GE Div ex-date	Sep 15 2017
GE Div pay-date	**Oct 25 2017**

Source:FactSet

Given that the management of GE today lowered guidance for 2017 and 2018, we see analysts forced to drastically cut their EPS for GE for 2017 and 2018.

When combining this with a highly likely dividend cut over the coming 2- 3 months (GE' goes ex-dividend of 0.96CTS on October 25th{we assume a lot of investors will feel inclined to cash in the dividend and sell GE stock subsequently until year-end and take the capital losses in 2017}), then the coming weeks could constitute another massive amount of selling in GE stock, and subsequently, this could constitute a long-term bottom for GE shares.

However, we only see that materialize at -15% to -20% lower share prices of around $18 - $20 as likely and are advising for investors to wait for those prices to occur, before then aggressively buy into GE's new management and the possibilities of its restructuring plans to succeed.

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