Financial analysis of general electric

Business

General Electric Company (GE) is a diversified technology, media and financial services company. With products and services ranging from aircrafts engines, power generation, water processing and security technology to medical imaging, business and consumer financing, media content and industrial products, it serves in more than 100 countries. This analysis will use financial ratios to see just how GE is performing as a Fortune 500 company.

The first thing to analyze is GE's capacity to pay its debts as they come due or in other words its liquidity.

GE consolidated liquidity position is adequate. GE's liquidity is supported both by the firm's consistent earnings track record and its ability to quickly divest business or assets to fit its strategic goals. Consolidated cash and equivalents were $8. 3 billion.

On a consolidated basis GE had a total of around $56 billion of contractually committed lending arrangements as well as numerous other sources of liquidity. General Electric, a triple-A rated, frequent borrower, is in a stable position with regards to liquidity.

Its issuance policy is not based on market outlook but rather on a planned program of issuance to support its ongoing financial businesses and its addition of assets. The next thing to analyze is the way GE is managing its assets. If you look at the numbers GE as a company has a 3. 01 return on assets, while the industry has 6.

10 return on assets. It seems that GE is not very efficient in converting its investments into profits. For example a short-term bond fund run by General

Electric Co. ‘ s GE Asset Management returned money to investors at 96 cents on the dollar after losing about $200 million, mostly on mortgage-backed securities (1).

The GEAM Trust Enhanced Cash Trust, a short-term bond fund with about $5 billion in assets, told non-GE investors that they could withdraw their money before losses mounted. Enhanced cash funds usually offer higher yields than money- market funds by investing in riskier assets.

I believe that GE should spin off its assets to boost its return on assets and its stock price. Its size and complexity is working against investor interest in the stock and has contributed to further appraisal erosion. GE’s complex structure has been a distraction and that spinning off the units would create a more focused company that investors ould more easily understand. GE’s finical leverage rating has been downgraded by many analysts, but yet is still stable and proficient. The downgrade is based on actions reflect increased uncertainty as to GE’s longer-term commitment to the reinsurance business in general. Despite over $2.

4 billion in capital infusions from GE over the past two years and significant utilization of third-party aggregate stop-loss reinsurance protection, the group’s overall risk-adjusted capitalization has deteriorated to a level that is no longer supportive of a Superior rating (2).

GE Global financial leverage–debt as a percent of total adjusted capital–was 19. 2% and more than adequately supports its current debt rating (3). While statutory dividend capacity and coverage of fixed charges have been weak in recent years, the expectation is that these debt service coverage’s will improve in the medium term as the insurance subsidiaries begin to re-generate surplus from earnings. GE has experienced an increase in net income, revenue growth, notable return on equity and expanding profit margins.

These strengths are expected to outweigh the company's generally poor debt management.

Third-quarter profit increased 14% to $5. 54 billion, while EPS increased 8. 7% 54 cents a share. GE has demonstrated a pattern of positive EPS growth over the past two years, and this trend is expected to continue.

Revenue rose 12% to $42. 5 billion, short of the industry average of 14. 7%. The company recently forecast 2008 earnings growth of at least 10%. Debt management combined with liquidity and asset management has a profound effect on GE yet in a positive light.

The major debt rating agencies routinely evaluate the debt of GE, GECS and GE Capital, the major borrowing affiliate of GECS.

These agencies have given the highest debt ratings to GE and GE Capital (long-term rating AAA/Aaa; short-term rating A-1+/P-1) (4). One of their strategic objectives is to maintain these ratings, as they serve to lower our cost of funds and to facilitate their access to a variety of lenders. They manage our businesses in a fashion that is consistent with maintaining these ratings. In their history, they have never violated any conditions either at GE, GECS or GE Capital.

They believe that under any reasonable future economic developments, the likelihood that any such arrangements could have a ignificant effect on operations, cash flows or financial position is remote. Next is how the ratios relate to the firm’s stock price to its earnings, cash flow and book value per share. The ratios for GE stock are very discouraging. This stock is in the diversified industry, which has generated market-like returns over the past 5- and 10-year periods. Yet compared to its industry peers, this stock has been one of the worst performers over the past five years (10-year returns are unavailable).

One should keep in mind when looking at a stock or industry’s record that historic returns are not necessarily a predictor of future performance.

Persistent strength or weakness, however, may very well say something about the structure of an industry or quality of a company’s management. As far as cash flow GE began stretching out its payables and therefore received boosts to operating cash flow. The ratios show, however, that while the company received a significant benefit to cash flows from operations, that benefit began to slow in subsequent periods, indicating that GE will probably be unable to continue to fuel growth in operating cash flow using this method (5).

Interestingly, GE modified some executive compensation agreements to include cash flow from operations as a metric on which management is evaluated. GE’s price-to-book ratio is a little less at 7.

04, then the industry average which is 8. 52. This might affect investor’s perceptions in the company. GE Company stock price is below the book value per share and therefore the stock is undervalued. Therefore the stock may be attractive for purchase. Next is taking a look at the recent trends that occurring at GE.

GE’s a great company with a nice safe dividend.

But management squeezed most of the juice from GE over three decades, which has left it struggling for growth for five years now. Price fell from just over 60 to low/mid twenties after 9/11, at which time it was a great buy. Even last spring it was a buy at $34. But at $42 (a five year high) and a P/E of 18.

5, price risk is at least as great on the downside as upside, given that growth for the foreseeable future won’t hit double digits. And the likelihood of a spinoff or restructuring to unlock GE’s considerable value seems as remote as ever.

So unless someone is a very conservative or long term investor they should wait for a better entry point for GE. Another trend that is being seen is that GE is maintaining its flexibility through acquisitions. As a large conglomerate with substantial purchasing power, General Electric employs a strategy of acquiring and selling off companies to maximize revenues at any given time.

By using this strategy to enter and exit various industries, GE adjusts its portfolio of offerings in order to take advantage of profitable conditions in any one market or industry.

For example, improved fuel efficiency in airplane engines has reduced commercial airlines’ operating costs, allowing them to expand their fleet of airplanes. GE has responded to this trend by expanding further into the engine production and airplane leasing businesses. Because GE's operations are spread across several different industries, acquisitions and sales are very common and frequent. Some of the most recent are in healthcare, plastics business and insurance.

In healthcare GE's acquisitions of Amersham in 2004 and IDX Systems in 2006, which manufacture products used in health care, have helped expand GE's presence in the industry(6).

Revenues for GE's healthcare segment have since increased from $15. 6 billion in 2005 to $16. 7 billion in 2006. In the plastics business GE Supply and Advanced Materials was sold to offset the losses resulting from the price inflation of raw materials, natural gas, and benzene(7).

GE is now reportedly discussing the sale of its plastic business to Saudi Basic Industries Corporation (SABIC) for $11 billion. Unpredictable commodities prices have made it difficult for GE to achieve predicted earnings, driving the company to sell its plastic business.

SABIC is 70% owned by the Saudi government, however, which could politicize the issue and present an obstacle to closing the deal (8). Then finally dealing with insurance GE has been selling off its insurance businesses in order to concentrate on expanding its other divisions' presence in emerging markets. With the sales of GE Life, GE Insurance Solutions, and Genworth, the company completely exited the insurance business in 2006.

Finally the last ratio that will be quickly examined is the debt to equity ratio and its importance to GE. GE has a relative low debt to equity ratio at 4. 5

which is a positive for owners and investors. The ratio is not too high where the risk would be to great for a future investor, yet they are not low enough where investors would think that GE is too conservative and not realizing its potential. From turbines to TV, from household appliances to power plants, General Electric (GE) is plugged in to most of the businesses that have shaped the modern world.

GE is also one of the preeminent financial services companies in the US, offering commercial finance, consumer finance, and equipment financing and leasing, which together comprise the company's largest segment.

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