GE Aerospace

GE Aerospace: What's not to like?

Maintain Rating: BUY | PO: 175.00 USD | Price: 167.96 USD

11 March 2024

Equity

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Non-aero removed before flight – cleared to fly solo

We attended the GE Aerospace Investor Day as the GE prepares for the April 2nd spin-off. The messaging from the day was clear. GE Aerospace has a strong culture of safety, continuous improvement, and innovation. Apart from the strong culture, GE is set to capture robust demand with the LEAP engine in narrowbodies and the GEnx in widebodies. In the aftermarket, we see GE entering a goldilocks period. The LEAP aftermarket is quickly accelerating from its early innings coupled with continued high utilization of the CFM56. Additionally, defense remains well supported on key platforms, with upside for international orders. Our takeaway from the day was: "What's not to like?". We maintain our Buy and PO $175 given the strong demand and execution.

A culture focused on safety and continuous improvement

Safety and process improvement were central to the day. GE introduced the company's new lean operating model: "Flight Deck". The core principals to Flight Deck are Kaizen (continuous improvement), Hoshin Kanri (systematic approach to planning), and customer driven results. A number of case-studies were presented in which Flight Deck yielded strong results. Particularly in the case of engine deliveries, the system identified top suppliers responsible for >80% of delivery gaps. Using Flight Deck to then implement changes helped increase engine deliveries by 25% in 2023.

Commercial Aero riding in a jet stream

GE Aero finds itself in a sweet spot. In the narrowbody market, LEAP 1-As have a ~60% win rate on the A320neo family with ~8,600 aircraft in Airbus's backlog. Additionally, the LEAP-1B remains well positioned as the sole-source engine on the 737MAX, with ~4,800 in Boeing's backlog. The LEAP engine is also reaching a critical phase in its life cycle. Shop visits for the LEAP will increase and the program is expected to break-even in 2024 then surpass CFM-56 profitability by 2030.

No rest – R&D remains a priority

GE finds itself in a prime position across commercial and defense markets with strong demand for OEM and aftermarket, GE is not resting on its laurels. GE made it clear, investing in technology is a key differentiator and R&D will continue at 6%-8% of sales.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	2.60	2.81	4.36	5.35	6.00
GAAP EPS	0.53	7.99	4.85	5.97	6.76
EPS Change (YoY)	23.2%	8.1%	55.2%	22.7%	12.1%
Consensus EPS (Bloomberg)			4.66	5.98	7.18
DPS	0.32	0.32	0.32	0.32	0.32
Valuation (Dec)					
P/E	64.6x	59.8x	38.5x	31.4x	28.0x
GAAP P/E	316.9x	21.0x	34.6x	28.1x	24.8x
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%

Stock Data

Price	167.96 USD
Price Objective	175.00 USD
Date Established	7-Mar-2024
Investment Opinion	B-1-7
52-Week Range	86.45 USD - 175.81 USD
Mrkt Val (mn) / Shares Out (mn)	182,677 USD / 1,087.6
Free Float	94.6%
Average Daily Value (mn)	1044.95 USD
BofA Ticker / Exchange	GE / NYS
Bloomberg / Reuters	GE US / GE.N
ROE (2024E)	16.0%
Net Dbt to Eqty (Dec-2023A)	14.0%
ESGMeter™	High

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Refer to important disclosures on page 16 to 18. Analyst Certification on page 14. Price Objective Basis/Risk on page 13.
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Timestamp: 11 March 2024 04:39AM EDT

*iQprofile*SM GE Aerospace

iQ**method* SM – **Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.0%	3.3%	4.8%	5.5%	5.8%
Return on Equity	7.5%	9.7%	16.0%	16.6%	15.7%
Operating Margin	7.9%	8.8%	10.9%	12.0%	12.6%
Free Cash Flow	4,432	3,584	6,100	6,300	6,600

iQ**method* SM – **Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.1x	1.7x	1.6x	1.4x	1.3x
Asset Replacement Ratio	0.8x	1.1x	1.1x	1.2x	1.3x
Tax Rate	25.1%	26.0%	26.5%	26.0%	26.0%
Net Debt-to-Equity Ratio	40.1%	14.0%	-10.5%	-24.0%	-33.9%
Interest Cover	2.9x	3.8x	6.5x	7.9x	9.0x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	73,601	64,565	70,366	75,475	79,628
% Change	-0.7%	-12.3%	9.0%	7.3%	5.5%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	8,612	7,740	9,748	0	0
% Change	9.6%	-10.1%	25.9%	NM	NA
Net Interest & Other Income	(2,006)	(1,495)	(1,180)	(1,145)	(1,110)
Net Income (Adjusted)	**2,868**	**3,083**	**4,791**	**5,881**	**6,596**
% Change	**23.6%**	**7.5%**	**55.4%**	**22.8%**	**12.2%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,868	3,083	4,791	5,881	6,596
Depreciation & Amortization	1,776	1,473	1,423	1,423	1,423
Change in Working Capital	(67)	355	259	(739)	(681)
Deferred Taxation Charge	(651)	14	0	0	0
Other Adjustments, Net	1,990	254	1,227	1,435	1,062
Capital Expenditure	(1,484)	(1,595)	(1,600)	(1,700)	(1,800)
Free Cash Flow	**4,432**	**3,584**	**6,100**	**6,300**	**6,600**
% Change	**124.8%**	**-19.1%**	**70.2%**	**3.3%**	**4.7%**
Share / Issue Repurchase	(1,048)	(1,233)	0	0	0
Cost of Dividends Paid	(639)	(589)	(352)	(352)	(352)
Change in Debt	(2,935)	(3,405)	(700)	(1,700)	(1,100)

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	17,262	16,967	23,803	28,124	33,329
Trade Receivables	17,976	15,466	16,856	17,873	19,074
Other Current Assets	61,060	60,234	59,773	60,833	61,749
Property, Plant & Equipment	14,478	12,494	12,584	12,788	13,108
Other Non-Current Assets	77,012	57,884	57,782	57,750	58,750
Total Assets	**187,788**	**163,045**	**170,797**	**177,368**	**186,011**
Short-Term Debt	3,757	1,253	1,253	1,253	1,253
Other Current Liabilities	51,247	47,797	50,982	52,912	54,939
Long-Term Debt	28,593	19,711	19,011	17,311	16,211
Other Non-Current Liabilities	66,609	65,704	65,994	66,121	66,756
Total Liabilities	**150,206**	**134,465**	**137,241**	**137,597**	**139,159**
Total Equity	**37,582**	**28,580**	**33,556**	**39,771**	**46,852**
Total Equity & Liabilities	**187,788**	**163,045**	**170,797**	**177,368**	**186,011**

* For full definitions of *iQmethod*SM measures, see page 15.

Company Sector

Industrials/Multi-Industry

Company Description

GE is a highly diversified, global industrial company with Aerospace, Power, and Renewable Energy segments. The company's products and services include power generation equipment, aircraft engines, wind turbines, and others. Over half of the business is tied to service and aftermarket support.

Investment Rationale

We believe GE is making operational improvements and lowering structural costs. The pending spin-off of Vernova (Renewable Energy & Power) creates a catalyst for re-rating over time. Over the medium term, improving FCF should support share price appreciation.

Stock Data

Average Daily Volume	6,221,428

Quarterly Earnings Estimates

	2023	2024
Q1	0.27A	0.65E
Q2	0.68A	1.01E
Q3	0.82A	1.21E
Q4	1.03A	1.50E

Setting the stage for 2025-2028

Top-line drivers: 2025 – 2028 - Engines, engines, engines

Looking to 2025, at the total company level GE anticipates low-double-digit top-line growth. In Commercial Engines (CE), we anticipate low-double-digit revenue growth, with OE sales outpacing already strong Services revenue. In Defense & Propulsion Technologies (D&PT), we expect mid-to-high-single-digit revenue growth. We see an opportunity for upside with NATO potentially increasing spending in combat and rotorcraft platforms. For 2028, a high-single-digit CAGR is anticipated supported by volumes (mid-single-digit), pricing (low-single-digit), and increasing work scope (low-single-digit.

Margin drivers: 2025-2028 – Maturing programs, pricing, process improvement

For the total company, we expect mid-teens margin growth (~$1bn increase from 2024 to 2025). Commercial Engines is the primary driver to achieving this strong growth. In the narrowbody market, the LEAP program reaching break-even is key to achieving the growth. We see additional possible upside as shop-visits accelerate and better than expected spares/OE mix continues as aircraft manufacturers struggled to ramp up as fast as planned.

This growth will be offset, in part, by the expected volume increases of the GE9X. As the widebody market production ramp is under way, GE9X production will also ramp in parity on resilient demand for the 787, A350, and anticipated 777X entry into service in 2025.

We also anticipate margin tailwinds as we expect GE to maintain its advantageous pricing power to offset inflation headwinds. Along with the pricing power, we see an opportunity for further Flight Deck integration across the organization to improve production and reduce costs. For 2028, ~$10bn in operating margins are anticipated. Primary drivers include higher volumes, pricing, productivity gains, and mix with GE9X volumes contributing..

Free cash flow: 2025-2028 – Continued working capital reductions

With the improved revenue and operating margins, GE anticipates free cash flow conversion >100%. Imperative to achieving the >100% FCF conversion is further Flight Deck integration. Disciplined working-capital deployment, modernizing IT systems, along with improved processes are expected to yield ~300bps decline in SG&A as a percentage of revenue. For 2028, Flight Deck and disciplined CapEx spending is expected to sustain the ~100% FCF conversion. LEAP aftermarket growth and profitability will be another contributing factor to FCF generation. With the growing install base and higher utilization, Customer Service Agreement (CSA) billing are expected to increase 3x from 2024 and outpace shop visits.

Capital Deployment Priorities

Following the spin, GE will be well capitalized with ~$13bn in cash. Considering the $2bn+ in equity stakes to be received and $20bn in FCF generation, they expect to have $34-36bn in available cash by 2026. Management anticipates dedicating ~$25bn of cash for capital-deployment by 2026. GE maintains share-holder friendly capital deployment is core to their strategy, while also maintaining critical internal investments.

R&D – Positioning for the future

As previously mentioned, R&D will not be cut to meet the FCF conversion targets and will be maintained at 6%-8% of revenue. In the Commercial Engines market, GE will continue to invest in bringing the CFM RISE engine to market. In Defense, the XA-100 will continue to be invested in to position GE as the sole-source power-supplier on the 6th Generation Fighter (NGAD). Additionally, GE is prioritizing internal investments to improve processes for greater production output.

Returning cash to shareholder – increasing dividends and share-buy backs

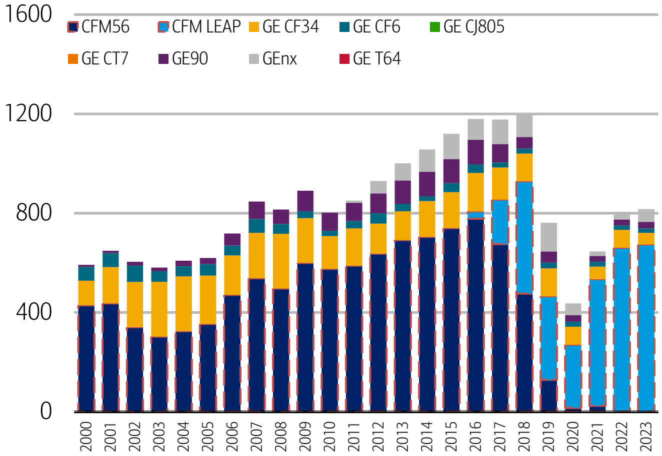
For the $25bn made available for shareholder return and deployment, GE will allocate 70%-75% of the available cash to shareholders, with three driving factors.1)>100% of FCF will be returned to shareholders over the next three years. 2) The initial dividend will be increasing to 30% of net income. 3) $15bn of shares repurchases have been authorized for repurchase.

M&A – the area we see the most risks

The final piece of GE's capital deployment strategy is an increasing focus on M&A. While GE maintains they will be disciplined in their approach, and targets must meet strategic, operating, and financial synergies target, M&A is the area we see the most risks. While we're confident in the management's team to approach M&A with discipline, with higher borrowing costs and increased competition for aero-assets this does pose a risk to losing focus on core operations.

Commercial Engines

Exhibit 1: LEAP deliveries continue to grow while CFM-56 reaches a/m peaks
Historical Aircraft deliveries by GE Commercial Engines



Source: BofA Global Research, Cirium

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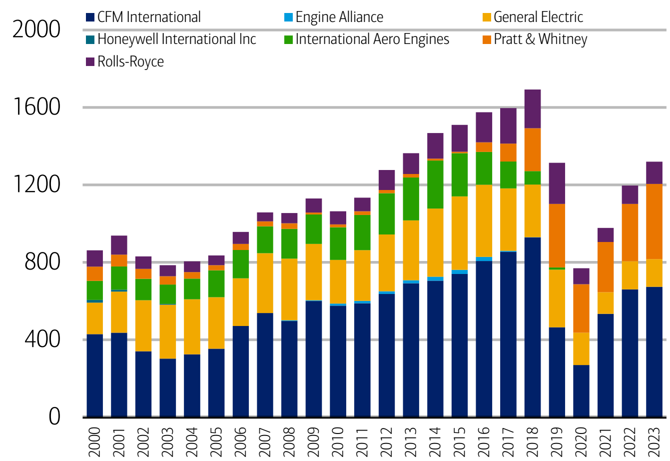
Exhibit 2: GE maintains a dominant position in Commercial Engines
GE represented 62% of Commercial Engine deliveries in 2023



Source: BofA Global Research, Cirium

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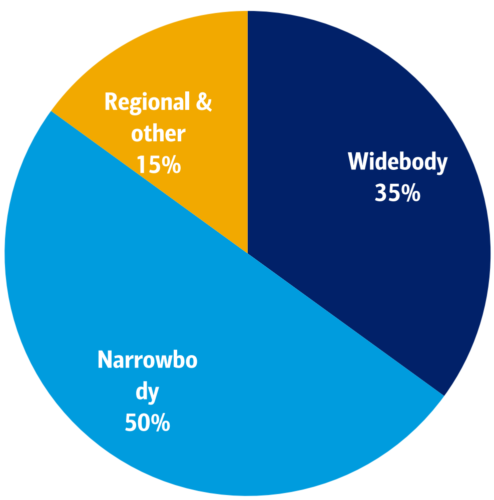
Exhibit 3: GE Commercial Engines Revenue by end market ($23.9bn)
Narrowbody market penetration continues to drive revenue



Source: BofA Global Research, Company Filings

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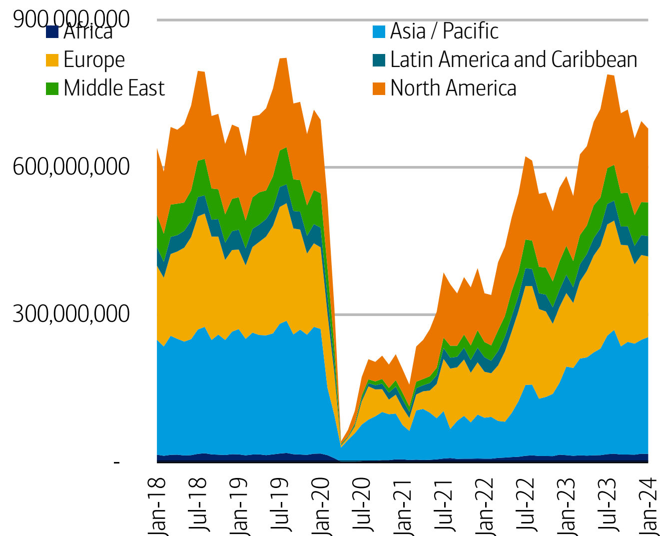
Exhibit 4: Exhibit 5: Total market RPKs
Monthly RPKs Jan 2018 to date



Source: IATA

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Commercial Engines OE

Continuing to dominate the Narrowbody market

GE's commercial engines business maintains a dominant share, of the total markets, with an install fleet of ~44,000 engines, which will continue grow. In the narrowbody market, LEAP 1-As have a ~60% win rate on the A320neo family with ~8,600 aircraft in Airbus's backlog. Additionally, the LEAP-1B remains well positioned as the sole-source engine on the 737MAX, with ~4,800 in Boeing's backlog.

GE anticipates the narrowbody installed base to mid-single-digits from ~25,500 to ~35,000 by 2028. The LEAP engine production ramp is expected to offset CFM-56 retirements, with a 20%-25% Y/Y delivery step-up in 2024 alone.

Exhibit 5: Narrowbody Aircraft types and engine exposure

While GE competes with Pratt & Whitney in the narrowbody market, GE maintains a majority share in the NB market

	Seats1	Engines on program					Avg List Price2	Range (nm)	Year of 1st delivery	Number in service3	Total delivered3
		Engines	CFM	Rolls-Royce	Pratt & Whit.	IAE					
In Production/Development											
Airbus quoted data											
A220-100	120	2	-	-	PW1500G		$81	3,400	2016	56	47
A220-300	150	2	-	-	PW1500G		$92	3,350	2016	209	186
A319neo	150	2	LEAP-1A	-	PW1100G	-	$102	3,700	2022	10	4
A320neo	180	2	LEAP-1A	-	PW1100G	-	$111	3,400	2016	1657	1519
A321neo	220	2	LEAP-1A	-	PW1100G	-	$130	4,000	2017	1095	974
Boeing quoted data											
737 MAX 7	153	2	LEAP-1B	-	-	-	$100	3,850	2022E	NA	NA
737 MAX 8	178	2	LEAP-1B	-	-	-	$122	3,550	2017	1076	838
737 MAX 9	193	2	LEAP-1B	-	-	-	$129	3,550	2020E	192	126
737 MAX 10	204	2	LEAP-1B	-	-	-	$135	3,300	2023E	NA	NA
Embraer quoted data											
E-175	76	2	CF34-8E	-	-	-	$53	2,150	2005	690	725
E175-E2	80	2	-	-	PW1700G	-	$60	2,000	2027/28E	1	NA
E190-E2	97	2	-	-	PW1900G	-	$69	2,850	2018	21	12
E195-E2	120	2	-	-	PW1900G	-	$78	2,600	2019	71	59
Comac quoted data											
C919	156	2	LEAP-1C	-	-	-	NA	3,000	2022E	NA	NA

Source: BofA Global Research, Boeing, Airbus, Cirium

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Next generation widebody opportunity continuing to ramp up

In the widebody market, the GE9X will see a major volume increase as Boeing ramps up 787 production and 777X is expected to enter-into-service in 2025. Boeing currently has ~800 787s in backlog, in addition to, ~453 777Xs in backlog. The widebody installed base is expected to grow from ~7,200 at a low-single-digit CAGR from 2023 to 2028. GEnx will see the largest growth in the widebody market with a 4x output increase from 2023 to 2026.

Exhibit 6: Widebody Aircraft types and engine exposure
In the widebody market, GE's main competitor is Rolls-Royce, GE has a ~70% life of program win rate on the 787

	Seats[1]	Engines on program				Avg List Price[2]	Range (nm)	Year of 1st delivery	Number in service[3]	Total Delivered[3]
		Engines	Rolls-Royce	Pratt & Whit.	GE					
In Production/Development										
Airbus quoted data										
A330-800neo	260	2	Trent 7000	-	-	$260	8,150	2020E	7	4
A330-900neo	300	2	Trent 7000	-	-	$296	7,200	2018	99	77
A350-800	280	2	Trent XWB	-	-	$281	8,200	2016E	NA	NA
A350-900	350	2	Trent XWB	-	-	$317	8,100	2015	454	407
A350-1000	410	2	Trent XWB	-	-	$367	8,700	2018	79	64
Boeing quoted data										
777-300ER	396	2	-	-	GE90-115B	$376	7,370	2004	741	874
777-8	384	2	-	-	GE9x	$410	8,730	2025E	NA	NA
777-9	426	2	-	-	GE9x	$442	7,285	2025E	3	NA
787-8	248	2	Trent 1000	-	GEnx	$248	7,305	2011	382	370
787-9	296	2	Trent 1000	-	GEnx	$293	7,530	2014	585	561
787-10	336	2	Trent 1000	-	GEnx	$338	6,345	2018	89	84

Source: BofA Global Research, Boeing, Airbus, Cirium

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Rising to the occasion of greener air travel through RISE

Technological advancement and innovation remain a strategic priority for GE to maintain and grow its already dominant position in the commercial engine market. Part of this innovation is addressing the efficiency of engines to the benefit of aircraft operators and to address carbon emissions. As part of their partnership with Safran, the CFM RISE engine is currently being developed. The CFM RISE uses an unducted fan design. This design allows for a higher bypass-ratio than traditional jet-engines and runs cooler, which should enable a ~20% improvement in fuel burn.

Exhibit 7: CFM Rise Engine Concept
The CFM RISE engine is expected to yield a ~20% reduction in fuels burn

Source: CFM

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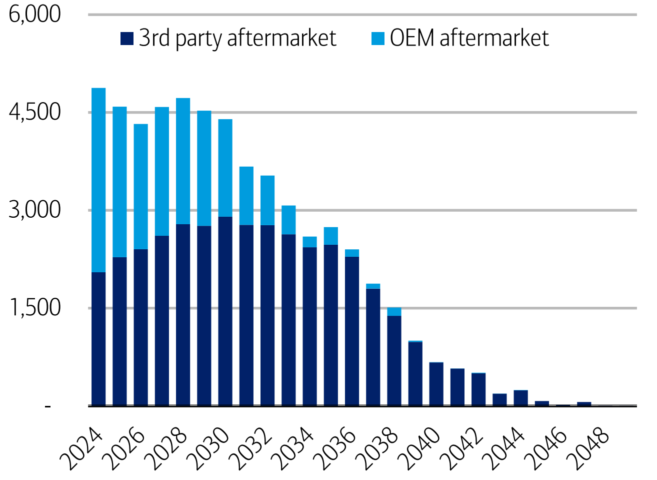
Commercial Engines Aftermarket

Exhibit 8: CFM-56 aftermarket earnings estimates
The CFM-56 is reaching its peak aftermarket earnings years for GE



Source: BofA Global Research estimates, Cirium

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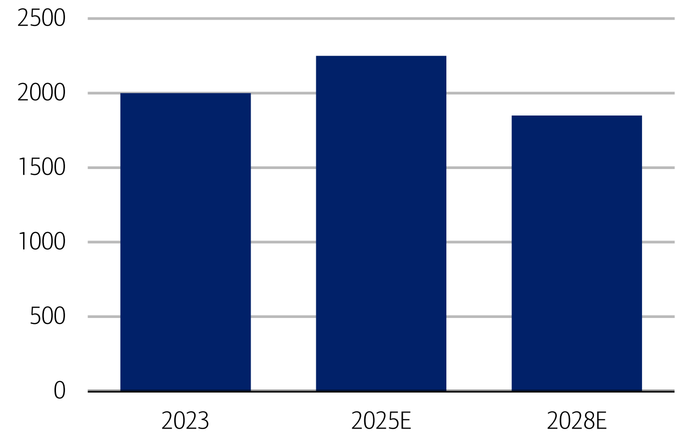
Exhibit 9: GE CE shop visits forecasted
GE expects ~200 more shop visits in 2025 vs prior years



Source: BofA Global Research, Company Filings

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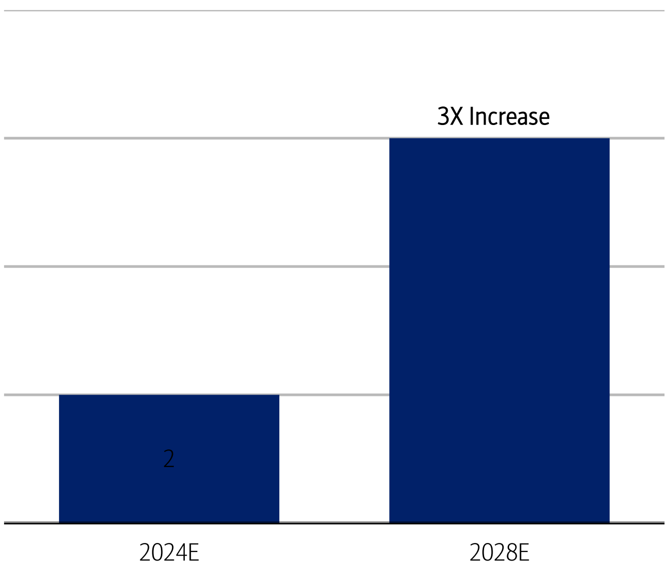
Exhibit 10: CSA billings are expected to increase 3x
Customized Service Agreements will significantly outpace shop visits



Source: BofA Global Research, Company Filings

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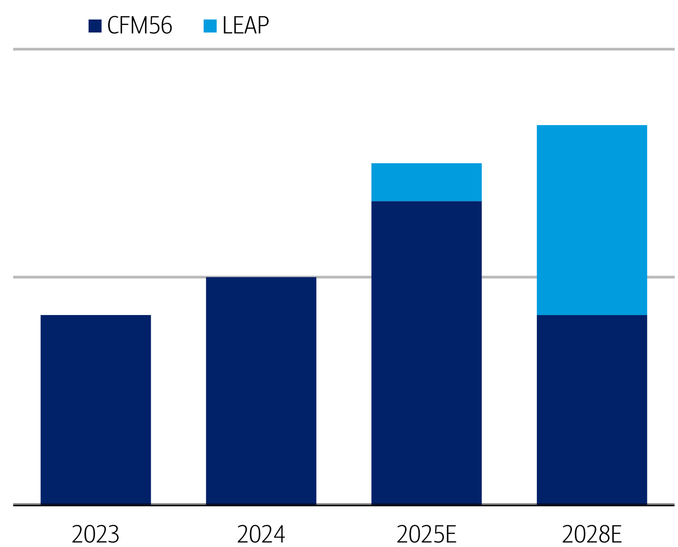
Exhibit 11: CFM-56 vs. LEAP profitability
LEAP program expected to break even in 2024E



Source: BofA Global Research, Company Filings

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Entering the goldilocks era on aftermarket services

GE's Commercial Engines portfolio is entering a sweet spot. Shop visits for the LEAP are set for an exponential increase and the program is expected to break-even in 2024, then surpass CFM-56 profitability by 2030. GE will also benefit from the CFM-56 entering stronger and longer than originally anticipated peak aftermarket earnings years (See Exhibit 8).

Exhibit 12: GE Commercial Engines Life Cycles
GE will benefit from the increased shop visits in both LEAP and CFM-56

GE Current Program Lifecycle

	% Life Time Revenue	Current GE Program
New Engine Development	25%	GE9X
First Shop Visit (Early life)	20%	LEAP
Shop Visit 2 (Mid Life)	30%	CFM56
Shop Visit 3 (Mature)	25%	CF6

Source: BofA Global Research, Company Filings

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LEAP maturation key to sustainment of Services growth

Although the CFM-56 is nearing its peak, this is also the portion of the engine life-cycle where 3rd party aftermarket suppliers can also grow their market share. However, slower than anticipated OE deliveries and supply chain issues have extended the CFM-56 aftermarket opportunity. Additionally, we expect the increase in LEAP production and deliveries to help insulate margins from the increased competition for aftermarket spending over the next decade. Additionally, the LEAP will begin its first wave of heavy maintenance shop-visits, which represent ~20% of the lifetime revenues for the program. As the program matures, so will the program margins. We anticipate the LEAP to reach break-even in 2024 and exceed CFM56 margin contributions by 2030.

Pricing power and service agreements boosting Services top & bottom line

Despite the headwinds from inflation, supply chain constraints, and labor increases, we also see an opportunity for GE to maintain a strong margin profile through pricing and service agreements (See Exhibit 11). GE maintains they will be able to pass through inflation headwinds onto customers. We expect new Customized Service Agreements to include more favorable terms for GE given the margin pressure faced post covid. CSA billings are expected to grow 3x from 2024 to 2028, driven by the growing install base and higher utilization of the fleet (See Exhibit 10). These billings are expected to outpace shop visits, which we anticipate to more than double from 2024 to 2028. We see additional upside for GE, as the GEnx volumes will also return and contribute meaningfully to the aftermarket growth over the next decade.

Revenue sharing partnership, independent cost base

As noted by the EMEA Aerospace & Defense team: For GE and Safran, CFM International is a 50:50 revenue-sharing partnership which splits the workshare on the programme and spreads risk, whilst also creating a single point of contact for customers. GE & Safran are responsible for their own costs for manufacturing the original equipment and are also both responsible for supplying the spare parts for the sections of the engine they manufacture. They carry the costs of own production in manufacturing these spare parts. Revenues on spares and CFM services are driven by workshare and are split 50/50.

Setting the stage for 2025-2028

Top line drivers: 2025 – 2028 - Engines, engines, engines

Looking to 2025, at the total company level GE anticipates low-double-digit top-line growth. In Commercial Engines (CE) we anticipate low-double-digit revenue growth, with OE sales outpacing already strong Services revenue. In Defense & Propulsion Technologies (D&PT) we expect mid-to-high-single-digit revenue growth. We see an opportunity for upside with NATO spending potentially increasing international combat and rotor craft platforms sales. For 2028, a high-single-digit CAGR is anticipated supported by volumes (mid-single-digit), pricing (low-single-digit), and increasing work scope (low-single-digit).

Margin drivers: 2025-2028 – Maturing programs, pricing, process improvement

For the total company, we expect mid-teens margin growth (~$1bn increase from 2024 to 2025). Commercial Engines is the primary driver to achieving this strong growth. In the narrowbody market, the LEAP program reaching break-even is key to achieving the growth. We see additional possible upside as shop-visits accelerate. This growth will be offset, in part, by the expected volume increases of the GE9X. As the widebody market production ramp is under way, GE9X production will also ramp in parity on resilient demand for the 787, A350, and anticipated 777X entry into service in 2025. We also anticipate margin tailwinds as we expect GE to maintain its advantageous pricing power to offset inflation headwinds. Along with the pricing power, we see an opportunity for further Flight Deck integration across the organization to improve production and reduce costs. For 2028, ~$10bn in operating margins are anticipated. Primary drivers include higher volumes, pricing, productivity gains, and mix with GE9X volumes contributing.

Free cash flow: 2025-2028 – Continued working capital reductions

With the improved revenue and operating margins, GE anticipates free cash flow conversion >100%. Imperative to achieving the >100% FCF conversion is further Flight Deck integration. Disciplined working-capital deployment, modernizing IT systems, along with improved processes are expected to yield ~300bps decline in SG&A as a percentage of revenue. For 2028, Flight Deck and disciplined CapEx spending is expected to sustain the ~100% FCF conversion. LEAP aftermarket growth and profitability will be another contributing factor to FCF generation. With the growing install base and higher utilization, Customer Service Agreement (CSA) billing are expected to increase 3x from 2024 and outpace shop visits.

Capital Deployment Priorities

Following the spin, GE will be well capitalized with ~$13bn in cash and anticipates dedicating ~$25bn of cash for capital-deployment by 2026. GE maintains share-holder friendly capital deployment is core to their strategy, while also maintaining critical internal investments.

R&D – Positing for the future

As previously mentioned, R&D will not be cut to meet the FCF conversion targets and will be maintained at 6%-8% of revenue. In the Commercial Engines market, GE will continue to invest in bringing the CFM RISE engine to market. In Defense, the XA-100 will continue to be invested in to position GE as the sole-source power-supplier on the 6th Generation Fighter (NGAD). Additionally, GE is prioritizing internal investments to improve processes for greater production output.

Returning cash to shareholder – increasing dividends and share-buy backs

For the $25bn made available for shareholder return and deployment, GE will allocate 70%-75% of the available cash to shareholders, with three driving factors.1)>100% of FCF will be returned to shareholders over the next three years. 2) The initial dividend will be increasing to 30% of net income. 3) $15bn of shares repurchases have been authorized for repurchase.

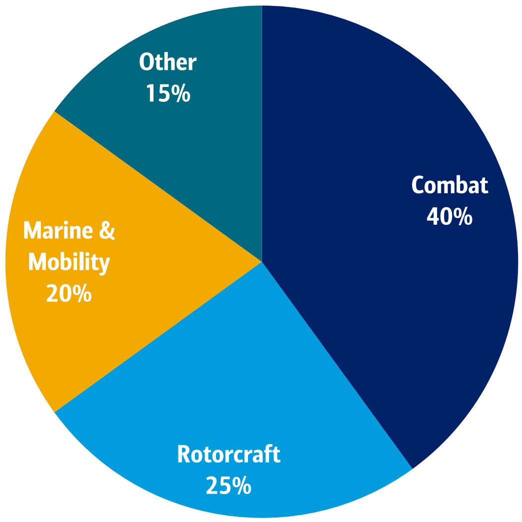
M&A – the area we see the most risks

The final piece of GE's capital deployment strategy is an increasing focus on M&A. While GE maintains they will be disciplined in their approach, and targets must meet strategic, operating, and financial synergies target, M&A is an area we see the most risks. While we're confident in the management's team to approach M&A with discipline with higher borrowing costs and increase competition for aero-assets this does pose a risk to losing focus on core operations.

Defense & Propulsion Technology

GE Aerospace will retain legacy GE defense work scope within its Defense & Propulsion Technology (D&PT) business. GE's D&PT portfolio of new and legacy technologies allows the company to benefit from both 1) DoD modernization and innovation initiatives to remain on par with China, and 2) sustainment efforts as a result of ongoing conflicts which will drive demand for spare parts and services. We expect to see continued demand for Black Hawk, Apache, and F-15EX programs as well funding for new programs such as the T-7A and NGAD. In 2024, management sees mid-to-high single-digit growth driven by strength in engine output units. Pricing efficiencies and cost should help improve profitability, and management expects profit dollars to be up ~25%. In the medium-term, management sees a mid-single digit CAGR through 2028.

Exhibit 13: Defense Overview
40% of revenues come from combat



Source: GE Aerospace

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Defense & Systems

Defense & Systems (D&S) makes up approximately 2/3 of defense business revenue, of which 80% encompasses GE's Defense engine and propulsion technology. The remaining 20% encompasses avionics and electric power to serve military customers.

Exhibit 14: GE Aerospace defense program exposure
GE is exposed to both US and International platforms

	US Platform	*Engine*	International Platform	*Engine*
Development	Next Gen	*Undecided*	Türkiye Hurjet	*F404*
	Improved Turbine Engine Program	*T901*	Korea KF-21	*F414*
New Engines	Air Force T-7A	*T404*	Türkiye TF-X	*F110*
	USMC Ch-53K	*T408*		
Sustainment	P-8/E-7	*CFM56*	India Tejas Mk 1/2	*F404/F414*
	Air Force F-15EX	*F110*	Korea Surion	*T700*
	F-16	*F110*	Leonardo AW189	*CT7*
	Apache/Black Hawk	*T700*	Sweden Gripen	*F414*
	F/A-18	*F404/F414*		

Source: BofA Global Research, Company filings

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International: Opening new core opportunities for GE

We expect an increase in defense spending across NATO countries to drive D&S international sales. Stronger than expected exports of Apache, Black Hawk, F-16, F-15, P-8, and E-7 should provide additional demand for GE engines. Additionally, we see upside for engine sales if countries building indigenous platforms from domestic aerospace & defense industries opt for GE engines (as has been done by Japan, India, and Korea).

Edison Works: creating next generation aerospace tech

We look favorably on GE's exposure to adaptive cycle engine technology as well as emerging growth areas of hypersonics, advanced uncrewed aircraft, and hybrid electric propulsion, much of which is housed within Edison Works. Over the past four years, GE has invested $215mn in infrastructure and technology related to advanced IT defense and propulsion systems. As investment and focus on these advanced technologies ramp, we expect Edison Works to become a more meaningful revenue contributor in the medium term. Management expects Edison Works revenues to triple by 2028.

Avionics and Electric Power: Opportunities in civil markets

In the Avionics and Electric Propulsion portion of the D&S portfolio, we see opportunities for GE to leverage its expertise and know-how of the defense market into the civil market. Electric power is currently ~70% defense and as hybrid electric propulsion gains credibility, we expect to see an increase in both defense and civil demand. In civil, we see synergies in voltage platforms with new develops being made in eVTOLs, as well as hybrid electric engines. Avionics is more balanced between civil and defense customers.

Propulsion & Additive Technology

P&AT consists of four branded business lines operated as fully independent businesses. We view P&AT as a strong, strategic foothold for GE in Europe. Avio Aero is the largest component of the P&AT portfolio and the largest GE Aerospace operation in Europe. Within this business, GE produces small turboprop engines, engine modules, and controls. Union, which operates in the US and Mexico, manufactures engine accessories. Dowty, sitting in the UK, makes propellor systems. Finally, GE Additive makes 3D metal printers and specialty powders. We see unique opportunities for GE Additive to sell its products to adjacent industries (such as oil & gas, metals & mining, etc.) as well as for aerospace & defense applications.

Avio Aero: Military and Civil secular tailwinds drive growth

We see Avio Aero in particular as reaping the benefits from two major secular trends within the European aviation industry: 1) European military demand for more strategic autonomy and less dependence on technology imports, and 2) the strong commitment to sustainable aviation. On the military side, Avio Aero is able to deliver native technologies and proprietary IP to key international programs. GE expects the engine component of GCAP (Global Combat Air Programme, a Japan-UK-Italy) global sixth generation fighter) to be worth ~EUR40bn alone. On the civil side, Avio Aero is a founding member of Clean Aviation, a public-private undertaking tasked by the EU for the "definition, funding, and implementation of the European roadmap towards sustainability". This puts Avio Aero, and thereby GE, squarely at the forefront policy and leadership with the respect to the future of sustainable aviation. Avio Aero is currently involved in Airbus's ZEROe program as well as in the development of strategic technologies that will ultimately formulate the RISE engine program.

Reiterate Buy; PO maintain: $175

We base our $175 price objective on a 17x EV/EBITDA multiple (unchanged) of our 2025 estimates. Our target multiple is above the 16x peer average on 2024 estimates, which we argue is warranted given GE's above-peers earnings trajectory.

Price objective basis & risk

GE Aerospace (GE)

We base our $175 price objective on a 17x EV/EBITDA multiple of our 2025 estimates. Our target multiple is above the 16x peer average on 2024 estimates, which we argue is warranted given GE's above-peers earnings trajectory.

Downside risks to our PO are 1) the pace of the recovery in Aerospace, 2) progress on Renewable's turnaround, and 3) transactional risks relating to pending spin-off of Vernova (Renewable Energy & Power).

Analyst Certification

I, Ronald J. Epstein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	GE Aerospace	GE	GE US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
UNDERPERFORM				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein

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Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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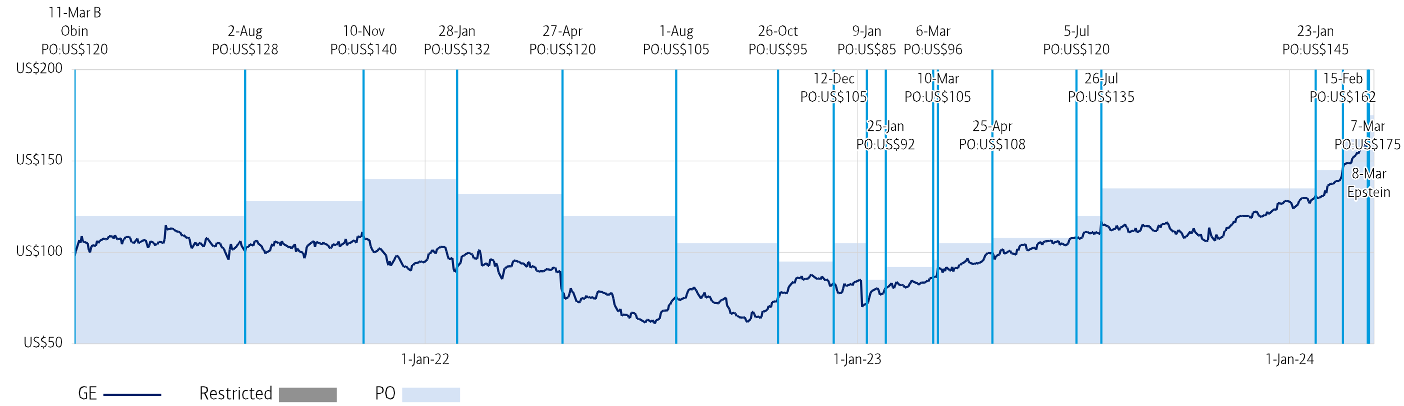
General Electric (GE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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