

Baker Hughes Co.

Much more than a one trick pony

Reiterate Rating: BUY | PO: 37.50 USD | Price: 29.06 USD

Multiple paths to growth, with and without LNG; Reit. Buy

BKR is well known as a global LNG equipment leader with 90%+ market share in global LNG liquefaction. Yet, we note 35% of IET revenue i.e., only 14% of BKR's total revenue in '23 came from LNG end market. Even within LNG, we note that only ~8-9% of BKR's total revenue & ~5-6% of its total Adj. EBITDA in '23 came from LNG equipment. Recall BKR has a large Gas Tech (incl. LNG) service business, which carries 3-4x higher margins than LNG equipment. Importantly, once all of the under construction, and expected LNG newbuild capacity is up & running, BKR's planned global liquefaction installed base is set to expand 50% by 2028. Thus, BKR's steady, high margin LNG service business is set to grow meaningfully through the remainder of this decade. Even outside of LNG, BKR's IET business has underappreciated but strong leverage to 1) on/offshore gas processing, 2) mid/down-stream, 4) Industrial end markets & 4) new energy / CCS markets. In OFSE, BKR is making good progress in SSPS, with orders up 27% YoY in '23, and in Production Solutions, where it formally inaugurated its Saudi JV chemical manufacturing plant y'day.

US LNG "pause" hurts but does not derail the BKR story

US DOE pausing review of export applications for new LNG projects has virtually stalled FIDs on new US LNG projects, incl. VG's Calcasieu Pass (CP) 2. Note BKR booked ~\$2bn of CP2 Ph. 1 order in 3Q23. While BKR does not expect any profitability hit in '24E from CP2 not FID'ing, Gas Tech Equipment orders in '24 from other pre-FID US LNG projects likely still suffer & topline growth in 2025-26 likely slows. However, BKR can still hit low end of its \$11.5-\$13.5bn '24 IET order guide even if no new US LNG project FIDs in '24.

Reit. Buy on steady execution on a broad opportunity set

We now model IET orders of \$11.6bn in '24E, which is towards the low end of its \$11.5-\$13.5bn guidance. We temper our 2024E/25E Adj. EBITDA by 2%/2% to \$4.3/\$5.0bn (in-line/-1% vs. Cons) to reflect slower Gas Tech Equipment revenue growth. However, we still see BKR's EBITDA growing at a CAGR of 12-13% in 2023A-26E. We lower our DCF-based PO to \$37.50 on modestly lower estimates & slightly higher WACC (6.5% vs. prior 6.4% on slightly higher cost of debt) butreit. Buy on 1) BKR's strong exposure to cyclical OFSE & secular energy transition growth, 2) steady execution, and 3) strong s/h returns.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.33	1.60	2.04	2.64	3.00
GAAP EPS	(0.61)	1.94	2.04	2.64	3.00
EPS Change (YoY)	-48.4%	384.8%	27.5%	29.4%	13.6%
Consensus EPS (Bloomberg)			2.10	2.61	3.12
DPS	0.73	0.78	0.84	0.88	0.93
Valuation (Dec)					
P/E	88.1x	18.2x	14.2x	11.0x	9.7x
GAAP P/E	NM	15.0x	14.2x	11.0x	9.7x
Dividend Yield	2.5%	2.7%	2.9%	3.0%	3.2%
EV / EBITDA*	10.9x	8.6x	7.5x	6.5x	6.1x
Free Cash Flow Yield*	3.8%	7.1%	7.2%	8.4%	8.9%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 12 February 2024 12:01AM EST

12 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	39.00	37.50
2024E DPS	0.82	0.84

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Stock Data

Price	29.06 USD
Price Objective	37.50 USD
Date Established	12-Feb-2024
Investment Opinion	B-1-7
52-Week Range	26.12 USD - 37.58 USD
Mkt Val (mn) / Shares Out (mn)	29,002 USD / 998.0
Free Float	33.9%
Average Daily Value (mn)	295.13 USD
BofA Ticker / Exchange	BKR / NYS
Bloomberg / Reuters	BKR US / BKR.OQ
ROE (2024E)	12.9%
Net Dbt to Eqty (Dec-2023A)	21.7%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

IET /OFSE /LNG =Industrial & Energy Technology / Oilfield Services & Equipment / Liquefied Natural Gas

FID = Final Investment Decision

SSPS /Reit. /incl. = Subsea & Surface Pressure Systems/Reiterate/including

VG /JV =Venture Global /Joint Venture

DOE / CCS = Department of Energy / Carbon Capture & Storage

DCF / WACC = Discounted Cash Flow / Weighted Average Cost of Capital

Adj. / s/h = Adjusted / shareholder

iQprofileSM Baker Hughes Co.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.8%	7.5%	8.8%	10.6%	11.1%
Return on Equity	2.2%	10.9%	12.9%	15.5%	16.1%
Operating Margin	9.1%	10.5%	11.8%	13.0%	13.7%
Free Cash Flow	1,116	2,045	2,100	2,433	2,589

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	5.8x	1.9x	1.6x	1.4x	1.4x
Asset Replacement Ratio	0.7x	0.9x	1.0x	1.1x	1.1x
Tax Rate	65.5%	32.9%	32.6%	30.0%	30.0%
Net Debt-to-Equity Ratio	28.7%	21.7%	16.1%	10.4%	6.5%
Interest Cover	7.6x	12.4x	17.9x	21.5x	23.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	21,156	25,506	27,325	29,782	31,015
% Change	3.2%	20.6%	7.1%	9.0%	4.1%
Gross Profit	5,491	6,373	6,928	7,695	8,182
% Change	6.6%	16.1%	8.7%	11.1%	6.3%
EBITDA	2,981	3,762	4,335	4,985	5,350
% Change	11.1%	26.2%	15.2%	15.0%	7.3%
Net Interest & Other Income	(876)	(218)	(186)	(186)	(186)
Net Income (Adjusted)	328	1,624	2,024	2,556	2,810
% Change	-38.3%	395.2%	24.7%	26.3%	9.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(578)	1,969	2,021	2,553	2,808
Depreciation & Amortization	1,060	1,086	1,106	1,110	1,110
Change in Working Capital	507	42	(128)	(148)	(193)
Deferred Taxation Charge	91	(59)	184	111	122
Other Adjustments, Net	808	24	17	(14)	(14)
Capital Expenditure	(772)	(1,016)	(1,100)	(1,180)	(1,245)
Free Cash Flow	1,116	2,045	2,100	2,433	2,589
% Change	-39.1%	83.3%	2.7%	15.9%	6.4%
Share / Issue Repurchase	(828)	(538)	(505)	(752)	(1,110)
Cost of Dividends Paid	(743)	(787)	(834)	(854)	(867)
Change in Debt	(28)	(649)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,488	2,646	3,407	4,234	4,846
Trade Receivables	5,958	7,075	7,493	7,753	8,073
Other Current Assets	6,146	6,580	6,915	7,257	7,514
Property, Plant & Equipment	4,538	4,893	4,887	4,957	5,091
Other Non-Current Assets	15,051	15,751	15,831	15,922	16,012
Total Assets	34,181	36,945	38,533	40,122	41,537
Short-Term Debt	677	148	148	148	148
Other Current Liabilities	10,398	12,843	13,467	13,922	14,307
Long-Term Debt	5,980	5,872	5,872	5,872	5,872
Other Non-Current Liabilities	2,601	2,563	2,844	3,032	3,230
Total Liabilities	19,656	21,426	22,332	22,974	23,558
Total Equity	14,525	15,519	16,201	17,148	17,980
Total Equity & Liabilities	34,181	36,945	38,533	40,122	41,537

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Oil Services

Company Description

BKR was formed through the merger of Baker Hughes and GE Oil & Gas in July 2017. It is the second-largest oilfield services and equipment company in the world by market cap behind SLB.

Investment Rationale

We have a Buy rating on the stock as we see the company as a key beneficiary of the increased focus on LNG (equipment & services) and new energy / CCS while continuing to generate strong FCF and returning 60-80% of it to shareholders.

Stock Data

Average Daily Volume 10,155,871

Quarterly Earnings Estimates

	2023	2024
Q1	0.28A	0.39E
Q2	0.39A	0.47E
Q3	0.42A	0.55E
Q4	0.51A	0.64E

Price objective basis & risk

Baker Hughes Co. (BKR)

Our PO of \$37.50 is derived from our discounted cash flow valuation, which we believe is a better method to value BKR than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we believe is the limit of market recognition, and then forecast a terminal growth rate of -0.5% due to potential disruptions from the energy transition while using a 6.5% WACC.

Risks to our price objective are global economic weakness, weaker O&G prices, reduced upstream capital spending, changes to fiscal & royalty regimes in countries where BKR operates or may operate, geopolitical upheavals, oversupply, technical and operational issues. The company-specific risk is that increasing competition in international markets may permanently result in lower margins, returns and ultimately valuation premium.

Analyst Certification

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US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTI Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
NEUTRAL				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
UNDERPERFORM				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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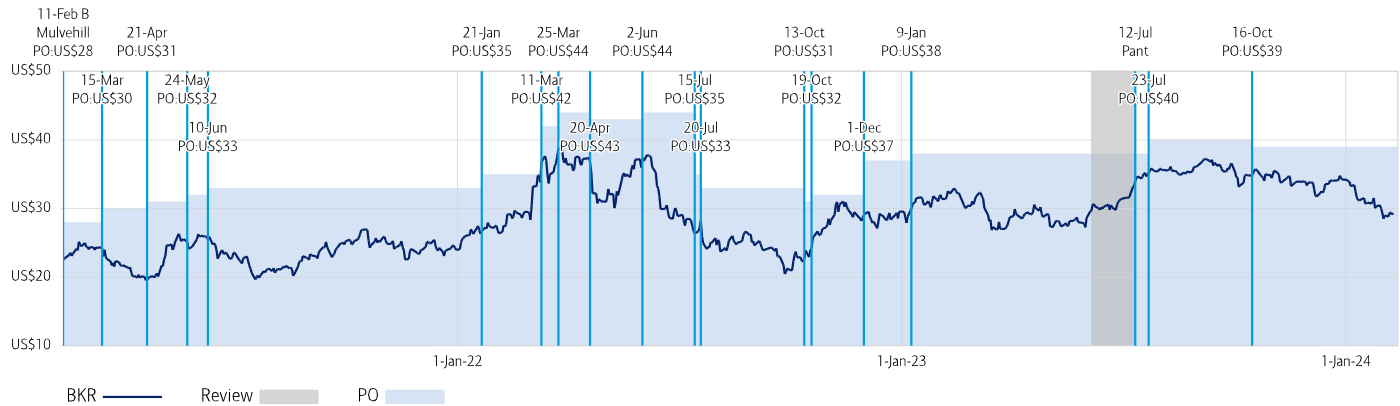
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Baker Hughes (BKR) Price Chart



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: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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