

Baker Hughes Co.

4Q largely neutral amidst ebbing LNG cycle

Maintain Rating: BUY | PO: 39.00 USD | Price: 31.53 USD

4Q EBITDA slight beat as higher margins offset lower revs

BKR's 4Q Adj. EPS of \$0.51 beat Cons/BofA at \$0.48. The \$0.03 EPS beat was entirely in lower effective tax rate while EBIT of \$816mm was in-line. Adj. EBITDA of \$1,091mm was 1% ahead of Cons as higher margin in both IET and OFSE more than offset lower revenues, primarily in IET. See Exhibit 1 for variances. Of note, the 3% 4Q IET revenue miss was almost entirely in lower Gas Tech – Equipment sales, which declined 2% QoQ. 4Q23 FCF of \$633mm (58% of Adj. EBITDA) beat Cons \$438mm. BKR repo'd \$320mm worth of its shares in 4Q and returned 82%/65% of FCF to shareholders in 4Q23/2023.

4Q total orders 4% below Cons with IET book/bill at 1.1x

BKR 4Q orders of \$6.9bn fell 19% QoQ & 21% YoY missing Cons/BofA \$7.2/\$7.0bn. IET orders of \$3.0bn fell 30% QoQ after a very strong 3Q order quarter, which included the CP2 project; OFSE orders of \$3.9bn fell 7% QoQ with SSPS orders down 35% QoQ. BKR booked \$14.2bn in IET orders in '23, in-line with its guide of \$14.0-\$14.5bn. BKR booked \$169mm in new energy orders in 4Q, netting \$750mm for 2023 (target \$600-\$700mm).

Results about in-line, stock reaction hinges on '24 outlook

4Q results were roughly in-line with a modest revenue and order miss offset by stronger margins & FCF. We look for more color on '24 outlook on the call, including expectations on the shape of the IET/LNG order cycle, aeroderivative supply chain tightness & path to 20% EBITDA margin in OFSE (by 2025) and IET (by 2026), incl. further cost-out. Having said that, BKR has been noticeably weak recently with the stock down 7.8% YTD vs. the OSX down 4.5% & SLB/HAL down 3.1%/2.4%. We think the relative weakness is largely attributable to waning confidence in the LNG cycle & ability of CTS to carry IET through the end of the decade. We believe any positive mgmt. commentary on IET equipment (& service) order & margin outlook in 2025-26 could lead to BKR outperforming today.

Maintain Buy.

Exhibit 1: BKR 4Q23 Variance

Actual results vs. Cons and BofA

	Actual	4Q23		% Beat (Miss)		% Change	
		Cons.	BofA	Cons	BofA	Q/Q	Y/Y
OFSE Revenue	3,956	3,958	3,975	0%	0%	0%	11%
IET Revenue	2,879	2,963	2,950	-3%	-2%	7%	24%
Total Revenue	6,835	6,920	6,925	-1%	-1%	3%	16%
OFSE EBITDA	709	704	704	1%	1%	6%	18%
% Margin	17.9%	17.8%	17.7%	13bps	21bps	68bps	83bps
IET EBITDA	463	463	466	0%	-1%	19%	9%
% Margin	16.1%	15.6%	15.8%	45bps	28bps	144bps	-188bps
Corporate	(82)	(86)	(85)	-4%	-4%	NM	NM
Total EBITDA	1,091	1,082	1,085	1%	0%	14%	18%
Diluted EPS	\$0.51	\$0.48	\$0.48	6%	5%	20%	34%
FCF (CFO-Capex)	633	438	410	45%	54%	7%	-4%

Source: Company data, Bloomberg, Visible Alpha, BofA Global Research estimates

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Equity

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Stock Data

Price	31.53 USD
Price Objective	39.00 USD
Date Established	16-Oct-2023
Investment Opinion	B-1-7
52-Week Range	26.12 USD - 37.58 USD
Mrkt Val (mn) / Shares Out (mn)	31,719 USD / 1,006.0
Free Float	33.9%
Average Daily Value (mn)	225.63 USD
BofA Ticker / Exchange	BKR / NYS
Bloomberg / Reuters	BKR US / BKR.OQ
ROE (2023E)	10.7%
Net Dbt to Eqty (Dec-2022A)	28.7%
ESGMeter™	High

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Cons/FCF: Consensus/Free Cash Flow

Revs/Repo'd: Revenues/Repurchased

IET/ OFSE / CTS: Industrial & Energy Technologies / Oilfield Services & Equipment / Climate Technology Solutions

SSPS / incl: Subsea & Surface Pressure Systems / including

Mgmt: Management

FCF / CP2: Free Cash Flow / Venture Global Calcasieu Pass 2 LNG project

BKR / SLB / HAL – Baker Hughes / Schlumberger / Halliburton

OSX: PHLX Oil Service Sector

LNG: Liquefied Natural Gas

Price objective basis & risk

Baker Hughes Co. (BKR)

Our PO of \$39.00 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 6.4% 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.

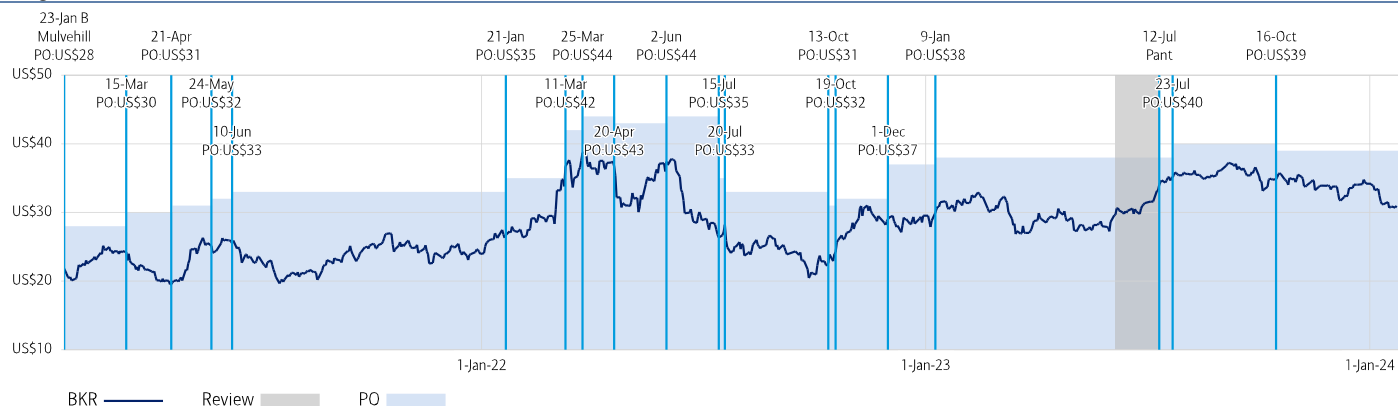
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Baker Hughes (BKR) Price Chart



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

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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%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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