

Focus Stock Report

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General Electric (GE)

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GE is a one of the largest and most diversified industrial products companies in the world. Products range from household appliances, light bulbs, locomotives, jet engines, medical imaging, generators and power turbines, security technology, as well as electrical distribution and control equipment. GE serves customers in more than 100 countries and employs more than 287,000 people worldwide.

Operating businesses that are reported as segments include Energy Infrastructure, Capital Finance, Aviation, Health Care, Transportation, and Home & Business.

Following a number of high-profile acquisitions, Energy Infrastructure is now the largest contributor to the Company's bottom line (see chart). Energy serves power generation, industrial, government, and other customers. GE is a leading provider of gas turbines and generators used in power plants and the electric utilities industry; integrated gasification combined cycle systems that convert coal and other hydrocarbons into synthetic gas; nuclear reactors, fuel and support services through joint ventures; as well as motors, gas engines, control systems, and other products. GE provides the oil & gas industry with equipment and services that span the entire value chain through drilling to refining. GE also has one of the largest renewable energy portfolios that include wind turbines and solar power equipment.

GE Capital is one of the preeminent non-bank financial services companies in the U.S., offering a broad range of financial services and products for businesses of all sizes. Services include, equipment finance, commercial loans and leases, fleet management, home loans, credit cards, personal loans and other financial services. According to Company reports, GE ended 2010 with outstanding credit to 302,000 commercial customers and 179,000 small businesses. In 2010, GE also extended about U\$78 billion of credit to approximately 52 million U.S. consumers. Since the financial crisis, GE has exited those businesses where they are underperforming or that are deemed to be non-strategic.

General Electric (GE-NYSE)

Rating: Outperform

Risk: Medium

Summary Data (U\$)

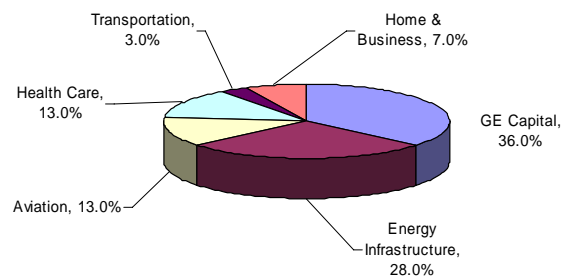
Price (June 14/2011)	\$18.60	Fiscal Year-End:	December
12-Month Target:	\$23.00	Dividend:	\$0.60
Total Return:	27%	Yield:	3.2%
52-Week High:	\$21.65	52-Week Low:	\$13.75
ROE LTM	9.6%	Market Value (\$mil)	\$197,261

Earnings Per Share (U\$)

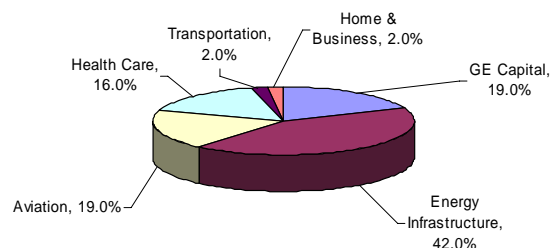
Annual	2010A	2011E	2012E	2013E
EPS:	\$1.15	\$1.35	\$1.67	\$1.98
P/E Multiple:	16.8x	13.8x	11.1x	9.4x

Source: Bloomberg, Credit Suisse

2010 Segmented Revenue



2010 Segmented Operating Profit



Source: Standard & Poor's

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The Aviation division manufactures, sells and services aircraft engines for the military and commercial aircraft industries. GE also makes engines through SNECMA, a joint venture with CFM International. GE's "GEnx" jet engine is the best selling engine for the highly anticipated Boeing 787 "Dreamliner". The installed base of commercial jet engines produced by GE and its joint venture now exceeds 23,000, according to Company reports. The large installed base is the foundation for GE Aviation Services which provides maintenance, repair, and overhaul services under long-term contracts. Revenue generated from servicing an engine over its 30+ year operating life can approach seven times the revenue from the original sale.

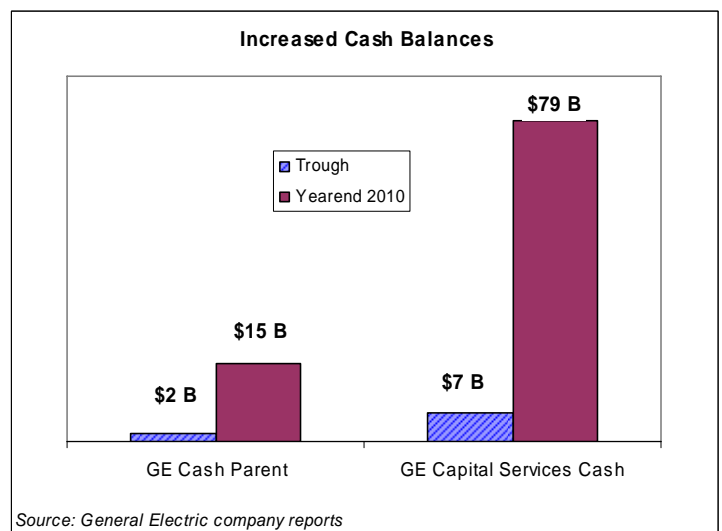
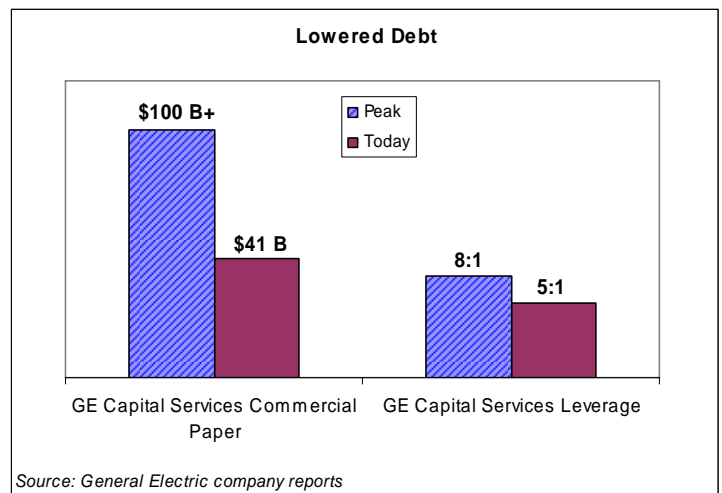
Health Care has expertise in medical imaging, diagnostics, patient monitoring systems, disease research, and drug discovery and manufacturing technologies. The Transportation division manufactures and services high-powered diesel-electric railroad locomotives and gearing technology application products for wind power turbines. Home and Business Solutions produces consumer appliance (refrigerators, washers & dryers, cooking ranges, etc.), light bulbs, and plant automation hardware and software.

GE sold a controlling stake in NBC Universal to Comcast Corp. (CMCSA) early in 2011 leaving GE with a 49% stake in the media giant.

Key Elements Supporting this Investment

GE Capital Drives Earnings Recovery: GE Capital remains an integral part of GE's operation providing equipment financing and a competitive pricing edge for its infrastructure businesses. Capital is driving the initial leg of the earnings recovery and has been a source of upside earnings surprises for the past three quarters. An improvement in credit market conditions is providing a major tailwind for earnings at GE Capital. Nonperforming assets and net charge offs as a percentage of receivables are both declining. Management reduced the risk profile as they navigated their way through the financial crisis. They now hold a substantial amount of cash on their balance sheet, have cut their reliance on commercial paper, and reduced their leverage from 8:1 to 5:1 (see charts). Credit Suisse estimate the Tier 1 common ratio should exceed Basel III requirements by the third quarter of 2011, which means Capital could start paying dividends to the parent company this year. Historically, GE Capital dividends to the parent have been as high as 90% of Capital earnings.

Returning Capital to Shareholders: GE was forced to cut the dividend it pays on its common shares at the height of the credit crisis. Since then the company is committed to returning more capital to shareholders through higher dividends and share buybacks as profitability at GE Capital recovers. To that end, GE has raised its dividend three times in the past 12 months and announced plans to repurchase U\$12 billion worth of its common shares over the next three years. CEO, Jeff Immelt has said he wants to bring the payout ratio (dividend as a percentage of earnings per share) back to its historical average in the mid 50%. That would imply a quarterly dividend of about \$0.23 per share (currently U\$0.15) based on forecast 2012 EPS. Based on the most recent quotation, the shares offer investors an attractive yield of 3.2%.



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Global Infrastructure Play: The earnings recovery initially driven by GE Capital should be sustained by the company's infrastructure businesses which are closely linked to global economic growth which Credit Suisse estimates will average 4.5% per annum for the next five years. In their 2010 annual report, the Company notes global investment in infrastructure is expected to hit \$4 trillion by 2015.

GE continues to reorient itself as a diversified infrastructure play, with world-class franchises in all of its major markets, leading edge technology, a significant installed base, global capability, as well as the ability to combine products, services, and financing. Management's goal is to maintain infrastructure earnings between 60% and 70% of GE's earnings. These infrastructure businesses are capital efficient and generate a significant amount of cash flow beyond investment needs. That said, the Company is investing heavily in its businesses ensuring it is well positioned to capitalize on external themes like emerging market infrastructure, affordable health care, and clean energy. Since last October, GE spent over US\$11 billion on acquisitions that diversify and strengthen its Energy Infrastructure portfolio. GE remains one of the few liquid ways for investors to play the Power infrastructure theme in the U.S. equity market. GE has about \$30 billion of industrial revenue in key global growth markets, where revenue has been expanding at 10% per annum for the past decade.

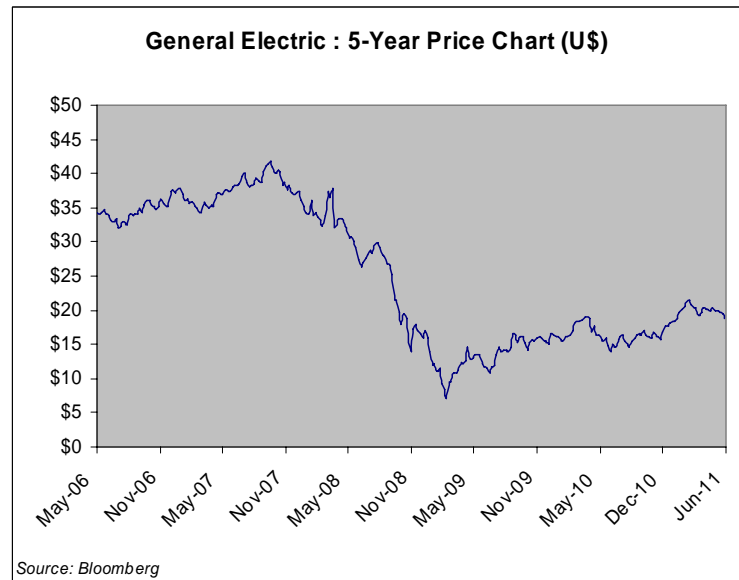
Ecomagination is a business initiative developed by General Electric to help meet the growing demand for energy efficient and environmentally friendly products and services. Products include wind power systems, water desalination equipment, energy efficient locomotives, aircraft engines, appliances, and lighting. GE's new Evolution Hybrid Locomotive uses technology that captures and stores braking energy for later use, increasing power, while reducing fuel efficiency and emissions. Product innovation such as this keeps GE Transportation at the industry's forefront. The market opportunity for clean energy products is enormous and growing as consumer, businesses, and governments alike become increasingly sensitive to environmental issues. GE's ecomagination campaign is helping to drive revenues and spruce up the Company's image. GE's ecomagination portfolio is expected to generate over US\$21 billion in sales in 2011, three times 2005.

Commercial aircraft deliveries are forecast to exceed 1,000 in 2011 and grow by as much as 50% over the next three years driven by growth in air travel, particularly in Asia and the Middle East. In 2010, commercial air traffic grew 6.4% globally, with Asian traffic up 15% and the Middle East leaping 30%. Together these two markets could account for 35% of new aircraft deliveries through 2025.

Similar to Aerospace, Asia represents the fastest growing market for medical imaging equipment and services, a key component of their Health Care Business. GE expects to launch 100 health care innovations in 2011 including products in molecular imaging and low dose CT. They will also open new segments with hand-held ultrasound devices and extremity MR products.

Services are often overlooked even though they represent 70% of infrastructure earnings. Services carry higher margins than product sales and have a recurring nature. As noted in our discussion of the Aircraft segment, revenue generated from servicing an engine over its 30+ year operating life can approach seven times the revenue from the original sale. GE's backlog of high margin services stands at roughly \$130 billion and is expected to grow 5% to 10% annually.

Valuation: current consensus EPS estimates for 2011 and 2012 are U\$1.38 and U\$1.67, respectively. Estimates imply earnings growth of roughly 20% both years, much better than forecast for the broader market. GE shares are trading at 13.5 times consensus 2011 EPS, a discount to its peer group which trades at an average multiple of 15.2 times. GE's valuation relative to its peers does not capture its improving organic sales, margins, and EPS growth.



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Risks

GE's business is highly reliant on global economic activity and may be negatively affected by inflation, recession, changing political circumstances, and adverse currency movements.

Energy Infrastructure is the largest contributor to the firm's bottom line. Growth and positioning are reliant in large part on higher sustained energy prices and the successful integration of numerous acquisitions.

While management have taken efforts to reduce risk in the GE Capital balance sheet, selling off non-core assets and reducing leverage, the business remains vulnerable to unforeseen shocks to credit and financial markets. Although commercial paper exposure has been reduced, they still rely on commercial paper markets as a source of funding. Rising defaults and foreclosures can result in significant write downs of asset values and losses.

Company	Ticker	Price	EPS		P/E		Book Value	P/BV	EV/EBITDA	ROE	Dividend	Yield
		14-Jun-11	2011	2012	2011	2012						
General Electric	GE	\$18.60	\$1.38	\$1.67	13.5	11.1	\$11.65	1.6	18.9	9.6%	\$0.60	3.23%
United Technologies	UTX	\$84.02	\$5.44	\$6.20	15.4	13.6	\$24.17	3.5	9.4	21.1%	\$1.92	2.29%
Danaher	DHR	\$52.36	\$2.78	\$3.17	18.8	16.5	\$19.89	2.6	12.8	14.2%	\$0.08	0.15%
Emerson Electric	EMR	\$52.66	\$3.30	\$3.89	16.0	13.5	\$14.15	3.7	9.0	23.6%	\$1.38	2.62%
ITT Corp.	ITT	\$55.79	\$4.63	\$5.16	12.0	10.8	\$25.80	2.2	6.3	19.0%	\$1.00	1.79%
Honeywell International	HON	\$57.19	\$3.98	\$4.57	14.4	12.5	\$14.85	3.9	11.9	20.7%	\$1.33	2.33%
3M Corp.	MMM	\$92.59	\$6.31	\$7.09	14.7	13.1	\$23.77	3.9	9.5	28.7%	\$2.20	2.38%
Average					15.2	13.3		3.3	9.8	21.2%		1.9%

Source: Bloomberg

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None.

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None.

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