General Electric shares rise despite 1Q loss on hefty legal charge

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The logo of US company General Electric is seen at a factory of the group in Montoir-de-Bretagne, western France

Slumping industrial conglomerate General Electric won a reprieve on Wall Street Friday after reporting strong results in some divisions even as it suffered a quarterly loss due to a hefty legal charge.

GE, which has been hurt by weakness in its power and oil and gas businesses, reported a first-quarter loss of $1.2 billion, due to $1.5 billion in reserves to cover legal settlements connected to a subprime lending unit it exited.

However, investors took heart after GE reaffirmed its full-year financial targets and avoided fresh negative surprise announcements that have plagued recent results.

Revenues increased 6.7 percent to $28.7 billion.

"The first quarter is a step forward in executing on our 2018 plan and we are seeing signs of progress," said chief executive John Flannery.

GE has been signaling for months that its encumbered power division would be an earnings vulnerability for some time to come, but Flannery said Friday that the outlook was even worse than previously thought.

The company now expects the overall market for new gas turbine orders to be less than 30 gigawatts, compared with the prior estimate of 30 to 34. Factors driving the weakness include the rising share of renewable energy, energy efficiency efforts and some delays in orders, Flannery said.

Since Flannery became CEO last summer, GE has trimmed costs, streamlined its board, cut its dividend and revamped employee compensation. The company also has announced plans to sell $20 billion in industrial assets.

Flannery reaffirmed he is open to further overhauling GE, raising speculation of a breakup of the company.

"There's no sacred cows," he said during a conference call with analysts. "We're reviewing a number of structures. We're working through this right now in great detail with the board, including new board members."

GE was the biggest gainer in the Dow, rising 2.8 percent to $14.38 in midday trading.

Oil rebound?

GE's other problem division of late, oil and gas, could be poised for a turnaround in the foreseeable future due to strengthening oil prices. Major producers including Saudi Arabia and Russia signaled Friday they plan to extend a production accord to defend higher oil prices.

Baker Hughes, an oil services company in which GE holds a majority stake, offered an upbeat outlook when it reported results Friday, saying "market fundamentals remain supportive" due to stable oil prices.

GE scored higher profits compared with the year-ago period in four divisions, including healthcare and aviation, which have been the strongest businesses.

GE has previously signaled that it expected additional legal costs connected to WMC.

In a February US securities filing, the company said it believed the US Department of Justice would assert the company violated US law "in connection with WMC's origination and sale of subprime mortgage loans in 2006 and 2007."

GE chief financial officer Jamie Miller said the company set aside the $1.5 billion in reserves "based on our discussions with the DOJ and a review of settlements by other banks."

CFRA Research analyst Jim Corridore praised some aspects of GE's performance and noted that it exceeded its cost-cutting targets. But he cut his earnings estimate and share price target.

"Given the severity of the downturns at oil & gas and power, and ongoing losses from GE Capital, we do not think it's worth wading into the shares despite the below-market valuation," Corridore said in a note.