

General Electric tops profit estimates, calls 737 MAX 'new risk'

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Shares of General Electric rose after the company reported better-than-expected quarterly profits

General Electric reported better-than-expected quarterly profits on Tuesday, lifting hopes over its turnaround, even as it signaled a potential

hit tied to the Boeing 737 MAX grounding for which it provides engines.

Shares rose after the industrial conglomerate, which has struggled the last two years amid weakness in key divisions, reported first-quarter profits of \$3.5 billion, compared with a loss of \$1.2 billion in the year-ago period.

Revenues dipped 1.8 percent to \$27.3 billion.

Earnings rose in aviation, oil and gas and healthcare, offsetting a loss in renewable energy and much lower earnings in power, an albatross for GE in recent years.

But in an earnings presentation, GE flagged the 737 MAX as a "new risk" for the company in the wake of Boeing's travails following the two deadly crashes that led to the global grounding of the aircraft.

Earlier this month, Boeing slashed production on the 737 MAX by about 20 percent, raising new challenges for suppliers, including GE, which makes the plane's LEAP engines with French company Safran.

"We are confident in the 737 MAX aircraft," said GE Chief Executive Larry Culp.

"We're working closely with Boeing through the recertification process and, while the planes are on the ground, we're conducting proactive scheduled maintenance on the engines," he said during a conference call on the company's quarterly earnings.

Chief Financial Officer Jamie Miller said the company had not lowered production of the engines but added that company cash flow could be pinched depending on when aircraft deliveries resumed.

"We will continue to adjust our operational managements as this situation evolves," Miller said.

US carriers such as American Airlines and Southwest Airlines are targeting August to resume flights on the 737 MAX in the expectation that Boeing will receive approval for its fix from the Federal Aviation Administration by that time.

Boeing expects certification of a software fix some time after an FAA meeting with international regulators on May 23, a Boeing spokesman said on Monday.

Measured tone

Under Culp, who was tapped as chief executive last October, the company has moved to resolve regulatory problems, cut costs and divest some units to reduce debt.

The company's share price has plunged over the last two years, leading to its removal from the prestigious Dow Jones Industrial Average stock index, due initially to weakness in the power and oil and gas business. More recently, the company's momentum has been slowed by new regulatory probes, large asset write-downs and a move to cut the company's dividend steeply.

GE earlier this month finalized a \$1.5 billion settlement with the Justice Department over subprime mortgages before the 2008 financial crisis.

Rene Lipsch, an analyst at Moody's, said the weakness in some GE industrial businesses was "a stark reminder of the challenges that the company still faces" but added that profit margins could improve later in the year.

"This holds out the prospect of seeing some initial results of the company's turnaround efforts in the second half of 2019," he said in an analyst note.

But Culp has warned that the company's troubled power division will remain under pressure in 2019.

On Tuesday, he described the power turn-around as "in the early stages," and suggested investors would do well to take Tuesday's better-than-expected results in stride and not let expectations get out of hand.

"It's just one quarter in a multi-year journey," he said. "With better execution and a stronger balance sheet, we'll continue over time to create sustainable, shareholder value."

Culp reiterated that he expects 2020 and 2021 financial results to be "meaningfully better."

Shares finished up 4.5 percent at \$10.17.

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