Baker Hughes Company (NYSE: BKR)

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Current Price: $18.04  
Stop loss: $13.53  
52 Week High/Low: $25.99/$9.19

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Market Cap ($B): $13.7  
Dividend Yield: 4.03%  
Beta: 1.37

P/E Ratio (TTM): 49.7  
EV/EBITDA: 8.5  
EBITDA Margin: 11%  
Gross Margin: 17%

Company Overview

Baker Hughes Company provides a portfolio of technologies and services worldwide. The company operates through four segments: Oilfield Services (OFS), Oilfield Equipment (OFE), Turbomachinery & Process Solutions (TPS), and Digital Solutions (DS).

Investment Thesis

A.I. Integration – Baker Hughes is well positioned to benefit from emerging demand in Artificial Intelligence (AI) based solutions as part of customers’ digital transformation initiatives.

Diversified portfolio of products and services – Baker Hughes has a global presence with a diversified portfolio. Products and services range from upstream, midstream/LNG, downstream and broader chemical and industrial segments.

Transition of energy – Ability to reduce customer’s carbon footprint with a range of emissions-reducing products with more efficient power generation and compression technology. As well as a range of inspection and sensor technology that can monitor and help reduce flaring and emission.

Technology – Differentiated technology to improve efficiency and productivity gains for customers. Committed to investing in products and services to maintain leadership position across offerings. Continuing R&D resulted in 2,700 patents granted in 2019.

Industry Outlook

The Energy Equipment & Services Industry in the Energy Sector includes Oil and Gas Drilling contractors, or owners of drilling rigs that contract their services for drilling wells. It also includes manufacturers of Oil and Gas equipment (including drilling rigs and equipment), and providers of supplies and services to companies involved in drilling, evaluation, and completion of oil and gas wells.

The sector has been negatively affected by COVID-19 shutdowns and lower demand for oil and gas. Upstream players have been quick to halt drilling in response to the Covid-19 outbreak, with rig count hitting historic lows. Positive results of vaccine efficacy signal a turn-around in the sector.

Investment Risks

Oil price volatility- OPEC+ price wars can have a negative impact in oil prices and production, lowering orders and services provided by Baker Hughes. Additionally, lower energy demand from epidemic related shutdown can continue to impact oil prices.

FX Risk- Approximately 70% of Baker Hughes revenues comes from outside of the United States. Such high exposure to international markets and related currency risk could negative impact cash flows.

Political Risk- Geopolitical uncertainty and civil unrest in areas that Baker Hughes operates could impact their business and investments. Changes in tax laws, tax rates and tariffs could impact operating results.
Valuation Assumptions & Key Financials

We recommend a BUY rate for Baker Hughes based on a target price of $22.79 per share. This target price reflects a 27.55% margin of safety based on its closing price of $17.87 on November 13th, 2020. We calculated WACC as 6.42%, assuming a terminal growth rate of 2% and 8x exit EV/EBITDA. We used the Perpetuity Growth and terminal EV/EBITDA method to calculate the final target price of $22.79.

ESG Considerations

Baker Hughes is the leader of the energy equipment & services industry with a MSCI AAA rating. According to MSCI, Baker Hughes is an ESG leader in Biodiversity & land use, carbon emissions, health & safety, toxic emissions & waste, and average in corporate governance and corporate behavior. Baker Hughes has taken additional steps to improve compliance with an updated their code of conduct and continuing extensive training. Regarding the environment, Baker Hughes plans to be net-zero CO2 equivalent by 2050, a develop products and services to help the industry lower its carbon footprint.