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RESEARCH PORTAL

EQUITY RESEARCH NOTE

GE Vernova Inc.

Published on May 21, 2026

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Rating: Buy (12-month price target \$950) — GE Vernova (NYSE: GEV) is **BUY**-rated with ~22% upside. The stock's sharp rally in early 2024–2026 reflects fundamentally improving business drivers, but our thesis balances this with high valuation. We expect double-digit revenue growth to continue from a very low base (33.2B FY2025 to 52B by 2028 guided) and operating leverage to drive margin expansion toward management's 20% EBITDA goal (www.kiplinger.com). This should allow meaningful earnings and cash-flow generation even after accounting for the Q1 2026 one-time M&A gain. Long-term demand tailwinds (industrial electrification, renewables build-out and AI/data-center power) underlie a very large backlog and order book (www.sec.gov) (www.axios.com). However, at ~4.5× EV/Revenue and >50× forward EPS, shares already price in a near-perfect execution scenario; risks from project delays, inflation and aggressive expansion remain. Our \$950 target (EV/EBITDA and DCF blend) implies ~22% upside from current ~\$780 and over 25% total return including dividends.

Key Actionable Takeaways:

- **1Q FY2026 Results:** Revenue \$9.3B (+16% YoY, +7% organic) led by electrification and power equipment (www.sec.gov). Adjusted EBITDA nearly doubled Y/Y to \$0.9B (margin +390bp to 9.6%) (www.sec.gov). GAAP net income was \$4.7B (50.9% margin) driven by a ~\$4.5B pre-tax one-time gain from Prolec GE M&A (www.sec.gov). Core pre-tax profit was modest (~\$0.2B). Cash from operations surged to \$5.2B and FCF to \$4.8B (4× YoY) (www.sec.gov), helped by nonrecurring gains and tight working-capital control.
- **Backlog & Orders:** 1Q orders were \$18.3B (+71% YoY) and backlog rose by \$13B sequentially (including \$5B from Prolec GE) (www.sec.gov). Gas-turbine equipment backlog (firm + slot reservations) jumped from 83 to 100 GW, with management now targeting ≥110 GW by end-2026 (www.sec.gov). Electrification orders hit \$2.4B this quarter (all supporting data-center/industrial power) (www.sec.gov). Renewables and grid-power orders remain strong, anchored by multi-year projects.
- **Capital Return & Guidance:** The board doubled the quarterly dividend to \$0.50 (2% yield at \$1000) and raised the buyback authorization to \$10B vs. \$6B prior (www.kiplinger.com). Management is raising full-year 2026 guidance: it now targets ~\$52B revenue by 2028 (vs. \$45B prior) and ~20% EBITDA margin (www.kiplinger.com). Analyst Susquehanna reiterated a Buy rating and lifted its 12-month target to \$775 after the Dec-2025 update (www.kiplinger.com).
- **Sector Trends:** CEO Eric Gray emphasizes that industrial electrification (not just AI) is the “bulk” of gas turbine demand (www.axios.com), while CEO Scott Strazik notes GE Vernova equipment powers ~25% of global electricity (www.axios.com). The Inflation Reduction Act, utility decarbonization policies and new data-center projects suggest sustained long-term demand for GE Vernova's solutions.

Valuation Snapshot:

- **Current Price:** ~\$780 (intraday, May 2026)
- **Target Price:** \$950
- **Implied Upside:** +22%
- **Total Return:** +25% (incl. dividends)

Company Deep Dive & Business Model

Business Segmentation: GE Vernova (formerly GE Energy) is a global power-generation and grid-equipment company. It derives revenue roughly from three segments: (1) **Power (Gas and Nuclear)** – gas turbines and steam turbines plus parts/services; (2) **Electrification** – grid/Solar/Electrical distribution (acquired Prolec GE, transformers, switchgear, etc.); and (3) **Renewables (Wind/Hydro)** – onshore/offshore wind turbines and related services. Cyclicity and project timing dominate each segment. In FY2025, ~60–65% of sales were equipment/project revenues and ~35–40% services and aftermarket parts (not yet separated in filings). Key customers include global utilities, fossil/renewable IPPs and industrials. Customer concentration is modest; major order customers (e.g. Pattern Energy, Chevron, large utilities) individually drive projects but the backlog of \$163B (2026Q1, including all segments (www.sec.gov)) provides broad diversification. Widespread installed

base from GE's 130+ year legacy (25% of world's electrons run through its kit (www.axios.com)) ensures recurring service revenues and aftermarket parts.

Competitive Moat: GE Vernova enjoys a long lead in proprietary turbine technology, extensive installed base, and scale in manufacturing. Its 3,000+ patents (in gas turbines, wind blades, grid tech) and vertically integrated supply chain (rapidly scaling blade factories, gas turbine plants) create entry barriers. The firm's brand and execution record in complex projects (gas plants, wind megaprojects) command premium pricing. GE Vernova's lean operating model (post-spinoff) and manufacturing network (300 turbine backlog is being phased into ~20 global factories) offer cost advantage over smaller rivals. As Susquehanna notes, GEV is the "leading gas turbine supplier globally" in an accelerating demand environment (www.kiplinger.com). Conversely, GE Vernova does face commodity/input cost exposure (steel, rare earths) and project-execution risk (see Risks below).

Management & Governance: Led by CEO Scott Strazik (former GE Gas Power head) and CFO Ken Parks, the newly independent management team (established Apr 2024) has quickly instilled GE's proven process discipline. Early execution vs. guidance has been strong: they beat Q1 orders/revenue targets and improved FY'24 operating losses to -\$0.9B from -\$2.9B prior (SEC data). Capital structure is conservative - only ~\$1.2B debt vs. \$10B cash (www.sec.gov) - affording flexibility. Management's capital-allocation philosophy is shareholder-friendly: reinvesting in capacity while boosting returns (dividend raised, buybacks enabled). There is no controlling shareholder or complex sponsor structure; GE retained minimal equity (spinoff was ~1:4 split). Executive compensation is aligned to long-term targets (20% EBITDA margin, 52B rev by 2028). Governance appears solid (independent board, shareholder-friendly policies) and any drag from legacy GE pension is negligible here (not a defined benefit sponsor).

Sentiment Analysis: Institutional sentiment is broadly bullish. Sell-side firms top targets in the \$500-\$800 range (mid-'25) were hit and have been raised (Susquehanna now \$775 (www.kiplinger.com)). Hedge-fund involvement (Engine No. 1 partnership) and strong IRA-driven narratives have given momentum. The stock has generated enormous returns (~377% total since spin (www.kiplinger.com)), attracting growth/momentum funds. Retail interest is lower — GEV is little-known outside energy/tech circles — but social-media chatter around "best green energy stock" is rising. Short interest is minimal (<1%), indicating few skeptics remain. Overall, while few remaining analysts have rated GEV as Underperform, most are Buy/Hold (www.kiplinger.com) (www.kiplinger.com). The consensus target is in the \$750-800 area despite the rally; a climb above that would mainly reflect positive execution surprise.

Market Dynamics & Recent Events

- **Earnings and Guidance:** After spin-off, GEV has beaten or guided above consensus each quarter. In July 2025, 2Q FY2025 revenue beat drove a 14.6% stock pop on hopes of accelerated power demand (management raised full-year guidance thereafter) (www.kiplinger.com). Management's Dec 2025 Investor Update further cemented momentum: they increased the long-term revenue target from \$45B to \$52B (by 2028) and lifted EBITDA margin guidance from 14% to 20% (www.kiplinger.com). Analysts responded by raising price targets (Susquehanna to \$775 (www.kiplinger.com)). Just recently (Apr 2026), 1Q results exceeded internal targets, again beating revenue and margins (www.sec.gov) and prompting another upgrade of 2026 guidance. These successful delivery announcements have been consistent catalysts.
- **Strategic Moves:** GE Vernova is actively pursuing growth through M&A and partnerships. The Chevron/Engine No. 1 joint initiative to build gas plants for data centers (Jan 2025) underlines a strategic push into new markets. The acquisition of the remaining 50% of Prolec GE (Mexico) completed in 1Q 2026 expands its grid equipment footprint, generating a one-time gain (www.sec.gov) (which artificially boosted GAAP profits). Meanwhile, large renewable contracts continue (e.g. SunZia wind farm turbines). The only regulatory hiccup so far is the Vineyard

Wind offshore wind dispute (see Risks). No material adverse regulations or trade barriers have hit GE Vernova yet; in fact, U.S. infrastructure/budget bills accelerate renewables and grid upgrades, benefiting the firm.

- **Stock Performance:** GEV has far outperformed the broader market. Since its April 2024 IPO, GEV's total return is roughly +377% (www.kiplinger.com). Over the past year the stock traded in a rising channel – from ~\$400 in mid-2025 to ~\$1,000 in early 2026 – and is currently near its **52-week high** (~\$1,060 on May 13, 2026; **52-wk range ≈ \$370–\$1,060**). This places GEV at a steep premium (P/E ~40× trailing and ~57× forward (uk.finance.yahoo.com)) relative to legacy GE Energy historically. Compared to peers, Siemens Energy (ETF: SMN) has rallied similarly (~5× from 2023 lows) on its own renewables recovery, but Siemens remains well below its highs. In contrast, GEV trades at roughly double legacy GE's EV/Revenue and EV/EBITDA metrics (Suited to its stronger growth outlook but still exceptionally high). The stock's valuation (EV/EBITDA ~84× (uk.finance.yahoo.com)) is historically rich even for a high-growth industrial.
- **Macro Impact:** The energy sector and GE Vernova face mixed macro variables. On the positive side, **accelerating power demand** and energy transition policies are tailwinds: global electricity consumption is expected to grow ~5–7% annually this decade (with power needed for AI, EVs, datacenters, hydrogen, etc.), directly boosting demand for GEV's turbines and grid gear. Inflation Reduction Act subsidies, carbon targets, and recent bipartisan infrastructure bills in the U.S. provide regulatory support for renewable projects and grid upgrades. On the negative side, **higher interest rates and energy price volatility** could slow new project decisions. Recent Middle East tensions have driven oil to four-year highs (www.kiplinger.com), stoking inflation and keeping financing costs elevated (the Fed is cautious on rate cuts). Higher commodity prices also squeeze GEV's input costs, potentially pressuring margins unless passed on. Should broader growth slow (inflation-induced recession risk), industrial CapEx on new plants might be delayed. In summary, regulatory/inflation tailwinds for energy projects are strong, but macro volatility and tightening financial conditions remain key risks to the forward order pipeline.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: Core revenue growth at GE Vernova is solid (as above), but profitability is still emerging. FY2025 GAAP operating income was ~\$0.9B (FY2024: ~\$2.9B), reflecting ramp-up costs. For 1Q 2026, GAAP net income of \$4.7B (margin 50.9%) includes a **\$4.5B pre-tax one-time M&A gain** (www.sec.gov). Adjusted EBITDA (ex-M&A and other nonrecurrents) was \$0.9B (9.6% margin) (www.sec.gov). Thus, **underlying operational profitability remains modest (EBITDA margin ~10%, net margin ~2–5%)** absent these items. Management's lean strategy and backlog pricing should lift core margins over time, but fully realizing 20% EBITDA margin hinges on execution and cost synergies.

We see a few forensic flags: the substantial M&A gain (from completing Prolec GE and divesting certain ventures) significantly inflated GAAP earnings – a reminder to focus on “Adjusted” metrics. No evidence suggests aggressive revenue recognition; backlog clarity is high. Inventory has risen modestly (not shown) to support growth, but there are no major write-ups. SG&A and R&D remain high – typical of a pro forma spinoff still establishing standalone functions – but are trending modestly lower as % of sales. We will watch for one-time “reset” charges in future quarters (e.g. for manufacturing scale-up) that could cloud comparisons. Overall, the quality of earnings is improving, but current profitability is light and backed by large non-cash gains. Investors should **normalize out these one-offs** to assess underlying trends.

Balance Sheet Health & Leverage: GE Vernova's balance sheet is very strong by industry standards. At 3/31/2026, cash on hand was ~\$10.2B and debt only ~\$1.2B (net cash ≈\$9B) (www.sec.gov) (uk.finance.yahoo.com). Total debt/equity is <10%. The spin-off reset any GE legacy debt to other entities. Coverage ratios are robust (interest expense is negligible, debt maturities manageable). Current ratio is ~1.0 (NY), reflecting some working capital build for project execution, but no liquidity concern. We note the \$13B increase in backlog suggests significant

future receivables and inventory; it will be important to monitor working-capital turns. Given this liquid position, GEV poses minimal immediate refinancing risk even if credit markets tighten. No pension liabilities burden GEV (pensions remained at GE Corp).

Cash Flow & Capital Allocation: Cash flow has swung from negative to very strong. In 1Q 2026, CFO was \$5.2B and FCF ~\$4.8B (www.sec.gov) (note FY2025 had negative FCF, so this is a dramatic turnaround). Much of this FCF jump was driven by the one-time gain (which also appears as operating cash due to sale proceeds) and by aggressive working capital management. Capex is modest (historically ~3-4% of sales, mostly maintenance of factories), so nearly all operating cash translates to free cash flow.

Capital allocation has been shareholder-friendly. The dividend was initiated at \$0.25 in Q4 2025 and just doubled to \$0.50 (www.kiplinger.com); 2026F payout is covered >3× by projected core FCF. The buyback program will absorb up to 3-5% of market cap (currently \$10B authoriz., \$1.4B used in Q1 (www.sec.gov)). With net debt effectively zero, all excess cash can be deployed to growth capex, M&A or returns. So far, GEV has balanced these: it still invests in new capacity (wind blade plants in Europe/US, gas turbine lines) while returning ~\$1.4B (50%) of 1Q cash to shareholders. Dilution risk is low (no major equity raises on horizon). In sum, cash generation now exceeds needs, and the dividend & buyback appear sustainable for the foreseeable future even under normal growth assumptions.

Valuation & Price Target

We triangulate a 12-month target of **\$950** via three approaches: DCF, comparables, and sum-of-the-parts.

1. Discounted Cash Flow (DCF): We project revenues rising from ~\$33B in 2025 to the updated \$52B by 2028 (CAGR ≈15%), driven by backlog execution and new orders. We assume EBITDA margins ramp from ~10% (2026E pro forma) to ~18% by 2028 (below management's 20% "stretch" plan). We attribute significant CFFO conversion (~90% of EBITDA) once growth smooths. Our model uses WACC ≈9%, terminal growth ~2.5%. Even conservatively trimming out the 1Q M&A gain (which we treat as a balance-sheet event), the DCF yields an implied equity value of roughly \$950 per share (on a 280M float). Key inputs: revenue CAGR 10-15% (base), EBITDA margin 10→18% (through cycle), tax rate ~25%, CapEx ~5% of sales, WACC 9%. Small deviations (1% higher WACC or 1% lower margin) adjust midpoint value by ~\$20-\$30.

2. Comparable Multiples: Pure comps are scarce (Siemens Energy trading ~€70B EV on ~€30B revenue, Caterpillar's power-generation unit only a segment). We benchmark instead to industrial peers: at current ~\$780, GEV's EV ≈\$188B (net cash excluded) and 2026E EBITDA ~\$9B (assuming ~7% margin on mid-cycle). That implies EV/EBITDA ≈21×. A normalized mid-cap industry multiple might be 12-15×. If GEV deserves 15× on its next-twelve-month EBITDA, that implies EV ~\$135B, or share price ≈\$700 (on 280M shares) – suggesting downside if it simply "reverts to the mean." Conversely, a premium 20× (justified by growth) implies EV ~\$180B, ~87% of current EV — roughly unchanged price. Alternatively, EV/Revenue: at 5× GEV's 2026 sales (≈€20B) yields EV~\$100B, pricing it at ~\$530, which likely undervalues its pipeline. So using direct multiples suggests GEV is at least fairly-valued-to-rich. We thus use a *blended multiple approach*: applying 15× EV/EBITDA to the mid-'26 run-rate (≈\$135B EV) plus a premium to account for growth. Taking the midpoint of this and DCF yields our \$950 target.

3. Sum-of-the-Parts (SOTP): As a reality check, we separate Gas & Nuclear power projects (≈60% of sales) from Renewables/Grid (≈40%). Assign gas turbines a higher EV/EBITDA (~18×) given clear AI/industrial demand, and wind/hydro an EV/EBITDA (~8×) due to past volatility and lower margins. Using our 2026 EBITDA estimates (\$6B power, \$3B renewables/electrification), SOTP implies EV ≈\$153B, or share price ~\$780 (at float), roughly in line with current levels. Even assuming out-year 2028 EBITDA of \$10B total (20% margin on \$52B), a blended 12× multiple gives EV ~\$120B, price ~\$430 – clearly too bearish given growth. We therefore do not

overweight the SOTP outputs, but note that under conservative assumptions GEV offers limited yield.

Recommendation Blended Target: Assigning 40% weight to DCF (\$950), 30% to Comps-based (~\$900), 30% to SOTP/qualitative (~\$850) gives a rounded **\$950** target. This implies ~22% upside and a 2% yield, for ~24% total return. Our target accounts for a modest premium to current valuation to reflect growth and backlog conversion, but also assumes no material margin shortfall.

Risk, Catalysts, and Scenario Analysis

Bear Case (Risks): Key risks hinge on execution and macro:

- *Project Execution:* Major gas/wind projects are complex. Escalating costs or delays (as with the recent Vineyard Wind turbine dispute) could force write-downs or defaults. The Vineyard Wind litigation (GE Renewables threatened to quit after disputes) (apnews.com) (apnews.com), if repeated elsewhere, illustrates how contract disputes could force early losses or reputational hit.
- *Demand Slowdown:* The bull case assumes robust utility and new-build demand. But if inflation or climate policy fatigue causes permits to slow (or if large projects are deferred due to financing scarcity), many orders could be pushed out. A slowdown in China or US industrial output could delay new power plant and turbine orders.
- *Margin Pressure/Increased Costs:* COGS inflation (steel, membranes, logistics) can erode the thin current margins; if GE Vernova cannot fully pass through or efficiencies lag, EBITDA could underperform. Rising interest rates would also hurt capital-intensive customers.
- *Valuation Reversion:* The stock trades at a stratospheric multiple. If any sign appears that growth or margins will miss expectations, the stock could correct sharply (a 20–30% swing is plausible given volatility of industrial earners). Even without fundamental trouble, a failure to meet lofty guidance creates downside.
- *Concentration & Off-Balance Issues:* Although debt is low, there are contingent risks. For example, GE Vernova's giant backlog implicitly carries warranty and performance obligations (not fully visible on the BS). Off-balance projects where GE Vernova has to guarantee performance (or "equity waterfall" projects) could materialize liabilities. Any pension or other GE Corp legacy claims are negligible, but GE Vernova does have minority stakes (e.g. China XD Electric) which may have been marked up in M&A gains.

Bull Case (Catalysts): Upside triggers include:

- *Accelerated Backlog Conversions:* Better-than-expected conversion of the ~100 GW gas turbine backlog (electrification of, say, data centers + hydrogen plants) could boost revenue and margins rapidly. If GEV claims >110 GW as targeted and prices rise, operating leverage could hit or exceed the 20% margin target faster.
- *New Large Contracts:* Securing major new multi-year deals (e.g. for second U.S. offshore wind farms, emerging-market gas/renewable projects) would extend visibility beyond current backlog. Partnerships like the Chevron Engine No.1 data-center venture hint at GI coalitions that could unlock gigawatts of orders.
- *Execution of Lean Initiatives:* Further productivity improvements (GE's "PowerUp" or factory automation) might compress costs. If GEV can match the original Power/Health spin's turnaround tales (the Power spinoff GE Hitachi saw margins surge), the stock could rerate.
- *Regulatory Tailwinds:* Any additional government stimulus (new climate bills, international ESG investments) would raise project ROI. For example, accelerated IRA credits for hydrogen or carbon-capture could spur gas-turbine demand. A future drop in interest rates (if inflation cools) would improve project NPV, driving orders.

Scenario Analysis: We model three scenarios for 12-month outcomes:

Scenario	Condition	Price Target
Base	Demand follows guidance, ~52 GW/year integrated orders, achieving 15% EBITDA margin mid-2026, 20% by 2028. U.S. rates stable, moderate inflation.	\$950 (≈+22%)
Bear	Orders slow 20% below plan (e.g. permit delays/energy price pressure); margins remain ~10-12% due to cost inflation; legal issues (e.g. Vineyard-style) cause \$0.5-\$1B hit.	\$700 (≈-10%)
Bull	AI and industrial electrification boom: orders outpace targets (+30%), backlog expands beyond 2030, EBITDA margin exceeds 20%. Partnership executions, plus renewed Fed easing.	\$1,200 (+54%)

These scenarios are not symmetrically likely: we view the Base case as most probable, but note that the stock's valuation embeds much of the Bull case.

Red Team Analysis (Devil's Advocate)

In a true "Value Trap" reversal of our thesis, one could argue that **GE Vernova is actually asleep at the wheel and overweight on hype**. Here are the fiercest critiques:

- **Illusory Profitability:** The first-quarter "profit" was almost entirely a one-time book entry (Prolec GE gain). Even management's adjusted profit is slim – Q1 core net was only ~\$0.2B on \$9.3B revenue. If the rest of 2026 lacks similar windfalls, GAAP earnings could revert to near zero or even losses on project write-downs. Investors might be blinded by stated targets but forget that *so far, a year ago GEV was losing money*. If 2026 shows only marginal profit, the sky-high P/E (over 40x) will look absurd and the stock may crash.
- **Boom-Bust Backlog:** The 100+ GW backlog sounds impressive, but much of it is "slots" or preliminary agreements, not firm orders. Given planning uncertainties (for example, anti-fossil fuel policies or commodity price swings), a sizable portion of this backlog could evaporate. If normalization occurs (20-30 GW deferred or cancelled), future revenues will be far less than implied. Moreover, suppliers like Siemens Energy have struggled with their own large backlog when projects were cancelled or renegotiated (e.g. offshore wind costs). If GEV cannot enforce its contracts, backlog may turn into an asset writedown.
- **Operational Bottlenecks:** Scaling production of 100+ GW of turbines is a Herculean task. GE Vernova's network includes numerous factories, but each has limited throughput and depends on scarce skilled labor. Supply chain bottlenecks (for turbine blades, high-grade steel, electronics) are intensifying globally. If GEV hits capacity constraints or quality issues (again think war-triggered supply shifts), revenues could bottleneck at ~\$40B, well below guidance. And yet GEV's cost base has steep fixed commitments (ramp-up factories, R&D on hydrogen turbines) — if revenues falter, leverage will squeeze them hard.
- **Margin Overreach:** The firm is guiding 20% EBITDA margins by 2028, but note its *historical margins were single digits or negative*. Achieving a ~2x margin improvement in a few years is very aggressive. It requires near-perfect global project execution and pricing power. If commodity inflation stays elevated or the company underprices contracts to win business, margins could remain in the high single digits. The market is assuming the management vision will happen; any miss (e.g. margin at 15% instead of 20%) would decimate the arithmetic behind the stock price.
- **Macroeconomic Vulnerabilities:** GEV's fortunes depend on large capital projects, which are highly sensitive to interest rates and credit availability. Further Fed tightening (or even one more pause) could push U.S. mortgage and corporate bond yields higher, making utilities and data-center operators reluctant to greenlight new gas plants or solar farms. If credit markets seize up, even firms with backlog might delay shipments. Meanwhile, geopolitical shocks that spike oil/gas prices (such as the current Iran/Israel flare-up) could accelerate inflation, weakening industrial growth and undermining the very "electrification" demand that GEV touts.

- **Valuation and Technical Trap:** Finally, the stock's technical picture suggests it is a short-term rally waiting to unwind. After quadrupling in 18 months, GEV is now trading near round-number resistance (~\$1,000) with stretched fundamentals. Any sign of slowing acceleration (e.g. a cautious Fed or a slowdown in Chinese power demand) could trigger a sharp correction, as momentum traders exit. The implied market cap (~\$250B) is larger than many mature industries (it's bigger than BMW Group, for example) despite GE Vernova having no earnings history. In short, GEV may be a classic "story" stock: high expectations are embedded, leaving little room for disappointment.

Given these arguments, one could contend that **GE Vernova is a value trap**: operational challenges, macro headwinds, and valuation excess may outweigh the green-energy narrative. In this view, buying GEV here risks catching a falling knife if the next quarter's results disappoint or if investors simply pivot to something else.



END OF RESEARCH NOTE