GE shares gyrate as it reports loss, lifts full-year forecast

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General Electric raised its full-year profit forecast despite reporting a second-quarter loss

General Electric lifted its full-year profit forecast on Wednesday, while warning that US-China trade tensions and the grounding of the Boeing

737 MAX remain lingering uncertainties.

The industrial giant, which has been beset by a downturn in its power business for more than two years, said it made progress in reducing costs and improving project execution in that business.

Still, executives adopted a cautious tone, repeatedly describing 2019 as a "reset" year expected to help pave the way towards better results down the road.

"The team is doing a better job certainly but again it's very early," chief executive Lawrence Culp said of the power business. "I don't want any of this to sound like we are claiming victory."

Shares initially jumped following the report, but pulled back sharply following a conference call later Wednesday.

A note from JPMorgan Chase cited weak profit margins in aviation and lackluster results in some other divisions, dismissing the improved forecast as based on "low quality" factors, such as lower restructuring costs.

"The stock is up on the headlines, as it has been many times before, but, like in the past, the underlying core fundamentals are actually a bit worse, and we remain underweight on this basis and would be selling into any strength," said JPMorgan analyst Stephen Tusa.

For the quarter, GE reported a loss of $61 million due to $744 million in one-time accounting costs connected to its "grid solutions" business, which concerns the electricity grid.

Revenues slipped one percent to $28.8 billion.

Investors were encouraged that GE lifted key full-year targets, including its range for earnings-per-share and industrial revenue growth.

Earnings again fell sharply in power, which has been dogged by a global oversupply of turbines and other conventional electric equipment amid rising use of renewable power.

Culp told an analyst conference call that GE's power team was more focused on setting realistic project scope and scheduling targets with clients. That discipline is expected to lead to improved project execution, he added.

Elsewhere, GE reported a loss in renewable energy, lower profits in aviation and oil and gas, and higher profits in healthcare.

Separately, GE announced that Chief Financial Officer Jamie Miller would step down and remain in her role while the company seeks a replacement.

Miller, who was named CFO in October 2017, said "with the progress we've made and the stabilization beginning to take hold, the time is right for my transition."

Bigger MAX hit

GE signaled that it expects a deeper hit to cashflow in the second half of 2019 over the grounding of Boeing 737 MAX.

The industrial giant, which manufactures airplane engines under the CFM International joint venture with Safran, said the grounding of the Boeing 737 MAX hit its operational cash flow by $300 million in the second quarter and $600 million for the year so far.

The impact is expected to be $400 million per quarter in the second half of 2019.

Executives said the higher number reflects the greater volume of work that had been planned over that period. The company has not forecast for a further decline in Boeing MAX output. But earlier this month the company said that was possible if the grounding drags out much longer.

"When the airplanes are delivered again, we will get paid for those planes," Miller said. "It's just a delay."

Culp cited ongoing trade tensions between the United States and China as an unknown. He said the company is well-positioned with a Chinese partner, Harbin Electric, but acknowledged that the situation is uncertain.

Culp said customers including the Chinese government still had a "strong" embrace of the company.

"But the trade tensions are real," he added, and US-China trade relations are "a watch item."

"We flag it just given that it's a variable, a good bit outside of our control."

A note from Cowen investment bank lauded the improved forecasts but highlighted lower aviation profit margins as a disappointment and characterized the CFO transition and 737 MAX as "watch items."

Shares fell 4.0 percent to $10.10 in mid-morning trading.