

Baker Hughes NASDAQ: BKR

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Recommendation. Long BKR as the market still prices Baker Hughes through an oilfield services, on rig count and the oil price, and misses the more important transition: roughly half of revenue is now industrial and energy technology, backed by multi-year contracted backlog and a high-margin aftermarket stream. The July close of Chart Industries shows that.

Business & Industry

Baker Hughes serves customers in 120+ countries across the ecosystem. It reports through Oilfield Services & Equipment (OFSE, 51%) drilling, completions, production, subsea and Industrial & Energy Technology (IET, 49%) turbomachinery, gas compression, LNG systems, power generation and climate technology. With Chart now closed, Chart operates as a third reporting segment (thermal management, cryogenic and gas handling). LNG liquefaction equipment is basically a three-firm market (BKR, Siemens Energy, GE Vernova), with high switching costs and vendor-qualification barriers.

Investment Thesis

I. Priced as oilfield services, earning like an industrial

The market still trades Baker Hughes as a short-cycle oilfield service stock, reacting to rig counts and spot oil prices. In doing so, it misses a major structural shift: roughly half of BKR's revenue now comes from Industrial & Energy Technology (IET), supported by a multi-year contracted backlog and high-margin aftermarket recurring revenue, a profile reinforced by the Chart Industries transaction. The core thesis isn't about execution; it's about a multiple re-rate as the industrial revenue mix becomes undeniable.

II. The installed base is the moat, not the rig count

Every turbine, compressor and LNG train sold expands a base that requires proprietary parts, monitoring and long-term service contracts frequently 10+ years, hard to displace because BKR controls the IP and hot-gas-path components. Gas Technology Services is the annuity: recurring, higher-margin and counter-cyclical to short-cycle drilling. Backlog of \$37B+ IET RPO converts over several years, smoothing reported revenue.

III. AI data centers, a second demand curve not in consensus

Grid-constrained AI load is pulling gas turbines **behind the meter**. BKR has already booked it: a 1.8 GW Kodiak framework (deliveries to 2030), a 270 MW Frontier behind-the-meter award and the TURBINE-X packager network (NovaLT / Frame 5). This is installed-base annuity, uncorrelated to the LNG FID cycle optionality the multiple is not paying for at the entry price.

IV. Chart accelerates the mix funded with debt

Closed July 16, 2026 at \$210/share, \$13.6B EV, all-cash funded via \$6.5B + €3.0B senior notes, \$2.0B term loans and cash (Chart FY25 revenue \$4.3B). Adds adjacency in cryogenics and compression plus a wider aftermarket base; management targets \$325M of cost synergies within three years and double-digit Year-1 EPS accretion. Net leverage steps up to ~2.25x at close, de-levering to 1.0–1.5x within 24 months; the A rating is reaffirmed. Waygate (\$1.45B), PSI and SPC disposals fund de-levering.

Capital return. Dividend (~1.6% yield); \$230m returned via dividends in Q2'26. Once leverage reaches the 1.0–1.5x target, management intends to return 60–80% of free cash flow to shareholders.

Investment Setup

A third consecutive record order quarter and IET bookings that doubled YoY to \$7.1B. We would be taking advantage of the misreading from the market. BKR is becoming a core pick and shovel play on the AI energy crisis.

Catalysts

- **2H 2026 Middle East recovery.** Hormuz reopening restores OFSE volumes; Q3 guidance might be the first test.
- **2026–27 Chart synergies.** \$325M cost synergies phase in.
- **Through 2028 Horizon 2 delivery.** IET orders above \$40B cumulatively; industrial mix supports a re-rating.

Risks & Mitigants

- **Middle East disruption.** OFSE Middle East revenue guided down >20% sequentially. *Mitigant:* the same energy-security spending accelerates the IET pipeline; OFSE still beat its EBITDA guidance through the disruption.
- **Chart integration & leverage.** Large all-cash deal lands alongside three disposals, with net leverage stepping to ~2.25x. *Mitigant:* Chart is adjacent (not overlapping), limiting restructuring; disposal proceeds and strong FCF fund the path back to 1.0–1.5x.
- **Valuation & order lumpiness.** Valuation is high leaves little margin of safety; a quarter without a major IET award reads as a miss. *Mitigant:* \$37B+ IET RPO converts over years; Horizon 2 above \$40B underpins the re-rate.

For my conviction to change, we would have to see two consecutive quarters of IET orders below \$4B; a synergy guidance cut or extended integration timeline; backlog declining sequentially on cancellations.