

Boeing

737 MAX-9 partial fleet grounded by FAA after fuselage panel loss mid flight

Maintain Rating: BUY | PO: 275.00 USD | Price: 249.00 USD

Deactivated door blown out midflight

On January 5th, Alaska Airlines (AS1282) performed an emergency landing after the left mid-aft fuselage panel and interior sidewall panel blew out after takeoff. In response to the incident involving a 3-month old Boeing 737 MAX-9 (tail number N704AL), Alaska Airlines grounded their entire fleet of MAX-9s out of an abundance of caution. The FAA then issued a temporary grounding of all 737 MAX-9 aircraft for investigation. The grounding in practice is more of an Emergency Airworthiness Directive in that once an inspection is completed and the requirements of the AD are satisfied, the aircraft can go back into service. The NTSB announced they too are investigating the incident to determine the root cause. In our view, with the limited information we have at this early stage, this appears to be a manufacturing quality escape as opposed to a design issue. Door plugs are commonly used on commercial airframes.

A worrying start to the new year

The most recent incident comes on the heels Boeing urging airlines to check for [loose bolts on 737 MAX rudder systems \(see our report\)](#), as well as Boeing requesting the FAA for an exemption to safety standards related to engine inlets and anti-ice systems. It's not yet clear if this was an assembly error from Boeing, an install error from Spirit AeroSystems, or a quality escape further down the supply chain. An escape of this nature makes one question the quality control of the 737 delivery ramp and the impact of inexperienced labor on both Boeing and its supply chain. We find it worrisome, that this happened to an aircraft delivered on October 31, 2023. Parenthetically, this aircraft still had "new airplane" smell and the sticker price in its window.

Another hit to Boeing reputation

We do see the latest incident as eroding the fragile confidence that has been built around the 737 MAX franchise. In our view, Boeing needs to tread carefully and cautiously through this potential reputational minefield. Some scrutiny must be saved for regulators as well, as the FAA is ultimately responsible for certifying these aircraft before delivery. That said, at this point in time, due to the duopoly nature of the industry, we do not see this impacting orders for any of the 737 MAX variants. However, if the hits to the program do keep coming, and at some point, the flying public may lose confidence in the 737 MAX which could ultimately impact sales.

Understanding the risks of the issue; maintain Buy

The FAA's grounding order will impact 215 MAX-9 aircraft in service, according to Cirum estimates, with United Airlines (79 MAX-9s) and Alaska Airlines (65 MAX-9s) operating the two largest fleets. Given the grounding and all MAX-9s requiring inspection and potential remedies, this could also impact MAX-9s deliveries to China restarting. While we expect the stock to be weak on this news, we maintain our Buy as we expect Boeing to proceed with the requisite caution. We do not expect this current issue to have a material impact to our 2024 financial forecast. However, this could temporarily impact 737Max-9 deliveries, depending on what the FAA and NTSB as well as foreign regulators conclude. Further, this may complicate the certifications of the Max-7 and Max-10 due to the optics around asking the FAA for safety exemptions which are required for a more

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Equity

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Stock Data

Price	249.00 USD
Price Objective	275.00 USD
Date Established	18-Dec-2023
Investment Opinion	B-1-9
52-Week Range	176.25 USD - 267.54 USD
Mkt Val (mn) / Shares Out (mn)	150,639 USD / 605.0
Free Float	99.9%
Average Daily Value (mn)	1470.36 USD
BofA Ticker / Exchange	BA / NYS
Bloomberg / Reuters	BA US / BA.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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Timestamp: 07 January 2024 02:26PM EST

timely certification.

Maintain Buy rating and PO of \$275

While we expect the stock to be weak on the news, we maintain our Buy rating. We do not expect this current issue to have a material impact to our 2024 financial forecast. Boeing is one of two players in a global duopoly for commercial aircraft which are in short supply, and we believe has been making steady if not slow progress addressing the some of the internal shortfalls that led to its current situation.

NTSB (National Transportation Safety Board)
FAA (Federal Aviation Authority)
AD (Airworthiness Directive)

Price objective basis & risk

Boeing (BA)

Our PO of \$275 is based on the near-term average FCF of \$15/share and relative discount to the S&P500 of 0.8x (about half standard deviation above historical average). In our view, a multiple roughly in line with the historical average fairly reflects the looming aerospace recovery, strong demand for commercial jets, defense opportunities, and the lack of dividend.

Upside risks to our PO are the possible involvement of an activist shareholder, better-than-expected cash margins at 787 and/or MAX programs, the company's ability to sustain 777 delivery rates through the bridge to 777X, lower-than-expected 777X, future single-aisle and middle-of-the-market aircraft development costs.

Downside risks to our PO are as follows: Tight competition for engineering talent in the current labor market could make new product development more challenging. Execution risk on new programs and production ramp-ups (737MAX, 777X, KC-46) could result in cost overruns and margin contractions. Changes in trade policy that end in a trade war. A sharp and prolonged surge in oil prices to above \$100/bbl would be negative to aircraft demand. A downturn in commercial aviation, due to an exogenous factor, could adversely affect financial results. As aircraft are priced in USD, an unexpected rapid revaluation in the dollar could significantly affect order activity. Also, a strong dollar could improve Airbus' competitive advantage. 787 fixes could take longer than expected.

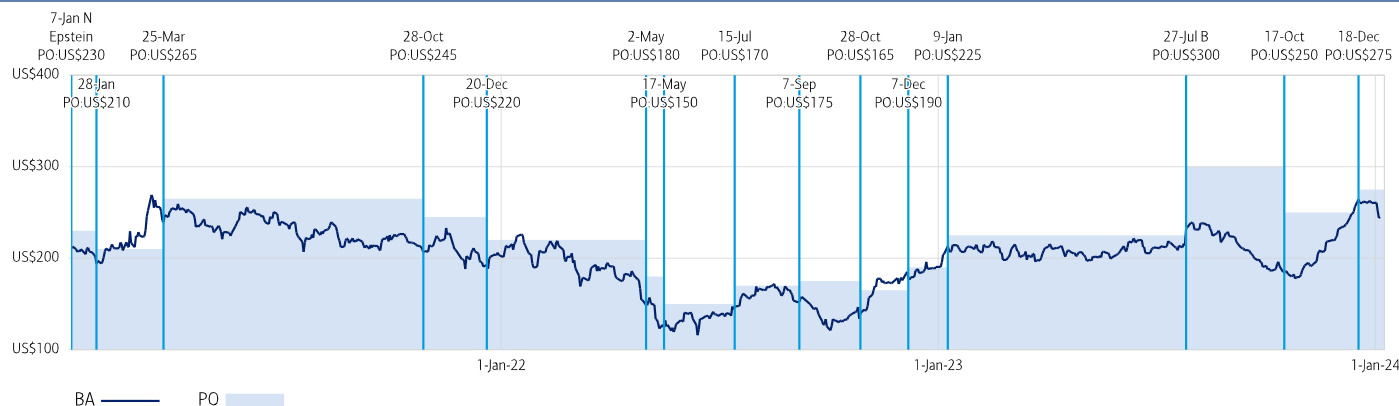
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Disclosures

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Boeing (BA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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