

## Boeing

# Strong 4Q FCF & 737 reaches 38/mo production – 24 outlook suspended

Maintain Rating: NEUTRAL | PO: 225.00 USD | Price: 207.82 USD

## BA beats 4Q expectations, but suspended 2024 outlook

Boeing (BA) 4Q23 earnings beat expectations with core EPS of \$(0.47) vs. BofAe \$(0.86) and Bloomberg consensus \$(0.76), mainly driven by better than expected margins in Commercial Airplanes and Global Services and lower than expected tax rate. Topline exceeded expectations driven by higher sales on Commercial Airplanes and Defense, Space & Security. While operating margin of 1.3% outperformed our expectations of 0.6%, margins in Defense, Space & Security (BDS) were lower than expected due to \$139mn in losses on certain fixed-price development programs, as well as unfavorable performance and mix on other projects.

## 737 production now at 38 per month

On Commercial, Boeing announced they have reached production rate of 38 for the 737, and a rate of 5 for the 787 line. 737 production rate at 38 per month is encouraging compared to 31 per month last year and Boeing struggling to roll aircraft out of the assembly line beyond low 20s at the end of the year. Also, production at 38 per month could also suggest better than expected rates for the FAA freeze ([read our note here](#)). FCF of \$2.9bn was above BofAe of \$1.8bn and Street consensus of \$2.1bn. Considering the uncertainty of recent Alaska Air incident and following FAA freeze to 737 production ramps, management is suspending its 2024 outlook. We expect the market to react positively to the strong 4Q FCF and 737 rates reaching 38 per month. We maintain our Neutral rating as the dust settles on the full impact of the latest regulatory hurdles.

### Exhibit 1: Quick-take of results vs. expectations

Boeing 4Q23 EPS and Revenue exceeded expectations

Quick-take of results vs. Expectations:	
<b>Core EPS</b>	4Q23: \$(0.47) vs. BofAe: \$(0.86) vs. BBG: \$(0.76) vs. 4Q22: \$(1.75) (GAAP \$(0.04)) (4Q23 down 73.3% Y/Y)
<b>Revenue</b>	4Q23: \$22,018mn vs. BofAe: \$20,765mn vs. BBG: \$21,065mn vs. 4Q22: \$19,980mn (4Q23 up 10.2% Y/Y)
<b>Operating Margin</b>	4Q23: 1.3% vs. BofAe: 0.6% vs. 4Q22: 1.7%
<b>Revenue by Segment</b>	<b>Commercial Airplanes: 4Q23: \$10,481mn vs. BofAe: \$10,081mn vs. 4Q22: \$9,271mn    Defense, Space &amp; Security: 4Q23: \$6,746mn vs. BofAe: \$5,777mn vs. 4Q22: \$6,181mn    Global Services: 4Q23: \$4,849mn vs. BofAe: \$4,906mn vs. 4Q22: \$4,567mn</b>
<b>FCF</b>	4Q23 Actual: \$2,950mn vs. BofAe: \$1,837mn vs. BBG: \$2,090mn vs. 4Q22: \$3,131mn (declined 5.8% Y/Y)
<b>Backlog</b>	Comm. Airplanes: 4Q23: \$441bn vs. 3Q23: \$392bn vs. 4Q22: \$330bn    Defense, Space & Security: 4Q23: \$59bn vs. 3Q23: \$58bn vs. 4Q22: \$54bn    Global Services: 4Q23: \$20bn vs. 3Q23: \$18bn vs. 4Q22: \$19bn

Source: BofA Global Research, company filings, Bloomberg (BBG)

BofA GLOBAL RESEARCH

31 January 2024

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### Stock Data

Price	207.82 USD
Price Objective	225.00 USD
Date Established	25-Jan-2024
Investment Opinion	B-2-9
52-Week Range	176.25 USD - 267.54 USD
Mrkt Val (mn) / Shares Out (mn)	125,726 USD / 605.0
Free Float	99.9%
Average Daily Value (mn)	2470.55 USD
BofA Ticker / Exchange	BA / NYS
Bloomberg / Reuters	BA US / BAN
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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Timestamp: 31 January 2024 09:48AM EST

## Price objective basis & risk

### Boeing (BA)

Our PO of \$225 is based on the 2026e FCF of \$13/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.

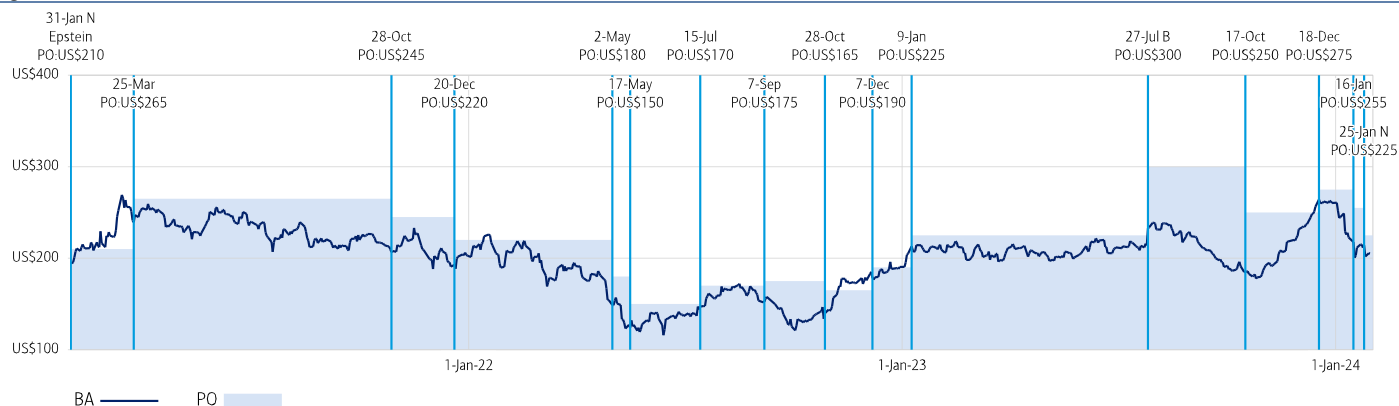
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### Boeing (BA) Price Chart



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

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### Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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