

Boeing

Takeaways from meeting with IAM 751 – Three priorities for negotiations with BA

Maintain Rating: NEUTRAL | PO: 225.00 USD | Price: 201.88 USD

Meeting with District 751 President & Intl. President

We hosted IAM (International Association of Machinists & Aerospace Workers) District 751 President Jon Holden and IAM International President Brian Bryant for a discussion on what to expect from the coming union negotiations with Boeing. Holden & Bryant represent ~31,000 workers in the area around Puget Sound, WA and will begin contract negotiation in early March with a September 12th deadline for a deal to be reached. Holden stressed the top three priorities in the coming negotiations are job security, wage increases, and retirement security. We maintain our Neutral rating as details of the [FAA production rate freeze](#) continue to develop.

Job security – A promise for the next aircraft

Holden highlighted that job security remains a key objective for IAM 751 members. Most notably, the union aims to receive this in the form of the next generation aircraft being built in Puget Sound. One of the demands in the upcoming negotiations will likely be to ensure Boeing's next generation aircraft, whether it be another narrowbody or some middle of the market aircraft, will be assembled in Washington. Holden maintains that there is contractual precedent for such negotiations (737 MAX, 777X). A possible solution could be a commitment to complete a certain percentage of component work in the Seattle area.

Wage increases – Addressing the brain drain

One of the key items Holden emphasized the IAM is vying for is wage increases for its members. The IAM is asking for a greater than 40% wage increase over the next three years of the renegotiated contract. Holden highlighted that for workers to want to stay in the manufacturing space, they need to be paid a competitive rate. The difference between starting pay (year 1) and max pay (at year 6+) makes switching to competitors in the early years of a career attractive, causing BA to lose out on training and retaining talent. A side effect from the pandemic is a greater proportion of workers in the 0-6 years of work range (as the industry saw an exodus of older employees). Pre-pandemic over half the members had 6+ years of experience, post pandemic it is estimated at about 25% or maybe less. Holder highlighted that this means pay increases for new workers will be extremely important in the coming negotiations as it will impact more workers. Additionally, in the 16 years since the most current overall contract has been negotiated, the cost of living has increased extraordinarily in the Puget Sound region, making these manufacturing jobs difficult to hold at current wage rates.

Retirement Security – Reviving pensions

In the last round of negotiations union members lost their traditional pensions which were replaced by 401(k) plans. Holden spoke to the resentment many members still hold over the loss, and strong demand from members to bring defined-benefit pensions back. While many view pensions as a relic of the past and a fixed-cost burden, the IAM does have a strong hand coming into negotiations. We see it likely BA management may counter with a more generous employer match as part of the existing 401(k) program. However, it remains to be seen what BA is willing to give up, and what the IAM is willing to accept.

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Stock Data

Price	201.88 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
Mkt Val (mn) / Shares Out (mn)	122,133 USD / 605.0
Free Float	99.9%
Average Daily Value (mn)	2223.50 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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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.

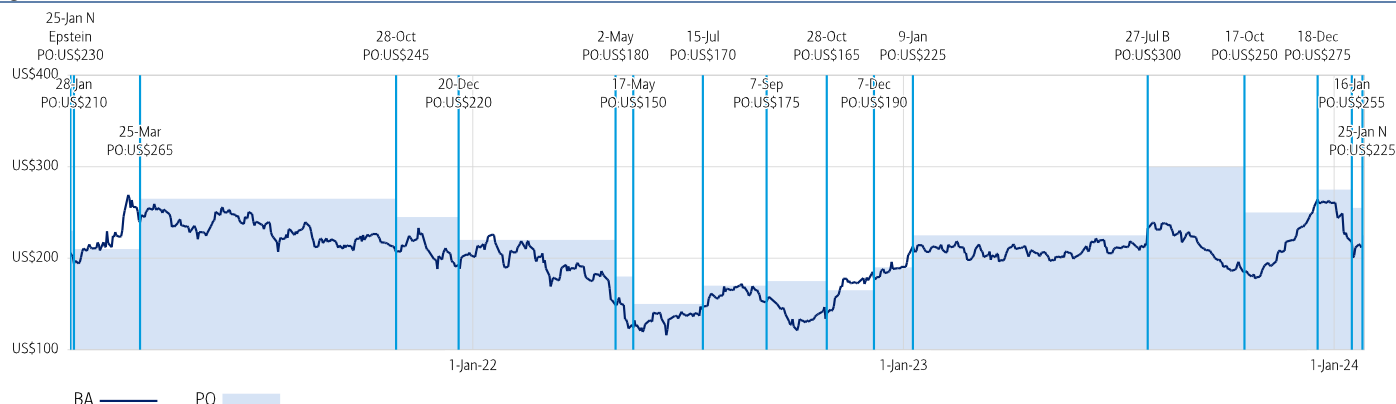
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Boeing (BA) Price Chart



BA — PO —
B: 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 ^{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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