

Boeing

# Deliveries remain subdued, outlook suggests prolonged softness

Maintain Rating: BUY | PO: 255.00 USD | Price: 215.02 USD

## Soft deliveries may continue in the initial months of 2024

According to Aero Analysis Partners/AIR (AAP/AIR), Boeing's deliveries continue at a restrained pace, with just five 737s delivered as of January 18<sup>th</sup>. This stands in sharp contrast with the 19 aircraft (17 737s and 2 787s) delivered in the same period in 2023. AAP foresees a downturn in deliveries for the initial months of 2024, attributing it to the inevitable slowdown in production and deliveries due to heightened FAA scrutiny. Despite recent issues, we believe BA has been making steady, if not slow, progress in addressing some of the internal shortfalls that led to its current situation. We remain cautiously optimistic and maintain our Buy rating.

## 2024 production rates are at risk due to 737-9 challenges

While 737 production increased in December, reaching a nominal rate of 31, AAP anticipates a shift in this trend as FAA scrutiny intensifies. Consequently, AAP lowered its 2024 production forecast, projecting a rate-21 for February (from rate-31), a rate-31 in June (from rate-38), and a rate-38 in December (from prior rate-42), falling short of Boeing's guidance for December 2024 of rate-52. On a more optimistic front, AAP expects Boeing to stabilize 787 production at rate-5 at the end of 1Q24, along with the technical possibility of reaching rates of 7 or 8 later in the year.

## Potential 737-7 and 737-10 certification delays

AAP highlights that the certification timeline for the 737-7 may experience a delay ranging from 2Q24 to 3Q24 if the FAA accepts the exception linked to the engine anti-ice system. However, if the exception is denied, certification could potentially be pushed to 2025, contrasting with Boeing's target of 1Q24. Additionally, AAP underscores that the complications related to the 737-9 will also impact the certification timeline for the 737-10, stretching it to a range between 2Q25-3Q25, compared to Boeing's target of 4Q24.

22 January 2024

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### Stock Data

Price	215.02 USD
Price Objective	255.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-1-9
52-Week Range	176.25 USD - 267.54 USD
Mrkt Val (mn) / Shares Out (mn)	130,082 USD / 605.0
Free Float	99.9%
Average Daily Value (mn)	2248.66 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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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 22 January 2024 04:13PM EST

## Price objective basis & risk

### Boeing (BA)

Our PO of \$255 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.

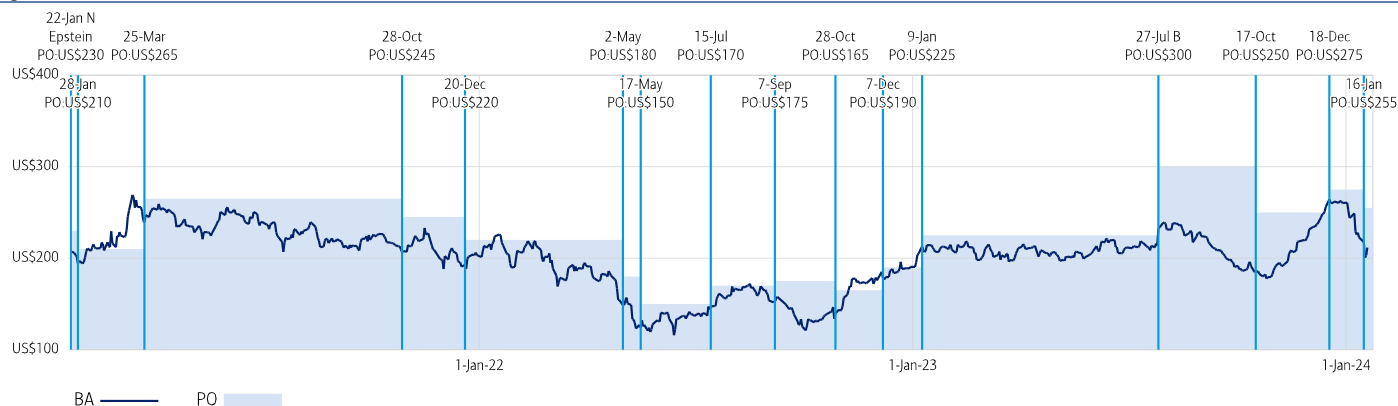
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### Boeing (BA) Price Chart



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

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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%

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Sell	807	22.84%	Sell	383	47.46%

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

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