

Boeing

BA withdraws time-limited exemption on 737MAX-7 de-icing system

Maintain Rating: NEUTRAL | PO: 225.00 USD | Price: 200.17 USD

MAX-7 entry into service delayed at least a year

Boeing informed the FAA of their decision to withdraw the request for a time-limited exemption (TLE) related to the engine inlet de-icing system on the 737 MAX-7. The announcement comes following the [MAX-9 door plug mid-flight blowout](#), and subsequent [737 MAX production ramp freeze \(see reports\)](#). We estimate the withdrawn TLE will delay the MAX-7 entry into service (EIS) by 12-18 months. The certification delay of the MAX-7 will likely impact Southwest Airlines the most, with 300+ aircraft on order. Although Southwest Airlines already wrote out the MAX-7 in their 2024 fleet planning, we expect there will some penalties which Boeing would be responsible for. We maintain our Neutral rating as the dust settles on the full impact of the latest regulatory hurdles.

Possible ripple effect for MAX-10 EIS

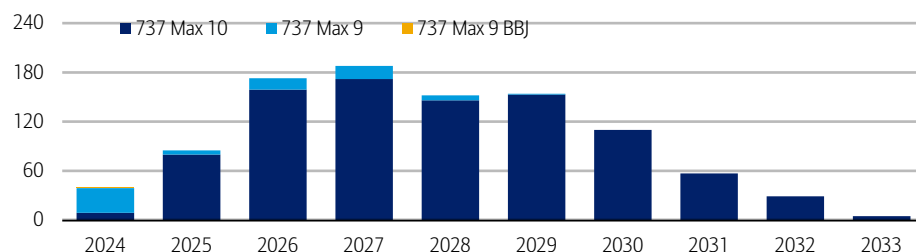
More importantly, the MAX-7 delay could push the MAX-10 EIS further out than currently anticipated. A delay to the MAX-10 could have a greater impact with ~920 aircraft on order vs. ~340 MAX-7s (See Exhibit 1). This larger variant is BA's only response to the increasingly popular A321neo (represents 80%+ of Airbus A320 family orders). We think it is unlikely that customers will break their contracts and cancel orders (as this would result in a charge to the customer) and there is no place else to go for narrowbody jet capacity. However, we do think customers may use the delay as a potential reason to expand the scope of their search for future aircraft needs.

Why the anti-icing systems is a potential safety issue

As discussed in our call, ["Will the production freeze impact MAX-7 & -10 certification process?"](#) (see report) with Chris Brady, author of *The Boeing 737 Technical Guide*, scrutiny over the anti-icing TLE is due to the possibility of a major catastrophic event. The nacelle on the MAX -7/-10 uses composite materials (unlike previous models using aluminum and steel). If the anti-icing system is left on for more than five-minutes (by error or mechanical failure) there is a possibility the composite materials can deteriorate and cause the cowl to dislodge and strike the fuselage. Previously Boeing anticipated engineering a fix for the de-icing system by June 2026.

Exhibit 1: MAX-10 deliveries due in 2025 and 2026 represent 13/mo and 14/mo demand

Any further delays, or possible cancellations, could hurt MAX demand



Source: BofA Global Research, Cirium

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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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Stock Data

Price	200.17 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)	121,098 USD / 605.0
Free Float	99.9%
Average Daily Value (mn)	2343.32 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.

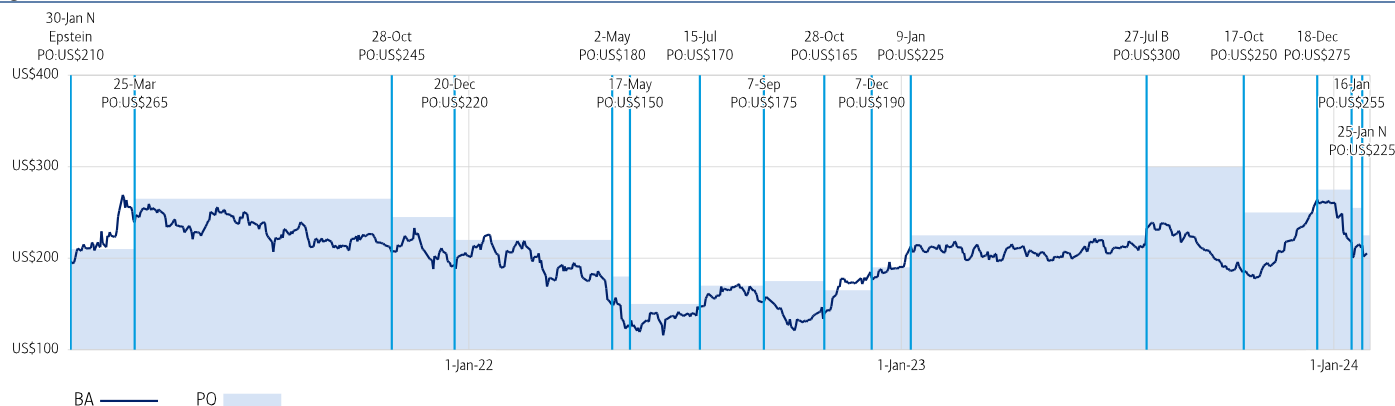
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Boeing (BA) Price Chart



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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Underperform	N/A	≥ 20%

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