

Boeing

Slowing down to ramp up, move to Neutral and lower PO to \$225

Rating Change: NEUTRAL | PO: 225.00 USD | Price: 214.13 USD

Moving to Neutral on Alaska Airlines grounding aftermath

In the wake of the Alaska Airlines Flight 1282 incident, where a 737 MAX-9 door plug was ejected from the fuselage mid-flight ([see report](#)), Boeing (NYSE: BA) has again found itself in the spotlight of materially increased regulatory scrutiny. The subsequent grounding and FAA mandated production rate freeze at current levels will likely prevent Boeing from reaching its 2025/2026 production, delivery, and FCF goals outlined during its [2022 investor day](#). We expect the FAA ruling to delay BA's 737 ramp by roughly a year (see *Deferring MAX production ramp up by roughly a year*). We move to the sidelines with our rating on the shares, lowering it to a Neutral from a Buy and cutting our PO to \$225 from \$255.

Best-in-class production favors smoother future ramps

Nevertheless, we think the forced slowdown will ultimately benefit Boeing in the long term. To be blunt, the current situation is not tenable. The slowdown will enable BA, its suppliers, and regulators to focus on quality assurance and best-in-class production practices without the stress of ramping production in the near term. In our view, the resulting stronger production system should ultimately allow Boeing to ramp up to higher rates smoothly. The robust demand environment coupled with OEMs struggling to meet customer orders should enable Boeing to continue benefiting from its albeit shrinking share of the global duopoly for commercial aircraft.

FAA caps 737 MAX production at current levels

The FAA announced on January 24 that it would be capping 737 MAX production at current levels. FAA Administrator Mike Whitaker emphasized that the "[FAA] will not agree to any request from Boeing for an expansion in production or approve additional production lines for the 737 MAX until we are satisfied that the quality control issues uncovered during this process are resolved." This comes after 1) a *Seattle Times* report suggested that Boeing may likely be to blame for the unsecured door plug that caused the Alaska Airlines incident and 2) airlines found other loose bolts and discrepancies during recent 737 MAX-9 inspections.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(9.44)	(11.05)	(6.20)	0.25	6.35
GAAP EPS	(7.15)	(8.29)	(3.91)	2.13	8.05
EPS Change (YoY)	59.4%	-17.1%	43.9%	NM	NM
Consensus EPS (Bloomberg)			(6.17)	3.81	8.67
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	856.5x	33.7x
GAAP P/E	NM	NM	NM	100.5x	26.6x
EV / EBITDA*	NM	NM	205.6x	39.7x	21.8x
Free Cash Flow Yield*	-3.4%	1.8%	2.6%	3.2%	4.9%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 25 January 2024 06:45AM EST

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-9	B-2-9
Inv. Rating	BUY	NEUTRAL
Price Obj.	255.00	225.00
2024E Rev (m)	84,397.5	82,259.1
2025E Rev (m)	93,000.8	90,209.0
2024E EPS	2.70	0.25
2025E EPS	7.45	6.35

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Stock Data

Price	214.13 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)	129,544 USD / 605.0
Free Float	99.9%
Average Daily Value (mn)	2358.42 USD
BoFA Ticker / Exchange	BA / NYS
Bloomberg / Reuters	BA US / B.A.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BoFA ESGMeter Methodology"](#).

iQprofileSM Boeing

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-4.0%	-5.8%	-1.7%	6.6%	15.7%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	-4.7%	-5.3%	-1.2%	3.9%	8.2%
Free Cash Flow	(4,396)	2,290	3,320	4,143	6,408

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	37.2x	2.1x
Asset Replacement Ratio	0.5x	0.6x	0.8x	0.8x	0.9x
Tax Rate	14.5%	NM	NM	4.1%	13.1%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	-1.1x	-1.5x	-0.5x	1.4x	3.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	62,286	66,608	76,541	82,259	90,209
% Change	7.1%	6.9%	14.9%	7.5%	9.7%
Gross Profit	3,049	3,530	7,134	11,307	15,745
% Change	NM	15.8%	102.1%	58.5%	39.2%
EBITDA	(758)	(1,568)	979	5,070	9,233
% Change	92.8%	-106.9%	NM	417.8%	82.1%
Net Interest & Other Income	(2,131)	(1,475)	(1,231)	(1,804)	(1,679)
Net Income (Adjusted)	(5,551)	(6,577)	(3,755)	152	3,884
% Change	58.0%	-18.5%	42.9%	NM	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(4,378)	(5,171)	(2,453)	1,294	4,923
Depreciation & Amortization	2,144	1,979	1,908	1,874	1,846
Change in Working Capital	(6,977)	4,139	4,307	1,476	241
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	5,795	2,565	1,050	1,021	1,021
Capital Expenditure	(980)	(1,222)	(1,493)	(1,522)	(1,624)
Free Cash Flow	-4,396	2,290	3,320	4,143	6,408
% Change	77.7%	NM	45.0%	24.8%	54.7%
Share / Issue Repurchase	42	50	45	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(5,576)	(1,276)	(4,848)	(5,000)	(5,500)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	8,052	14,614	8,926	8,069	8,977
Trade Receivables	2,641	2,517	2,958	3,067	3,363
Other Current Assets	97,973	92,392	92,390	87,015	83,724
Property, Plant & Equipment	10,918	10,550	10,420	10,324	10,345
Other Non-Current Assets	18,968	17,027	16,795	16,538	16,295
Total Assets	138,552	137,100	131,489	125,013	122,704
Short-Term Debt	1,296	5,190	4,891	4,891	4,891
Other Current Liabilities	80,696	84,862	85,656	83,464	82,367
Long-Term Debt	56,806	51,811	47,659	42,659	37,159
Other Non-Current Liabilities	14,600	11,085	10,198	9,620	8,985
Total Liabilities	153,398	152,948	148,404	140,634	133,402
Total Equity	(14,846)	(15,848)	(16,915)	(15,621)	(10,698)
Total Equity & Liabilities	138,552	137,100	131,489	125,013	122,704

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Aerospace

Company Description

Boeing (BA) is the world's leading aerospace company and the largest manufacturer of commercial jetliners and military aircraft combined. The different segments in the company are Commercial Airplanes, Boeing Defense, Space & Security (BDS), Boeing Global Services, and Boeing Capital Corporation, which provide financial solutions facilitating sale and delivery of Boeing commercial and military aircraft, satellites, and launch vehicles. BA is based in Arlington, Virginia.

Investment Rationale

Boeing is participating in the commercial aerospace recovery, as part of the global duopoly in large commercial aircraft manufacturing. However, there are some company-specific challenges. Boeing is confronted with losing market share in the narrowbody jet market, refocusing it on engineering excellence and execution, and deleveraging its balance sheet.

Stock Data

Average Daily Volume 11,013,944

Quarterly Earnings Estimates

	2022	2023
Q1	-2.75A	-1.27A
Q2	-0.37A	-0.82A
Q3	-6.18A	-3.26A
Q4	-1.75A	-0.86E

Existing MAX-9s to return to service by the end of January

Despite the announced production restrictions, the FAA will allow for existing MAX-9s to return to service once operators complete the necessary inspections. Alaska plans to resume MAX-9 flights on January 26 and will conclude all inspections by February 2. United Airlines plans to resume MAX-9 flights on January 28.

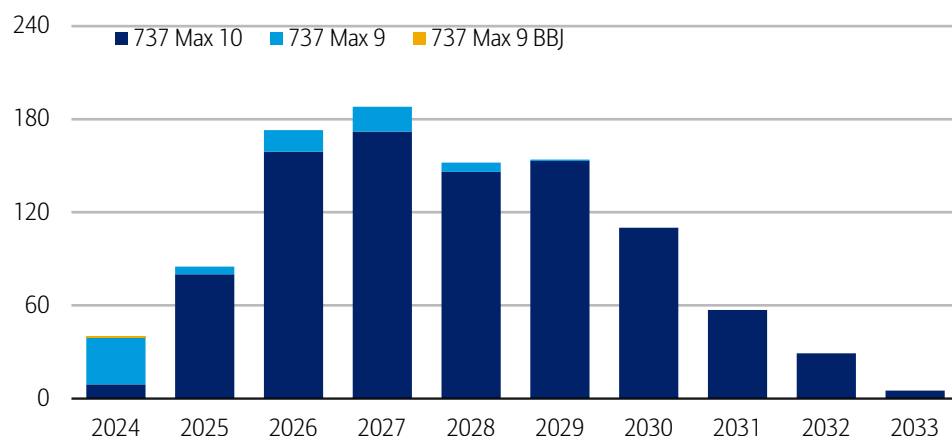
Scrutiny expanded to all MAX: -7/-10 certification at risk

The production cap confirms that woes have expanded to all 737 MAX models. In our view, this is a nearly worst-case scenario. Further, one could safely assume that MAX-7 and MAX-10 certification will likely be pushed further out to late 2024 and 2025, respectively. According to press reports, the Senate Subcommittee on Aviation Safety is demanding that the FAA reject Boeing's request for a safety waiver on the yet to be certified MAX-7.

We note that the MAX 10 is a critical variant in the increasingly popular higher end of the narrowbody market. Additionally, deliveries due in 2026 and 2027 suggest that the MAX 10 would represent about ~25% of the total 737 MAX demand.

Exhibit 1: 737 MAX 10 deliveries due in 2025 and 2026 represent 13/month and 14/month demand

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



Source: BofA Global Research, Cirium

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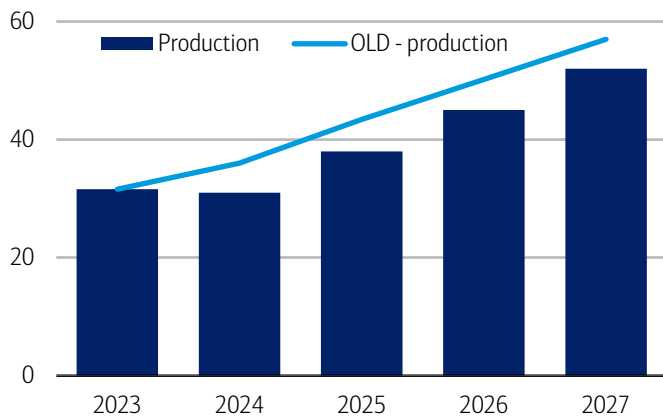
Deferring MAX production ramp up by roughly a year

It is still uncertain whether the production cap limits 737 MAX production at 31/month or the 38/month rate Boeing targeted by end of 2023. However, considering the recent challenges to ramping production, we think a 31/month average production is more realistic. Boeing came into the new year still only rolling 737s off the line at low-20s/month.

We expect an accelerated release of excess inventories to help mitigate the impact on 737 MAX deliveries.

Exhibit 2: Delaying production ramp up by roughly a year

We expect 2024 monthly production to average 31 aircraft, ramping up above 50 in 2027 (vs prior 2026)

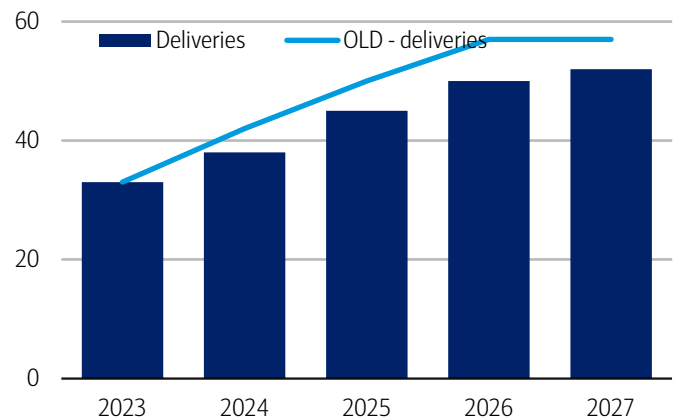


Source: BofA Global Research estimates

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Exhibit 3: Impact to deliveries mitigated by inventories' release

Boeing is still seating in 250 aircraft in inventory, the accelerated delivery of those should mitigate the impact from lower production



Source: BofA Global Research estimates

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FCF impact: Lower deliveries offset by advances in short term

We are keeping our 2024 and 2025 FCF estimates relatively unchanged.

Takes:

- Lower than previously expected production levels
- Higher inventories headwinds from suppliers already producing at higher rates (we assume the keep them producing at ~38/months in 2024 and reduce to 6-month lead times in 2025)
- About \$1bn of cash headwinds in 2024 related to customer penalties and the costs allocated toward oversight

Puts:

- Accelerated release of excess inventories. Deliveries to China restarted yesterday.
- Lower drag from customer advances normalizing at 10% of backlog. We expect annual headwinds of ~\$700-800mn vs prior \$1.5bn.

2026/2027 FCF estimates down to ~\$8.0bn

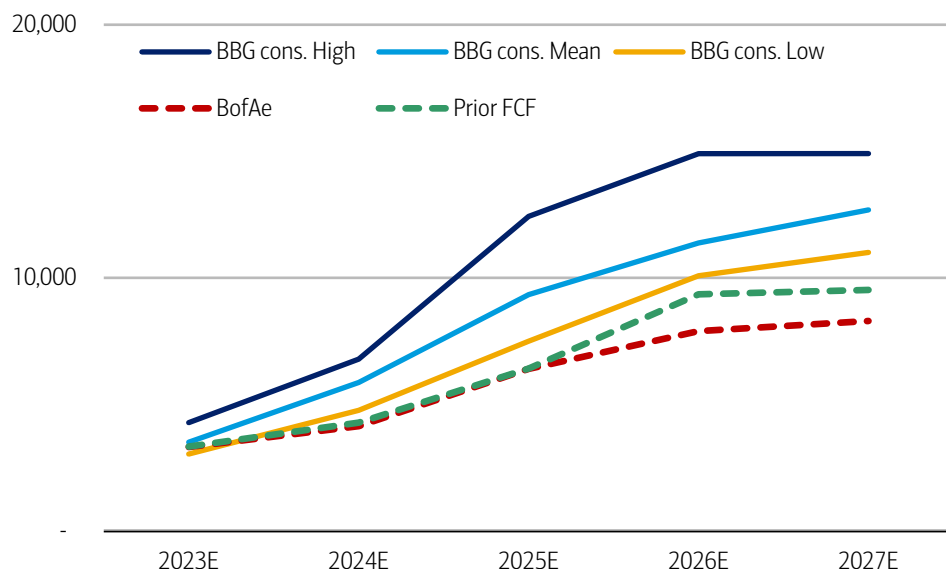
We are lowering our 2026 and 2027 FCF estimates to ~\$8.0bn (from prior ~\$9.5bn) mainly to account for lower MAX deliveries, the delayed release of excess customers advances, and lower benefits from burning inventories.

Path to \$10bn FCF by 2025/2026 under further pressure

Consensus remains significantly more bullish than both our production and FCF estimates. We have maintained a strong degree of conservatism, understanding that further production, supply chain, and labor hiccups were likely. Even prior to the MAX 9 grounding, we saw significant risk to Boeing's plans to ramp 737 production to 47.2/month by June 2024 and 52.5/month by December 2024 ([see our report](#)).

Exhibit 4: Bloomberg (BBG) consensus expects 2026e FCF in the \$10-15bn range

This compares to our updated estimate of \$8bn (down from prior \$9bn)



Source: BofA Global Research estimates, Bloomberg

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Lowering PO to \$225 from \$255

We are lowering our PO to reflect a lower-than-expected normalized FCF level in the mid-2020s. We now expect 2026 FCF of \$13/share (vs prior \$15/share).

Our PO of \$225 is based on the mid-2020 FCF of \$13/share and relative discount to the S&P500 of 0.8x (about half standard deviation above historical average).

Exhibit 7: Lowering our PO to \$225

Based on the mid-2020 FCF of \$13/share and relative discount to the S&P500 of 0.8x

FCF Yield - Relative to S&P500

S&P 500

P/FCF 2024

21.9x

FCF yield

5%

Normalized FCF \$15/share

	FCF/sh	Min	BofAe	Max
Defense	\$2	0.6x	0.7x	1.0x
Commercial	\$11	0.6x	0.8x	1.7x
Boeing	\$13	0.6x	0.80x	1.6x

Valuation Implication

	Min	BofAe	Max
Defense	\$28	\$31	\$45
Commercial	\$135	\$194	\$400
Total Value	\$163	\$225	\$445

Source: BofA Global Research estimates, FactSet

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Cutting EPS estimates on lower MAX deliveries

We are cutting our EPS estimates to reflect the lower-than-expected MAX deliveries. We are cutting 2024e EPS to \$0.25 from \$2.70, 2025e to \$6.35 from \$7.45, 2026e to \$9.15 from \$10.45 and 2027e to \$11.65 from \$12.85.



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.

Analyst Certification

I, Ronald J. Epstein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
UNDERPERFORM				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein
RVW				
	Triumph Group	TGI	TGI US	Ronald J. Epstein

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

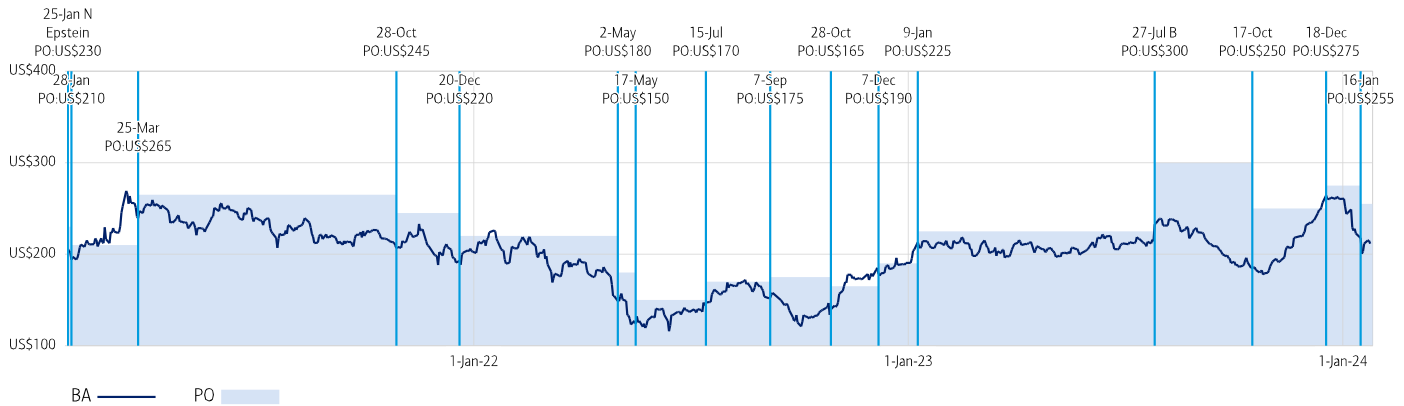
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Disclosures

Important Disclosures

Boeing (BA) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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