

## Commercial Aerospace

## Getting the band back together? News indicates BA may reacquire SPR

Rating Change

## Soulmates reuniting or a shot gun wedding?

This morning, unconfirmed media reported that Boeing (BA) is in talks to acquire Spirit AeroSystems (SPR) nearly 20 years after spinning out from Boeing. If true, the bold change in strategy would be in stark contrast to our previous talks with management where they've plainly stated they are not interested in acquiring SPR. In our view, the dramatic shift in internal strategy suggests that 1. things are worse at Spirit than we, Boeing, or most investors likely anticipated; 2. this is a good deal long-term for Boeing; 3. the market is incorrectly anticipating a significant premium for the acquisition, when ultimately Spirit is beholden to Boeing.

## Drastic situations call for drastic measures

Prior to the [737MAX-9 door-plug midflight blow out](#), last year Boeing and Spirit reported [loose bolts on 737MAX rudder systems](#), [misaligned and duplicated holes on aft pressure bulkheads](#), and [non-conforming vertical fin attachments \(see our linked reports\)](#). Following each quality incident, we've noted it may be time for Boeing to take 737 fuselage production back in house, similar to Airbus creating Airbus Atlantic. Our sentiment was met with Boeing management assuring a Spirit acquisition was not on the table. In our opinion, Boeing choosing to consider the acquisition now would be telling. It's our view that a decision to buy Spirit is a drastic measure and such a change in strategy would mean the current situation demanded the action.

## An opportunity to right past strategic missteps

Despite the issues at Spirit potentially being worse than the Street may have originally thought, we do view this as a good long-term opportunity for operational improvement. That said, in the near term it may present some additional headwinds to Boeing. In our view, Boeing spinning out Spirit in 2005 should have never happened and the decision haunted both companies time and time again. Despite the near-term challenges, for Boeing this deal would be a positive. Should Spirit be brought back in house, Boeing would be able to exercise greater quality control, increase oversight on production and provide a more stable future for the company. This will be critically important to ensure smoother production for the 737 and safeguard the 787-ramp up. Additionally, with Spirit comes defense program exposure on existing programs (CH-53K) and next-generation programs (B-21) for Boeing to maintain. If the deal does materialize and goes through, this could be a critical turning point for Boeing to right the ship.

## Likely an undertaking of Spirit; move to No Rating

Since the media reports, SPR has traded up ~11% vs. the S&P up 1%. In our view, the market is likely overestimating the price Boeing will pay for the acquisition. We find it likely Spirit would be acquired for less than its market cap. Given their significant exposure to Boeing, profitability issues, balance sheet and lack of scale in aerostructures, we believe there would not be other bidders in the process. Additionally, Boeing has provided Spirit with hundreds of millions of cash injections and renegotiated contracts just to keep the company solvent. We see it more reasonable the cash injections, Spirit being beholden to Boeing's command, Spirit's significant debt levels, and no other interested parties will result in a potential discount for the purchase. With this in mind, we move SPR from Underperform to No Rating as we believe the stock will no longer trade on fundamentals. Investors should no longer rely on our previous opinion or price objective.

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**Refer to important disclosures on page 3 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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## Exhibit 1: Spirit AeroSystems

Move to No Rating

(US\$)	Previous	Current
Inv. Opinion	C-3-9	-6-
Inv. Rating	UNDERPERFORM	NO RATING
Price Obj.	21	NA

Source: BofA Global Research

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**Exhibit 2: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BA	BA US	Boeing	US\$ 201.45	B-2-9
SPR	SPR US	Spirit AeroSys-A	US\$ 32.51	-6-

Source: BofA Global Research

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**Price objective basis & risk****Boeing (BA)**

Our PO of \$225 is based on 2026e FCF of \$13/share and relative discount to the S&P500 of 0.9x (about one standard deviation above historical avg). In our view, a multiple roughly in line with the historical avg fairly reflects the looming aerospace recovery, strong demand for commercial jets, defense opportunities, and the lack of dividend.

Upside risks 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: 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. Reputation risk stemming from recent incidents could result in fewer incremental orders.

**Spirit AeroSys-A (SPR)**

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

**Analyst Certification**

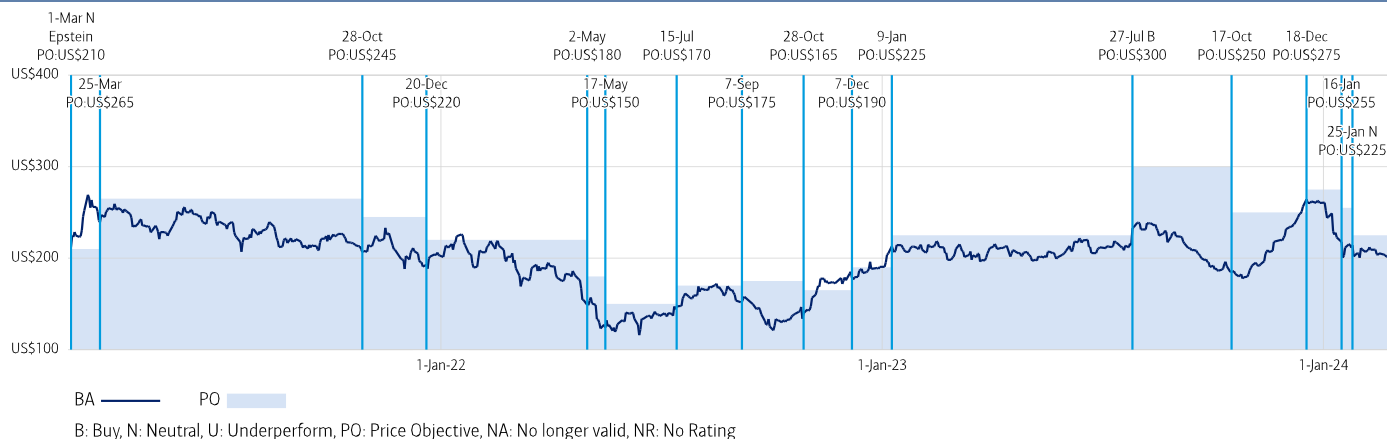
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**US - Aerospace and Defense Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	HEICO Corporation	HEI	HEI 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
	Triumph Group	TGI	TGI US	Ronald J. Epstein
<b>NEUTRAL</b>				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
<b>UNDERPERFORM</b>				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
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	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

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**Boeing (BA) Price Chart**

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**Spirit AeroSys-A (SPR) Price Chart**

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 <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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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.

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