

Spirit AeroSys-A

SPR – another quarter full of forward losses, 2024 outlook suspended

Maintain Rating: UNDERPERFORM | PO: 21.00 USD | Price: 26.71 USD

4Q2023 EPS beat on reversals

Spirit AeroSystems (SPR) reported 4Q2023 Adjusted EPS of \$0.48 beating BofAe: \$(0.36), but missed BBG estimates of \$1.01. The EPS beat vs. BofA was driven by one-time 787 repricing favorable adjustments in the commercial segment. Commercial margins included \$205mn of favorable forward loss reversals. Additionally, SPR recognized a favorable \$155mn of material rights obligation liabilities.

Forward losses abound and 2024 outlook suspended

SPR booked another quarter full of forward losses. 4Q2023 forwarded losses included \$76.0mn on the A350, \$57.7mn on the A220, and \$13.2mn on the CH-53K. Additionally, SPR's 2024 production and financial outlook was suspended. SPR will withhold production outlook until there is further clarity on the timing of 737MAX production rates increases (due to the [FAA suspending the 737MAX production ramp](#)). SPR also cited the ongoing price negotiations with Airbus, as another factor in suspending their guidance. We maintain our Underperform, as we continue to see SPR as a 737 story (which is under pressure), with limited upside to SPR.

Exhibit 1: SPR 4Q2023 Quick-take results

SPR Reported Adj EPS of \$0.48 beat BofAe: \$(0.36), but missed BBG estimates of \$1.01

Quick-take of results vs. Expectations:	
Adjusted EPS	4Q23: \$0.48 vs. BofAe: \$(0.36) vs. BBG: \$1.01 vs. 4Q22: \$(1.46) (4Q23 up 132.8% Y/Y)
Revenue	4Q23: \$1,813mn vs. BofAe: \$2,008mn vs. BBG: \$1,733mn vs. 4Q22: \$1,320mn (4Q23 up 37.3% Y/Y)
Op. Margin – Pro forma	4Q23: 7.7% vs. BofAe: 10.2% vs. 4Q22: 9.3%
Revenue by segment	Commercial: 4Q23: \$1,517mn vs. BofAe: \$1,678mn vs. 4Q22: \$1,064mn Defense & Space: 4Q23: \$205mn vs. BofAe: \$233mn vs. 4Q22: \$183mn Aftermarket: 4Q23: \$91mn vs. BofAe: \$97mn vs. 4Q22: \$73mn
Segment Op. Margin – Pro forma	Commercial: 4Q23: 6.5% vs. BofAe: 9.0% vs. 4Q22: 8.5% Defense & Space: 4Q23 Actual: 10.4% vs. BofAe: 12.5% vs. 4Q22: 12.8% Aftermarket: 4Q23 Actual: 23.2% vs. BofAe: 25.3% vs. 4Q22: 12.6%
Free Cash Flow	4Q23 Actual: \$42mn vs. BofAe: \$170mn vs. BBG: \$110mn vs. 4Q22: \$-66mn (increased 163.5% Y/Y)
Deliveries	4Q23: 398 Shipsets vs. 343 in 4Q22
2024 Outlook	**Suspended**

Source: BofA Global Research, Company filings

BofA GLOBAL RESEARCH

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Stock Data

Price	26.71 USD
Price Objective	21.00 USD
Date Established	23-Oct-2023
Investment Opinion	C-3-9
52-Week Range	14.65 USD - 38.55 USD
Mrkt Val (mn) / Shares Out (mn)	2,812 USD / 105.3
Free Float	99.1%
Average Daily Value (mn)	122.37 USD
BofA Ticker / Exchange	SPR / NYS
Bloomberg / Reuters	SPR US / SPR.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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Timestamp: 06 February 2024 11:20AM EST

Price objective basis & risk

Spirit AeroSys-A (SPR)

Our PO of \$21 is based on 2025e FCF of \$2.75/share and relative discount to the S&P500 of 0.4x. This equates to a 7.5x P/FCF, which we view as fair as it reflects our concerns regarding Spirit's quality control issues and their impact on its execution.

Downside risks: Revenues are heavily dependent on Boeing (more than 2/3rds of sales). A material change in the cycle or conditions at Boeing could negatively impact Spirit. SPR is involved with several aircraft development programs that could suffer from cost overruns or other development-related risks. The majority of sales are original equipment manufacturer (OEM), and there is little aftermarket, which could prove problematic if the civil aircraft cycle turns dramatically. Higher oil prices would likely derail air traffic growth and, therefore, aircraft demand, resulting in a downturn in commercial aviation. Given that aircraft are priced in dollars, an unexpected rapid appreciation in the dollar could significantly impact order activity. There could be additional forward losses if ongoing pricing negotiations are unfavorable.

Upside risks: Better-than-expected volumes and cash margins at 737, increases in shipset content on Airbus programs, favorable price negotiations on cash losing programs (including 787, A350, A220), higher than expected growth at aftermarket and/or defense end-markets.

Analyst Certification

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Spirit AeroSys-A (SPR) Price Chart



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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%

^{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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Underperform	N/A	≥ 20%

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