

EARNINGS

Boeing Profit, Sales Drop As China Adds to Its Problems


Trade fights push aerospace giant to cut 787 Dreamliner output, but it still expects MAX's return by the end of the year



Boeing's decision to reduce output of the 787 Dreamliner reflects the impact of trade tensions between the U.S. and China.
PHOTO: THOMAS MUKOYA/REUTERS

By Doug Cameron

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Boeing Co. [BA 1.04%](#)  's profits were slashed in half in the latest quarter and it is facing a cash squeeze as airlines stop payments, but the plane maker still hopes to secure regulatory approval this year for the return of its 737 MAX jetliner.

The world's largest aerospace company, which is also planning to trim production of its wide-body jets next year because of weakening demand, added that China is holding off buying more planes because of a continuing trade spat with the U.S.

The planned production cut and the impact of trade disputes, along with a 21% drop in sales, add to the headwinds facing Boeing and Chief Executive Dennis Muilenburg as he prepares to face a grilling at two congressional hearings next week about the MAX crisis, which has caused some executive shuffling.

“These are challenging times,” said Mr. Muilenburg on an investor call as he detailed progress in returning the MAX to service after two fatal crashes triggered a grounding that is now in its eighth month. He said there would be a lag in getting the MAX back in service, with most carriers not expecting flights to resume until early next year.

Mr. Muilenburg said he is looking forward to the hearings, appearances that carry high stakes for his own future and Boeing’s efforts to regain public trust.

“I anticipate there will be tough questions, challenging questions—a lot of scrutiny—and, frankly, we support the scrutiny on the work that we’re doing,” he said in a call with analysts and reporters Wednesday.

Boeing shares dipped to session lows during the morning call as executives said the company would prioritize liquidity and its balance sheet over any resumption of the big stock buyback program it suspended earlier this year. Boeing had taken on more debt to counter the impact of the MAX and its planned purchase of the jetliner arm of Embraer SA .

Boeing shares rose 1% to \$340.50 Wednesday, having fallen sharply in recent sessions after the disclosure of internal messages between two employees discussing testing of the MAX in simulators.

Chief Financial Officer Greg Smith said Boeing is still receiving some advances and progress payments on delayed 737 MAX deliveries, though the level had changed “dramatically.” A few customers—notably Ryanair Holdings PLC and Brazil’s Gol Linhas Aéreas Inteligentes SA—have said they have halted payments.

The cost of the MAX grounding moved above \$9 billion as Boeing increased the estimated cost of producing its backlog of more than 4,500 MAX jets by another \$900 million. The company didn’t raise its \$5.6 billion estimate for customer compensation, though Mr. Smith said this could change, while the company has options to raise more cash.

Two of the largest MAX operators report earnings Thursday. Southwest Airlines Co. and American Airlines Group Inc. have 58 grounded jets between them, plus 60 more that were due to arrive this year.

Both carriers have canceled thousands of flights, and don’t expect the MAX to return until next year.

Boeing collected \$500 million in insurance payouts during the quarter against potential compensation claims from airlines, according to a regulatory filing. The company has also set up a \$100 million fund to benefit victims of the two crashes and the surrounding communities.

Boeing opened a \$50 million portion of the fund for families of the crash victims a month ago, with each receiving about \$144,500. The fund has paid out \$2,167,500 to date, said Camille S. Biros, a fund administrator. Separately, Boeing has settled 17 lawsuits stemming from the Lion Air MAX accident last October, attorneys said in federal court in Chicago last week.

The company hasn't suffered any cancellations because of the MAX crisis, but slowing traffic growth and airline failures have dented orders at Boeing and rival Airbus SE this year.

Boeing still plans to maintain monthly output of the 737 range at 42—it cut this by 10 planes in April—rising to 57 by the end of next year. Most suppliers continue to produce at the rate of 42, with more than 300 finished planes now estimated by analysts to be in storage at facilities in Texas and Washington state. It is expected to take more than a year to return all the planes to service, according to Mr. Muilenburg.



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ss chief Kevin McAllister, has made Boeing more reliant on its larger jets and defense sales, and the decision to reduce output of the 787 Dreamliner reflects the impact of trade tensions between the U.S. and China, the company's largest market.

“The lack of orders from China in the past couple of years has put pressure on the production rate,” said Mr. Muilenburg. He remained hopeful plane sales could be part of a settlement between the U.S. and China, but declined to comment on a recent tweet from President Trump that flagged a potential order worth up to \$20 billion.

Chinese airlines continue to take Boeing jets from aircraft lessors, but the company hasn't received a direct order from the country for two years.

Boeing earlier this year boosted monthly output of the Dreamliner to 14 from 12, but will reverse that in 2020 for two years.

The company also has pushed back the planned entry into service of its larger 777X jetliner into 2021 after problems with its General Electric Co. engines ruled out a planned first flight this year. It will make more of its existing 777 jet, but trim monthly output to three from 3.5.

Separately, the Transportation Department's internal watchdog released a report highlighting the Federal Aviation Administration's challenges to plug loopholes in how it certifies the safety of new aircraft.

The inspector general's list of priorities included the need to focus on restoring public confidence in the FAA's process, particularly the role of plane makers' officials authorized to act on behalf of the agency to ensure the system "identifies and monitors the highest-risk and safety-critical areas."

Boeing reported a sharp drop in quarterly earnings, with profit falling to \$1.17 billion from \$2.36 billion. Per-share earnings dropped to \$2.05 from \$4.07.

Sales fell 21% to \$20 billion in the quarter. Boeing handed over just 62 jetliners in the September quarter compared with 190 in the same period last year.

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