Boeing Credit Research

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BI Credit
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Boeing's Rating Cut at Moody's Could Add Pressure:
Credit React

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(Bloomberg Intelligence) -- RECENT EVENT REACTION: Boeing's rating cut to Baa3 and negative outlook at Moody's reflects execution risk and potential debt funding for the proposed acquisition of Spirit AeroSystems. Yet Moody's action also limits Boeing's room to handle operational disruptions that curtail the OEM's cash-generation outlook, keeping rating risk elevated. Cash that's under a $10 billion target and the company's aim to pre-fund maturities may add pressure to bond spreads near term as Boeing works through lower production levels. (04/24/24)

⚫ Key
Points

1. Boeing Burn, Deal Funding May Expose Bondholders:
Credit Outlook

THESIS: Boeing is expecting to fund a potential tie-up with Spirit AeroSystems, which may pressure bonds in the near term, as funding mix excludes equity, yet this may temper the longer-term event risk that has pushed out its curve to one of the widest in high-grade industrials. Cash burn hitting $4 billion in 1Q adds to near-term strain, necessitating rater focus on Boeing's duopoly and the large backlog anchoring business-risk views amid a protracted balance sheet recovery. (03/20/24)

Credit Considerations

Credit
Checklist

2. Boeing's $48 Billion Elevator Pitch: Deliver, Generate,
Pay Down

Boeing burning down inventory and delivering 737-87s amid rising passenger air traffic are key catalysts to shrink the discount its bonds trade at vs. peers in the intermediate term. That's key to further pare $48 billion of indebtedness pro forma for $4 billion of 1Q maturities and deleveraging a balance sheet likely exceeding 5x in 2024 as the OEM navigates labor-contract negotiations and the FAA's monthly production cap of 38. Still, we believe bondholders may look past leverage and plane defects. Instead they may focus on Boeing's backlog and duopoly with Airbus anchoring business-risk strength as well as management's confidence in hitting 2025-26 goals, including a $10 billion cash-flow target. Policy should favor creditors for the foreseeable future as Boeing focuses on rehabilitating financial risk beyond mid-decade. (02/20/24)

Credit Checklist:
Boeing

Credit
Drivers

Credit
Drivers

Earnings &
Cash Flow

Leverage &
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*This represents the view of Bloomberg Intelligence based on current market conditions and doesn't represent any interpretation of future events

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Source: Bloomberg Intelligence

Boeing-Spirit M&A Faces $10 Billion Debt Snag; Equity Can Help

Boeing's leverage of more than 7x in 2024 limits potential debt funding for a Spirit AeroSystems acquisition, or would require raters to allow it to fall short of retiring $8-$10 billion of debt maturities early. Yet if Boeing uses equity to fund the deal, that could be palatable to raters, shareholders and bondholders alike. (03/07/24)

3. Rising Excess Cash Earmarked for Liability Management

Boeing generating over $13 billion of combined 2024-25 cash flow is key to pay down debt ahead of maturity in line with Moody's and Fitch's expectations for its Baa2/BBB- ratings through 2025. Keeping pace with the $8-$10 billion of assumed prepayments constrains debt financing for a potential Spirit AeroSystems purchase. For Boeing to do so, raters would have to concede that its liability management falls short of expectations, when Boeing's balance sheet may be levered over 7x. Equity funding could be tolerable to the OEM's shareholders as reacquiring Spirit can improve oversight, continuity and safety-management systems (SMS) needed to address the FAA's view of systemic quality-control issues. Spirit has been exploring a sale of its wing systems unit to its second-largest customer, Airbus, Reuters reported. (03/07/24)

Click for Boeing's Key Metrics

US dollars (millions)

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Assumes debt paid
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Source:

Bloomberg
Intelligence

4. Debt Cuts Key to Keep Balance Sheet on Pace

Fitch's sensitivities for potential negative rating activity on Boeing include operational challenges, or debt-funded acquisitions keeping leverage above 4x after 2024, a level we calculate the OEM could exceed by 0.5x in 2025 without paying down at least $5 billion of debt beyond scheduled

maturities. Failure to keep pace with the $10 billion of funded debt prepayments in the 2024-25 timeframe that Moody's contemplates for the stable outlook on its Baa2 rating may be exacerbated by Ebitda trailing the rater's assumption by about $700 million for next year. Rising free cash flow is key to flexibility within S&P's framework, which identifies 10% and 20% as key thresholds for free cash flow and FFO-to-debt respectively, as the rater nets balance-sheet cash against adjusted debt. (03/07/24)

Moody's

Key Rater Targets

Ratings

Base-Case

Click for Moody's

Leverage Falling < 4x in '25

$10.5B Ebitda in '25

$10B Debt Cut Ahead of Maturity

Downgrade Triggers

Slower FCF Recovery/Credit Metric Improvement Beyond 2023

Revolver Draw/Cash Below $10 Billion

S & P

Click for S&P

FFO/Debt ~ 34-36% in '24

FCF/Debt ~ 25-30% in '24

Levered 3-3.5x in '24, 2- 2.5x in '25

Commercial Aero Depressed > 2-3 Years, Air Traffic Outlook & Impaired

Competitive
Position

FFO/De
bt <
20% &

FCF/D
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Click
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Leverag
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'25

FCF
Toward
$10B in
'25

Over $15B
of Gross
Debt Cuts
by YE25

Leverage >
4x After '24
Due to Ops
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FCF
Margins <
2%
Beyond
2023

Higher
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Source:
Bloomberg
Intelligence

5. Action Plan Needed to Address Quality-Control Issues

(03/07/
24)

Websi

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"FAA Administrator Mike Whitaker informed top Boeing officials that the aircraft manufacturer must develop a comprehensive action plan to address its systemic quality-control issues to meet FAA's non-negotiable safety standards... Boeing also must integrate its SMS program with a Quality Management System, which will ensure the same level of rigor and oversight is applied to the company's suppliers and create a measurable, systemic shift in manufacturing quality control."

Mike Whitaker - Administrator, Federal Aviation Administration Updates on Boeing 737-9 MAX Aircraft, Feb. 28, 2024

Click to view website

6. Majority of Boeing's 2024 Maturity Cadence Due During 1Q

(11/22/23)

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Source:
Bloomberg
Intelligence

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Q4-2028

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42-2027
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7. Investment Grade Status Helping Govern Policy Priorities

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Bloomberg
Transcript

"On cash, marketable securities, we ended the quarter at $13.4 billion, and our debt -- the balance remained flat at $52.3 billion. We had access to -- $10 billion of revolving credit facilities at the end of the quarter, all of which was undrawn. Our liquidity position is strong. The investment-grade credit rating continues to be a priority and we're deploying capital in line with the priorities that we've shared, invest in the business and pay down debt through strong cash flow generation."

Brian West - CFO, Boeing
3Q Earnings Call, Oct. 25, 2023
Quote located on page 6, click to view entire transcript

Liquidity

Boeing Cash Shrinking as Over $8 Billion of Burn, Bonds Absorbed

Boeing's $16 billion cash pile may shrink to $7-$8 billion as it absorbs higher-than-expected cash burn and $4.4 billion of maturities in 1Q. That position may rebound toward levels the OEM typically operates with during 2H, with liquidity bolstered by access to $10 billion of undrawn revolving credit facilities at year-end amid reported interest in some asset sales. (03/25/24)

8. Usage, $4.4 Billion of Maturities Eating Into Cash

Boeing's outlook for higher-than-expected cash burn that may exceed $4 billion is being driven by lower volume, inventory and mix, which could leave cash on hand between $7-$8 billion at end-1Q, all else equal. That includes absorbing $4.4 billion of intra-quarter maturities, yet is a position that may grow to the $10 billion at which the OEM typically operates the business in 2H, amid the company's expectations for "low-single-digit-billions" of free cash for the full year. Liquidity is supplemented by $10 billion of unused borrowing capacity at year-end. That could be bolstered by proceeds if Boeing were to sell some defense assets, with news of the efforts pre-dating the Alaska Airlines midair door-plug blowout in January. A pending deal for Spirit AeroSystems is unlikely to include equity funding. (03/25/24)

Potential Balance-Sheet Cash Walk

2024E Cash Walk

2025E Cash Walk

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FCF
Maturities

End Cash

Source: Bloomberg Intelligence

9. Potential Spirit AeroSystems Purchase Excludes Equity

. (03/25/24)

Bloomberg Transcript

"And I will also say that one thing that I've commented previously is how important our investment grade rating is to us, and we work very closely with the rating agencies. And I will say that if a transaction were to occur, we would not use equity. We would fund it with a mix of cash and debt. But in terms of how that all plays out, can't comment, but the discussions are happening."

Brian West - CFO, Boeing

BofA Global Industrials Conference, March 20, 2024
Quote located on page 1, click to view entire transcript

Valuation

Bloomberg Intelligence

Fallout From Boeing Blowout Reparable for $48 Billion of Bonds

The fallout from a door-plug blowout has pushed the curve for $48 billion of Boeing bonds to the widest among peers, as expectations fade for cash flow and aggressive debt cuts. We believe this widening may be reversible in the long term as Boeing reportedly considers bringing Spirit Aero in- house and selling certain assets. In the near-term, however, a potential repurchasing could add a layer of technical pressure. (04/02/24)

10. Scrutiny Is Pushing Out Curve, But May Not Last Forever

Widening spreads on Boeing's $48 billion of bonds since a door-plug blew out in early 2024 has pushed its curve wider than high-grade peers, but we aren't ruling out a turnaround. Boeing is reportedly interested in selling some defense assets and reacquiring Spirit AeroSystems, given the supplier's contributions to a string of quality lapses. While a potential purchase of Spirit may expose bondholders to near-term technical pressure, given expected debt funding, a deal in the long run could improve the oversight, continuity and safety-management needed to address the FAA's view of systemic quality-control issues. Boeing's curve trades 45 bps wider on average across benchmark tenors comprised of a large set of low- to mid-BBB tier industrial peers within the Bloomberg US Aggregate index. (04/02/24)

Click for Relative Value

Option Adjusted Spread

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Boeing
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BBB Tier Peers

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4Y
6Y
8Y
10Y
15Y
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25Y
30Y
35Y

Bid Years to Workout

Source: Bloomberg Intelligence

11. Spreads Test Widest Levels Seen in 15 Months

Tenors for parts of Boeing's curve have widened more relative to others, compared with those seen prior to the Alaska Air midair incident, testing and even exceeding levels not seen since end-2022. Including these levels in the OEM's bonds in the regressed curve vs. BBB-tier peers drags the curve about 6 bps wider. Issues through the belly may offer 50-60 bps more spread relative to the regressed curve, and includes Boeing's 2.75%, 2.196%, 5.15% and 3.625% bonds. We expect a strong commercial aerospace environment to endure, a view shared by management teams including RTX, TransDigm, Howmet and Rolls-Royce. This could be a tailwind for future liability-management efforts to repair Boeing's balance sheet, which remains closely tied to demand for aircraft and the path of air travel. (04/02/24)

Boeing's Curve Before and After the Alaska Air Incident

3:00

-250

-200

150

Boeing USD BVAL Z-Spread Last

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Source:
Bloomberg
Intelligence

12. Boeing Bond Performance Goes From First to Worst

(04/02/
24)

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Bloomberg Intelligence

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Click for Portfolio and Risk Analytics

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▾ Total
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Lockheed Martin Corp

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Source:
Bloomberg
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13. Boeing's Bonds Containing Coupon-Step Language

(04/02/
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Click for Bond Search Functionality

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Boeing Co/The
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2/1/2031 Boeing
Co/The 11/2/2020
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11/2/2020 5.805 5/1/2050
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Source:
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Intelligence

Key
Points

Patience May Reign as Boeing Backlog Major Bulwark:
Our S&P Talk

The aerospace & defense sector faces more than $90 billion of debt at risk of downgrade across investment-grade and high-yield issuers, yet further recovery in commercial aerospace could help avert negative rating activity. You can hear S&P discuss its altered macro outlook, followed by sector and issuers discussion including Boeing, Raytheon, Spirit AeroSystems, Howmet and Triumph by listening to a replay of our webinar. (07/20/23)

14. Listen to S&P's Outlook for Key A&D Issuers, Suppliers

Our midyear aerospace & defense credit outlook webinar focused on key themes, risks and assumptions through the lens of S&P's aerospace & defense team. The discussion included S&P's views of Boeing's business-risk, accommodating a deleveraging path by repaying maturities as they come due rather than more aggressive liability management, and the role backlogs could play in the event passenger-traffic growth falters. We also discussed circumstances around extending the negative outlook for Raytheon's A- rating as well as a boosted shareholder-rewards target. We then delve into the supplier base to focus on key factors for a potential crossover to investment grade at Howmet, followed by outlooks for Spirit AeroSystems and Triumph, before diving into relative-value views. (07/20/23)

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Replay

BI-S&P Analyst Briefing:
A&D Mid Year Credit Outlook

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Start Date:
7/13/2023

Start Time:
10:00 AM EST

Duration: 60
Minutes

Source:
Bloomberg
Intelligence

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Bloomberg Intelligence

Earnings Review

Earnings
Review

15. Boeing's Cash Use Unsustainable as Builds Drop: Earnings Outlook

Contributing Analysts George Ferguson (Aerospace/Defense) & Melissa Balzano (Aerospace/Defense)

Post-10 Earnings Outlook: Boeing's profit dived on commercial-airplane results as quality issues and FAA reviews slowed deliveries, with 2Q likely to see partial improvement. Commercial-airplane operating margin fell 1,540 bps. Defense's $151 million profit reversed last year's $212 million loss, yet fixed-price contracts remain challenging. Global services results were in the high teens on favorable mix and are likely to persist.

Deliveries in 2Q could see 75 737s, 15 787s, two 777s and seven 767s, all below monthly build targets as quality inspections slow throughput. Commercial operating profit may be near zero on $6 billion in sales. Defense could see a $260 million operating profit and $6.5 billion in revenue. Global services might be $5 billion, with $880 million operating profit. Free cash flow use may be $2 billion. (04/25/24)

Highlights From Recent Results:

• Commercial Aircraft Sees Loss on Fewer Deliveries, Quality

•

Concerns; 1Q Deliveries Slowed by Inspections

Defense Operating Margin Reaches 2.2%; Defense Programs Take More Charges on Fixed-Price Programs

• Global Services Remains Best Performer on Strong Maintenance, Sustainment Demand; 2Q Might Be Similar

• 1Q Adjusted Free Cash Flow Use of $3.9 Billion, Reflecting Fewer

Lower Commercial Deliveries, Inventory Build

Additional Resources:

- Analyzer | BI »
- Earnings Release | NSN >>
- Earnings Call Transcript | DOCV »
- Company Presentation | DOCC »

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