Boeing: Debt Tap May Put Cash Well Above Risk Zone

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Credit
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Analyst

Boeing's $10 Billion Maneuver May Fly Cash 50% Above Danger Zone

(Bloomberg Intelligence) -- Boeing bridging a potential $6 billion cash shortfall in 1H and prefunding some maturities could derisk further funding needs through 2026 and aid bond technicals, as 2Q may represent the narrowest cash cushion. The moves could create a 50% buffer vs. the original equipment maker's $10 billion cash need at midyear, amid an implementation of quality-control measures necessary to stabilize and subsequently increase production rates.

(05/01
/24)

1. Debt Tap Helping Secure Near-Term Funding Needs

Boeing tapping debt markets fortifies liquidity needs near term as the OEM works to improve operations at commercial aerospace with cash on hand that could total $15 billion at mid-year. That level would represent a $5 billion cushion with which to navigate the back half of 2024, and the narrowest quarterly margin through 2026. Without the infusion, Boeing's cash on hand, which fell about 25% below the OEM's $10 billion target, would have remained well below comfort levels until at least year-end. Boeing's cash position may grow to more than 2x the target to start 2025, based on our calculations which incorporate consensus, including a little more than $1 billion of free cash flow this year, and the exclusion of a potential Spirit AeroSystems (Spirit) purchase.

(05/01
/24)

Boeing's
Cash Pile

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Source:
Bloomberg
Intelligence

2. M&A Accounted for Amid Heightened
Execution Risk

Boeing's negative outlooks heighten execution risk and narrow flexibility to handle further operational disruption, though also account for the pursuit of its chief supplier Spirit AeroSystems. Yet that may not result in further rating activity, based solely on the announcement of a potential tie-up as soon as 2Q, though a price significantly above $36 per share could have negative implications as Moody's cites the level as cause for concern. Reacquiring Spirit could improve control over production as well as safety measures to the satisfaction of its regulator following shortfalls identified during quality-control audits. Spirit is exploring a sale of wing systems to its second-largest customer, Airbus, yet Boeing doesn't need full clarity regarding the supplier's talks with its direct competitor to move forward. (05/01/24)

Bloomberg Intelligence

Ticker
11) SPR

Security Description
US SPIRIT

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SYS-A

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Spirit Enterprise
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Source:
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Intelligence

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Over $8 Billion of Boeing Burn Wearing High-Grade Patience Thin

Raters' patience with Boeing's protracted financial-risk recovery is wearing thin after over $8 billion of 1Q cash outflows triggered negative outlooks on its Baa3/BBB- rankings. Yet the changes may not presage more negative rating activity, with tools still available to defend its high-grade status and outlooks giving at least 12 months of runway to show progress in normalizing operations and moving toward the FAA production limit. (04/29/24)

3. Reversing Stance May Provide Tool to Blunt Risk

Boeing's interest in selling some defense assets and softening a prior stance excluding equity from the funding mix for a potential Spirit AeroSystems deal could temper ratings risk. That's because all three raters assume debt, rather than equity, financing for a potential purchase under their base-cases. Re-acquiring Spirit could reduce event risk by improving operations long term, helping to enhance the outlook for financial-risk improvement after multiple quality issues triggered reworking and near-term reliance on debt markets for funding needs. Past commentary and significant 1Q cash burn coincided with a rise in credit-default swaps, which are the worst performing among industrials in 2024, trailing Caterpillar, Schneider and Textron. (04/29/24)

Boeing Credit-Default Swaps

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Jun 2023

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Mar 2024

Source: Bloomberg Intelligence

4. Outlooks Leave Runway for Repair of at Least 12 Months

Boeing's potential for 1H cash outflows of $10 billion or more given $4.4 billion of maturities and burn may lead the OEM to tap debt markets to bring cash on hand back to the $10 billion it seeks to run the business and pre-fund maturities amid low production levels. These are key factors contributing to all three raters' moves to a negative outlook. Though the changes are an acknowledgment of Boeing's protracted financial-risk recovery, we don't believe the moves are an imminent threat for further negative activity. Moody's allows at least 12 months of runway for Boeing to show sustained progress in addressing process and quality-control issues, while S&P and Fitch's horizons are longer. Production rates exiting the year closer to the FAA's imposed cap of 38 per month are a key watch item. (04/29/24)

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Downgrade Triggers

Key Thresholds for Ratings

Moody's

Click for Moody's

S&P

Click for S&P

FCF Short of $4.3B in '25 & $8B FFO/Debt~ 6-8% in '24, 16- in '26 Maturities

New Debt to Fund Shortfalls

Neg. Captures Material Execution Risk, SPR $36/Share

BCA Performance Doesn't Materially Improve in 12 Months

FCF < $2.5B in '25

Debt Market Reliance to Roll

Maturities or Cash < $10B

Source: Bloomberg Intelligence

18 % in '25

Low-Single Digit in '24 to Mid- Single Digit Billion FCF in '25

$8B of Debt for SPR Deal

Competitive Positioned Impaired by Quality Control or Weaker Deliveries

FFO/Debt < 20% &

FCF/Debt < 10%

Fitch

Click for Fitch

Leverage > 4x in '24 & 25, Falling < 4x in '26

FCF Break-Even in '24, Low- Single Digit in '25

Half of Max and 787 Inventories Liquidated in '24, All in '25

Debt Funded M&A Keeping Leverage > 4x After '24

FCF Margins < 2%

Higher Business Risk

5. Softening Tone May Keep Funding-Mix Dialogue Open

(04/29/24)

Click for Funding Commentary

Bloomberg Transcript

"...what we're looking at right now, working closely with the rating agencies, we believe we can do the move I described in the near-term with market access without that. As it pertains to Spirit, we talked about that this is a deal, where discussions are ongoing. It's complicated. There's other parties involved. And what this means is that once it does get signed, we expect it to, then it's going to take time to close. And in that time between signing and closing, we're going to explore the optimal financing for that transaction in order to maintain the investment credit rate -- credit rating. And that's important."

Brian West- CFO, Boeing

1Q Earnings Call, April 24, 2024

Source: 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)

6. 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

260.0

240.0

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200.0

Boeing Bonds

BA 6875 BA355

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160.0

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OTIS 3.112
BA 3.829
BA 3.625 3.65
VMI 5.25
BA 3.95
BA 3.75
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Source:
Bloomberg
Intelligence

Bloomberg Intelligence

7. 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

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Source:
Bloomberg
Intelligence

8. Boeing Bond Performance Goes From First to Worst

(04/02
/24)

Click for Portfolio and Risk Analytics

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Source:
Bloomberg
Intelligence

9. Boeing's Bonds Containing
Coupon-Step Language

(04/02
/24)

Click for Bond Search
Functionality

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3.625 2/1/2031 Boeing Co/The
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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)

10. Action Plan Needed to Address Quality-Control Issues

(03/07
/24)

Bloomberg Intelligence

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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

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

(11/22
/23)

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Q4-2026

Source:
Bloomberg
Intelligence

12. Potential Spirit AeroSystems Purchase
Excludes Equity

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(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

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