Boeing: Raters' Patience Remains a Credit Virtue

Matthew Geudtner
Team:
Credit
BI Credit
Analyst

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

(Bloomberg Intelligence) -- Raters' patience with Boeing's protracted financial-risk recovery is wearing thin after over $8 billion of 10 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)

1. 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 10 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

2
5
0

2

00

-150

134

115

-100

-50

Mar

Jun

Sep

Dec

Mar

2022

J

u
n
2
0
2
3
S
e
p
D
e
c
Mar 2024

Source:
Bloomberg
Intelligence

2. 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) instruments by BFLP, BLP or their affiliates.

Bloomberg Intelligence

Ratings

Base-Case

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 Deliverie s

FFO/D ebt < 20% &

FCF/ Debt < 10%

F it c h

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 Margi ns < 2%

Higher Busine ss Risk

3. 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

To contact the analyst for this research: Matthew Geudtner at