Bloomberg Intelligence

Boeing Credit Research

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Team: Credit
BI Credit Analyst

Boeing Six-Part Offering May Fly High and Wide: Credit React

(Bloomberg Intelligence) -- RECENT EVENT REACTION: Initial price talk (IPT) for Boeing's bond offering across the curve has spreads comparable to BB tier bonds, leaving room to tighten, even after factoring in about 25 bps of narrowing into launch from IPT, the average for high grade industrials in 2024. The proceeds support near-term funding as 1H cash burn could

Points

exceed $6 billion and leaves unchanged our view that Boeing's bond spreads can compress toward BBB tier peers over the longer term. (04/29/24)

1. Time on Boeing's Side to Remedy $4 Billion Pain:
Credit Outlook

THESIS: Boeing's near-term reliance on debt markets to address cash needs after $4 billion of 1Q burn doesn't alter our view that Boeing can shrink the discount its bonds trade at vs. BBB tier peers. Raters' negative outlooks for its Baa3/BBB-/BBB- ratings provide Boeing time improve its operations and prove its declared commitment to high grade ratings. (04/29/24)

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)

Bloomberg Intelligence

Credit Checklist:
Boeing

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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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Credit Drivers

Source: Bloomberg Intelligence

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)

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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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Key Thresholds for Ratings

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FCF Short of $4.3B in '25 & $8B FFO/Debt 6-8% in
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FCF
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in '25

Debt
Market
Reliance
to Roll

Maturities or Cash < $10B

Source: Bloomberg Intelligence

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%

5. Softening Tone May Keep Funding-Mix Dialogue Open

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

(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

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)

6. Action Plan Needed to Address Quality-Control Issues

(03/07/24)

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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

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

(11/22/23)

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Q4-2025

Source:
Bloomberg
Intelligence

8. 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

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)

9. 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
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Source:
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Fallout From Boeing Blowout Reparable for $48
Billion of Bonds

Bloomberg Intelligence

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

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Source:
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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

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Source:
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12. Boeing Bond Performance Goes From First to Worst

(04/02
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Source:
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13. Boeing's Bonds Containing
Coupon-Step Language

(04/02
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Key
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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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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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