

The Boeing Company (BA US)

Lowered delivery target for 737

- 3Q23 Revenues increased 13.5% y/y to \$18.1bn with growth across all business segments; Operating losses were \$(808)m driven by losses at Commercial Airplanes and Defense segments
- Leverage level remains elevated and equity continues to be negative
- Outlook negative as operational challenges persist in Commercial Airlines and Defense segments

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Credit Opinion

We maintain our negative outlook given the ongoing operational challenges that Boeing is facing in Commercial Airplanes and Defense segments. In Commercial, a supplier non-conformance was identified on the 737 program. Near-term deliveries and production will be impacted as the program performs necessary inspections and rework. As a result, Boeing reduced the FY23 delivery target for 737 from 400-450 airplanes to 375-400 airplanes. The inventory for Boeing's main airplanes continues to be high, resulting in abnormal costs for storage and maintenance. As end of 3Q23, 737Max inventory was 250 aircrafts and 787 inventory was 75 airplanes. Boeing expects to deliver most of the aircraft inventory by the end of 2024. We will continue to monitor the aircraft delivery pace as liquidating the inventory is critical for Boeing's recovery.

In Defense, Boeing continues to face headwinds from the legacy contracts, which are fixed-priced and Boeing can not rise the prices to reflect the present higher costs. BDS continues to make losses and this poor performance might continue until the maturity of these legacy contracts.

As a result of these operational challenges, Boeing's financial performance continues to be weak. In 3Q23, operating losses were \$(808)m and free operating cash flows were \$(310)m. The leverage level remains elevated resulting in a negative equity and high interest expenses. As of end of 3Q23, total debt balance was \$52.3bn which translates in approximately \$2.5bn of interest expenses annually.

On the other hand, there are two positive factors that support Boeing's credit profile. The first one is a strong demand for commercial airplanes. Boeing continues to have a large aircraft backlog which includes 5,100 commercial airplanes. This amount represents over 10 years of commercial deliveries. The second positive factor is a strong liquidity position. As of end of 3Q23, Boeing had \$13.4bn of cash and marketables. Boeing also had access to \$10bn of credit facilities, which remained undrawn.

3Q23 Financial Highlights

Total revenues increased 13.5% y/y to \$18.1bn with growth across all business segments. Commercial Airplanes (BCA) revenues increased 25% y/y to \$7.9bn driven by higher 787 deliveries (please refer to Chart 1). Commercial deliveries decreased 6.3% y/y to 105 airplanes due to lower 737 deliveries, partially offset by higher 787 deliveries. Defense, Space and Security (BDS) revenue increased 3.3% y/y to \$5.5bn. Global Services (BGS) revenues increased 8.6% y/y to \$4.8bn driven by higher commercial services volume.

Chart 1: Commercial Airplane Deliveries

Deliveries	Nine months ended September 30		Three months ended September 30	
	2023	2022	2023	2022
Commercial Airplanes				
737	286	277	70	88
747	1	3	—	—
767	17	21	8	9
777	17	18	8	6
787	50	9	19	9
Total	371	328	105	112

Source: Company materials

Total backlog increased 6.7% q/q to \$469.2bn. BCA backlog increased 8.1% q/q to \$392.1bn and includes over 5,100 commercial airplanes. BCA backlog represents 84% of Boeing's total backlog amount. The demand for commercial airplanes remains strong as BCA booked 398 net orders in the quarter.

Operating losses were \$(808)m vs. \$(2,792)m in 3Q22. BCA and BDS segments continue to make losses, which were partially offset by positive operating income at BGS segment. BCA operating losses were \$(678)m vs. \$(622)m in 3Q22 reflecting lower 737 deliveries and also the ongoing abnormal costs and period expenses. BDS operating losses were \$(924)m vs. \$(2,798)m in 3Q22. There are 2 main reasons for the losses this quarter: ① \$(482)m of losses on the VC-25B program driven by higher estimated manufacturing cost related to engineering changes and labor instability, ② \$315m of losses on a satellite contract due to estimated considerations to Boeing's customer and increased costs. Global Services (BGS) operating income increased 8.6% y/y to \$784m driven by higher commercial services volume and a favorable mix.

Free operating cash flow (Cash flow from operations- CapEx) was \$(310)m vs \$2.9bn in 3Q22. Operating cash flow (CFO) was \$22m vs. 3.2bn in 3Q22 due to less favorable receipt timing, including the absence of a prior year tax refund. CapEx increased 17% y/y to 332m.

Cash and marketables decreased 2.8% q/q to \$13.4bn. Boeing has also access to \$10bn of credit facilities, which remained undrawn.

Total debt balance was flat q/q at \$52.3bn. Boeing reiterated their top priority to reduce debt and to maintain the investment-grade credit rating.

Liabilities continue to exceed assets resulting in \$(16.7)bn of equity as of end of September 2023.

Boeing reaffirmed its financial guidance for FY23. Boeing expects \$4.5- \$6.5bn of operating cash flow and \$3bn- \$5bn of free operating cash flow in FY23.

Update on Commercial Airplanes Programs

On the 737 program, during the quarter a supplier non-conformance was identified on the aft pressure bulkhead section of certain 737 airplanes. According to Boeing, this is not an immediate safety of flight issue and the in-service fleet can continue operating safely. Near-term deliveries and production will be impacted as the program performs necessary inspections and rework. Boeing reduced the delivery target for FY23 from 400-450 airplanes to 375-400 airplanes. On production, Boeing expects to complete the final assembly transition to 38 per month by year-end, with plans to increase to 50 per month in the 2025/2026 timeframe. The estimated cost associated with performing the rework is immaterial and included in 3Q23 results.

As end of 2Q23, 737Max inventory was 250 aircrafts, including 85 aircrafts for customers in China. Boeing still expects most of the inventory to be delivered by the end of 2024, but more than previously expected airplanes will be delivered in 2025 due to the production issue mentioned above.

The 787 program is transitioning production to five per month and plans to increase to 10 per month in the 2025/2026 timeframe. The program maintains its target to deliver 70-80 airplanes this year. As end of 2Q23, 787 inventory was 75 airplanes, most of which should be delivered by the end of 2024.

Chart 2: Financial Results

(\$m) Period End	Q3 2022 '22/9	Q4 2022 '22/12	Q1 2023 '23/3	Q2 2023 '23/6	Q3 2023 '23/9	YOY	QoQ
■ P/L							
Total Revenues	15,956	19,980	17,921	19,751	18,104	13.5%	-8.3%
EBITDA	▲ 2,299	149	308	357	▲ 341	-----	---
EBITDA margin	-14.4%	0.7%	1.7%	1.8%	-1.9%	12.5	▲ 3.7
Operating Income	▲ 2,792	▲ 353	▲ 149	▲ 99	▲ 808	-----	---
Interest expense	▲ 628	▲ 632	▲ 649	▲ 621	▲ 589	-6.2%	-5.2%
Pretax Income	▲ 3,132	▲ 649	▲ 496	▲ 400	▲ 1,100	-----	---
Net Income	▲ 3,275	▲ 634	▲ 414	▲ 149	▲ 1,636	-----	---
■ C/F							
Cash from operations	3,190	3,457	▲ 318	2,875	22	-99%	-99.2%
Depreciation & Amortization	493	502	457	456	467	-5.3%	2.4%
Cash from investing	290	▲ 2,151	▲ 1,823	▲ 3,015	▲ 403	-----	-86.6%
CapEx	▲ 284	▲ 326	▲ 468	▲ 296	▲ 332	16.9%	12.2%
Cash from financing	▲ 18	▲ 250	▲ 1,680	▲ 3,413	▲ 38	111.1%	-98.9%
Share repurchases	0	0	0	0	0	-----	---
Dividends paid	0	0	0	0	0	-----	---
FOCF (CFO-CapEx)	2,906	3,131	▲ 786	2,579	▲ 310	-----	---
FCF (CFO-CFI)	3,480	1,306	▲ 2,141	▲ 140	▲ 381	-----	---
■ B/S							
Assets	137,558	137,100	136,347	134,774	134,281	-2.4%	-0.4%
Current assets	109,251	109,523	108,811	107,412	106,935	-2.1%	-0.4%
Cash&Marketables	14,257	17,220	14,767	13,762	13,372	-6.2%	-2.8%
Liabilities	155,193	152,948	151,831	150,267	150,998	-2.7%	0.5%
Current liabilities	89,618	90,052	93,510	92,076	93,062	3.8%	1.1%
Total Debt	57,219	57,001	55,391	52,268	52,272	-8.6%	0.0%
ST debt	5,431	5,190	7,926	4,609	4,891	-9.9%	6.1%
LT debt	51,788	51,811	47,465	47,659	47,381	-8.5%	-0.6%
Equity	▲ 17,699	▲ 15,883	▲ 15,508	▲ 15,517	▲ 16,729	-----	---
Net Debt	42,962	39,781	40,624	38,506	38,900	-9.5%	1.0%
■ Financial Ratios							
EBITDA margin	-14.4%	0.7%	1.7%	1.8%	-1.9%	12.5	▲ 3.7
EBIT Interest Coverage	-4.4	-0.6	-0.2	-0.2	-1.4	3.1	▲ 1.2
Equity Ratio	-12.9%	-11.6%	-11.4%	-11.5%	-12.5%	0.4	▲ 0.9

Source: Company materials, Bloomberg; compiled by Daiwa

Chart 3: Segment Results

(\$m) Period End	Q3 2022 '22/9	Q4 2022 '22/12	Q1 2023 '23/3	Q2 2023 '23/6	Q3 2023 '23/9	YOY	QOQ
Total Revenues	15,956	19,980	17,921	19,751	18,104	13.5%	-8.3%
Commercial Airplanes (BCA)	6,303	9,271	6,704	8,840	7,876	25.0%	-10.9%
Defense, Space, & Security (BDS)	5,307	6,181	6,539	6,167	5,481	3.3%	-11.1%
Global Services (BGS)	4,432	4,567	4,720	4,746	4,812	8.6%	1.4%
Unallocated items/eliminations	▲ 86	▲ 39	▲ 42	▲ 2	▲ 65	-----	-----
Total Operating Income	▲ 2,792	▲ 345	▲ 149	▲ 99	▲ 808	-----	-----
Commercial Airplanes (BCA)	▲ 622	▲ 603	▲ 615	▲ 383	▲ 678	-----	-----
Defense, Space, & Security (BDS)	▲ 2,798	112	▲ 212	▲ 527	▲ 924	-----	-----
Global Services (BGS)	733	634	847	856	784	7.0%	-8.4%
Unallocated items/eliminations	▲ 105	▲ 488	▲ 169	▲ 45	10	-----	-----
Operating Margins	-17.5%	-1.7%	-0.8%	-0.5%	-4.5%	-----	-----
Commercial Airplanes (BCA)	-9.9%	-6.5%	-9.2%	-4.3%	-8.6%	-----	-----
Defense, Space, & Security (BDS)	-52.7%	1.8%	-3.2%	-8.5%	-16.9%	-----	-----
Global Services (BGS)	16.5%	13.9%	17.9%	18.0%	16.3%	-0.2	-1.7
Total Backlog	381,315	404,381	411,446	439,564	469,178	23.0%	6.7%
Commercial Airplanes (BCA)	307,168	329,824	333,656	362,866	392,105	27.7%	8.1%
Defense, Space, & Security (BDS)	54,740	54,373	58,150	57,505	57,802	5.6%	0.5%
Global Services (BGS)	19,072	19,338	18,835	18,455	18,441	-3.3%	-0.1%
Unallocated items/eliminations	335	846	805	738	830	147.8%	12.5%

Source: Company materials, Bloomberg; compiled by Daiwa.

Back Numbers

Industrials

Boeing	Maintains annual delivery guidance	2023/09/07
GE	Raised financial guidance for FY23	2023/08/02
Boeing	Near-term delivery delays	2023/05/19
Airbus	Growth momentum continues	2023/04/06
Boeing	Towards operations stability?	2023/02/24
GE	Positioned to drive further growth	2023/02/07
Boeing	An asset or a liability?	2022/11/24
GE	Planned spin-offs on track	2022/11/22
Boeing	Commercial deliveries below expectations	2022/09/02
GE	Aerospace remains the key growth driver	2022/08/10
GE	Aviation recovery continues	2022/06/16
Boeing	Limited impact from Russia-Ukraine conflict	2022/05/30
Keppel	Agreed on the combination of Keppel O&M and Sembcorp Marine	2022/05/10

Information Technology

Amazon	Capital investments to be lower in 2023	2023/08/24
Microsoft	Maintains a strong balance sheet	2023/08/14
Amazon	Retail business into red	2023/03/14
Apple	Another record-breaking year	2022/12/13
Microsoft	Excellent execution abilities	2022/09/09

Communication Services

AT&T	Old cables bring uncertainty	2023/09/20
Disney	Streaming losses are decreasing	2023/08/30
AT&T	CapEx requirements to remain high in 2023	2023/03/24
Disney	Record results at theme parks	2023/02/01
AT&T	On track to achieve the annual financial targets	2022/11/11
AT&T	Warning of the challenging operating environment	2022/08/09
AT&T	Exited media business	2022/05/26
Disney	Could Genie grant Disney's wish?	2022/02/14

Energy

US and European Energy Majors	Continue to deleverage	2023/06/12
US and European Energy Majors	Update on 3Q22 Results	2023/01/11
ExxonMobil	Record profits	2022/09/08
ExxonMobil	Recorded losses from Russia exit	2022/06/24

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