

The Boeing Company (BA US)

FICC Research Dept

Operating income turned positive

- 4Q23 Revenues increased 10% y/y to \$22bn with growth across all business segments; Operating income turned positive due to improved performance at BCA and BGS
- Liquidity profile is good supported by \$16bn of cash and marketables and access to credit facilities
- We change the outlook from “negative” to “stable” given Boeing’s improving operating performance

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Credit Opinion

We change the outlook from “negative” to “stable” given Boeing’s improving operating performance. There are a few positive factors we took into consideration when evaluating Boeing’s creditworthiness. The first one is the favorable operating environment with a strong demand for commercial aircrafts as the whole industry is recovering to levels close to pre-COVID period. Boeing has a significant aircraft backlog which includes over 5,600 commercial airplanes and this gives a good visibility into the future revenues and cash flows. The second positive factor is the stabilization of Boeing’s delivery and production operations. Boeing delivered 528 commercial airplanes in 2023 vs 480 airplanes in 2022. Even though we note the fact that the Federal Aviation Administration (FAA) continues to investigate Boeing’s quality control procedures, the 737 program continues to deliver airplanes. Boeing also increased the production rates for its main aircraft programs in line with the previously announced plans. The 737 program is producing now at 38 aircrafts per month and the 787 program has the production rate at 5 per month. The third positive factor is the maintenance of a strong liquidity position. As of end of 4Q23, cash and marketables holdings amounted to \$16bn vs \$5.2bn of short-term debt. Boeing has also access to \$10bn of credit facilities, which remained undrawn. We expect Boeing to gradually reduce its leverage in line with its financial priority to maintain the investment-grade credit rating.

Chart 1: Commercial Airplane Deliveries

Deliveries	Twelve months ended		Three months ended	
	December 31		December 31	
Commercial Airplanes	2023	2022	2023	2022
737	396	387	110	110
747	1	5	—	2
767	32	33	15	12
777	26	24	9	6
787	73	31	23	22
Total	528	480	157	152

Source: Company materials

4Q23 Financial Highlights

Total revenues increased 10% y/y to \$22bn with revenue growth across all business segments. Commercial Airplanes (BCA) revenues increased 13% y/y to \$10.5bn driven by higher deliveries and a favorable mix (please refer to Chart 1). BCA delivered 157 airplanes in the quarter. Defense, Space and Security (BDS) revenues increased 9% y/y to \$6.7bn. Global Services (BGS) revenues increased 6% y/y to \$4.8bn.

Total backlog increased 11% q/q to \$520.2bn.

BCA backlog increased 12% q/q to \$440.5bn and includes over 5,600 commercial airplanes. BCA backlog represents 85% of Boeing's total backlog amount. The demand for commercial airplanes remains strong and BCA booked 611 net orders in the quarter.

Operating income turned positive to 283m vs. \$(353)m in 4Q22 due to improved performance at BCA and BGS, partially offset by operating losses at BDS.

BCA operating income turned slightly positive to 41m vs. \$(603)m in 4Q22, reflecting higher deliveries and lower abnormal costs. BDS operating income was \$(101)m vs. \$112m in 4Q22 mainly due to losses on certain fixed-price development programs. Global Services (BGS) operating income increased 33% y/y to \$842m due to higher commercial services volume and a favorable mix.

Free operating cash flow (Cash flow from operations- CapEx) decreased 5.8% y/y to \$3bn. Operating cash flow (CFO) decreased 2% y/y to \$3.4bn. CapEx increased 32% y/y to \$431m.

Cash and marketables increased 19% q/q to \$16bn. 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 priority to reduce debt and to maintain the investment-grade credit rating.

Liabilities continue to exceed assets resulting in \$(17.2)bn of equity as of end of December 2023.

Boeing didn't provide financial guidance for 2024.

Update on the Main Commercial Airplanes Programs

The 737 program continues to deliver airplanes and its production rate is now at 38 per month. At end of 4Q23, the inventory of 737-8 produced prior to 2023 was 140 aircrafts, including 85 aircrafts for customers in China. While there continues to be uncertainty, Boeing expects to deliver most of the aircraft in inventory by the end of 2024.

On January 5, 2024, an Alaska Airlines 737-9 flight made an emergency landing after a mid-exit door plug detached in flight. Following the accident, the Federal Aviation Administration (FAA) grounded and required inspections of all 737-9 aircraft with a mid-exit door plug, which constitute the large majority of the approximately 220 737-9 aircraft in the in-service fleet. Many 737-9s have completed inspections and resumed revenue flights. On January 24, 2024, the FAA stated that it will not approve production rate increases or additional production lines for the 737Max until it is satisfied that Boeing is in full compliance with required quality control procedures.

The 787 program increased the production rate to 5 per month beginning in October 2023. At end of 4Q23 there were approximately 50 aircrafts in inventory that require rework which Boeing expects to complete by the end of 2024.

Chart 2: Financial Results

(\$m)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	YOY	QOQ	FY 2022	FY 2023	YOY
Period End	'22/12	'23/3	'23/6	'23/9	'23/12			'22/12	'23/12	
■ P/L										
Total Revenues	19,980	17,921	19,751	18,104	22,018	10.2%	21.6%	66,608	77,794	16.8%
EBITDA	149	308	357	▲ 341	764	412.8%	---	▲ 1,568	1,088	---
EBITDA margin	0.7%	1.7%	1.8%	-1.9%	3.5%	2.7	5.4	-2.4%	1.4%	3.8
Operating Income	▲ 353	▲ 149	▲ 99	▲ 808	283	-----	---	▲ 3,547	▲ 773	---
Interest expense	▲ 632	▲ 649	▲ 621	▲ 589	▲ 600	-5.1%	1.9%	▲ 2,533	▲ 2,459	-2.9%
Pretax Income	▲ 649	▲ 496	▲ 400	▲ 1,100	▲ 9	-----	---	▲ 5,022	▲ 2,005	---
Net Income	▲ 634	▲ 414	▲ 149	▲ 1,636	▲ 23	-----	---	▲ 4,935	▲ 2,222	---
■ C/F										
Cash from operations	3,457	▲ 318	2,875	22	3,381	-2%	154x	3,512	5,960	69.7%
Depreciation & Amortization	502	457	456	467	481	-4.2%	3.0%	1,979	1,861	-6.0%
Cash from investing	▲ 2,151	▲ 1,823	▲ 3,015	▲ 403	2,804	-----	---	4,370	▲ 2,437	---
CapEx	▲ 326	▲ 468	▲ 296	▲ 332	▲ 431	32.2%	29.8%	▲ 1,222	▲ 1,527	25.0%
Cash from financing	▲ 250	▲ 1,680	▲ 3,413	▲ 38	▲ 356	42.4%	836.8%	▲ 1,266	▲ 5,487	333.4%
Share repurchases	0	0	0	0	0	-----	---	0	0	---
Dividends paid	0	0	0	0	0	-----	---	0	0	---
FOCF (CFO-CapEx)	3,131	▲ 786	2,579	▲ 310	2,950	-5.8%	---	2,290	4,433	---
FCF (CFO-CFI)	1,306	▲ 2,141	▲ 140	▲ 381	6,185	373.6%	---	7,882	3,523	-55.3%
■ B/S										
Assets	137,100	136,347	134,774	134,281	137,012	-0.1%	2.0%	137,100	137,012	-0.1%
Current assets	109,523	108,811	107,412	106,935	109,275	-0.2%	2.2%	109,523	109,275	-0.2%
Cash&Marketables	17,220	14,767	13,762	13,372	15,965	-7.3%	19.4%	17,220	15,965	-7.3%
Liabilities	152,948	151,831	150,267	150,998	154,240	0.8%	2.1%	152,948	154,240	0.8%
Current liabilities	90,052	93,510	92,076	93,062	95,827	6.4%	3.0%	90,052	95,827	6.4%
Total Debt	57,001	55,391	52,268	52,272	52,307	-8.2%	0.1%	57,001	52,307	-8.2%
ST debt	5,190	7,926	4,609	4,891	5,204	0.3%	6.4%	5,190	5,204	1x
LT debt	51,811	47,465	47,659	47,381	47,103	-9.1%	-0.6%	51,811	47,103	-9.1%
Equity	▲ 15,883	▲ 15,508	▲ 15,517	▲ 16,729	▲ 17,233	-----	---	▲ 15,883	▲ 17,233	---
Net Debt	39,781	40,624	38,506	38,900	36,342	-8.6%	-6.6%	39,781	36,342	-8.6%
■ Financial Ratios										
EBITDA margin	0.7%	1.7%	1.8%	-1.9%	3.5%	2.7	5.4	-2.4%	1.4%	3.8
EBIT Interest Coverage	-0.6	-0.2	-0.2	-1.4	0.5	1.0	1.8	-1.4	-0.3	1.1
Equity Ratio	-11.6%	-11.4%	-11.5%	-12.5%	-12.6%	▲ 1.0	▲ 0.1	-11.6%	-12.6%	▲ 0.0

Source: Company materials, Bloomberg; compiled by Daiwa

Chart 3: Segment Results

(\$m)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	YOY	QOQ	FY 2022	FY 2023	YOY
Period End	'22/12	'23/3	'23/6	'23/9	'23/12			'22/12	'23/12	
Total Revenues	19,980	17,921	19,751	18,104	22,018	10.2%	21.6%	66,409	77,794	17%
Commercial Airplanes (BCA)	9,271	6,704	8,840	7,876	10,481	13.1%	33.1%	25,867	33,901	31%
Defense, Space, & Security (BDS)	6,181	6,539	6,167	5,481	6,746	9.1%	23.1%	23,162	24,933	8%
Global Services (BGS)	4,567	4,720	4,746	4,812	4,849	6.2%	0.8%	17,611	19,127	9%
Unallocated items/eliminations	▲ 39	▲ 42	▲ 2	▲ 65	▲ 58	-----	-----	▲ 231	▲ 167	-----
Total Operating Income	▲ 345	▲ 149	▲ 99	▲ 808	283	-----	-----	▲ 3,576	▲ 773	-----
Commercial Airplanes (BCA)	▲ 603	▲ 615	▲ 383	▲ 678	41	-----	-----	▲ 2,370	▲ 1,635	-----
Defense, Space, & Security (BDS)	112	▲ 212	▲ 527	▲ 924	▲ 101	-----	-----	▲ 3,544	▲ 1,764	-----
Global Services (BGS)	634	847	856	784	842	32.8%	7.4%	2,727	3,329	22%
Unallocated items/eliminations	▲ 488	▲ 169	▲ 45	10	▲ 499	-----	-----	▲ 389	▲ 703	-----
Operating Margins	-1.7%	-0.8%	-0.5%	-4.5%	1.3%	-----	-----	-5.4%	-1.0%	4.4
Commercial Airplanes (BCA)	-6.5%	-9.2%	-4.3%	-8.6%	0.4%	-----	-----	-9.2%	-4.8%	4.3
Defense, Space, & Security (BDS)	1.8%	-3.2%	-8.5%	-16.9%	-1.5%	-----	-----	-15.3%	-7.1%	8.2
Global Services (BGS)	13.9%	17.9%	18.0%	16.3%	17.4%	3.5	1.1	-15.3%	-7.1%	8.2
Total Backlog	404,381	411,446	439,564	469,178	520,195	28.6%	10.9%	404,381	520,195	29%
Commercial Airplanes (BCA)	329,824	333,656	362,866	392,105	440,507	33.6%	12.3%	329,824	440,507	34%
Defense, Space, & Security (BDS)	54,373	58,150	57,505	57,802	59,012	8.5%	2.1%	54,373	59,012	9%
Global Services (BGS)	19,338	18,835	18,455	18,441	19,869	2.7%	7.7%	19,338	19,869	3%
Unallocated items/eliminations	846	805	738	830	807	-4.6%	-2.8%	846	807	-

Source: Company materials, Bloomberg; compiled by Daiwa.

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