

# The Boeing Company (BA US)

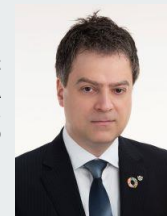
Global Credit Research GCRE086

## An asset or a liability?

- 3Q22 Revenues increased 4.4% y/y due to higher commercial aircraft and services volumes; Operating income was \$(2.8)bn largely driven by \$2.8 charges on defense programs
- Debt levels remain high and equity continues to be negative
- Outlook negative given the weak credit metrics and the ongoing supply chain constraints; there are no significant liquidity issues at the moment

FICC Research Dept.

Senior Credit Analyst  
**Stefan Tudor, CFA**  
 (81) 3 5555-8754  
 stefan.tudor@daiwa.co.jp



Daiwa Securities Co. Ltd.

## Credit Opinion

Boeing continues to have a high inventory for both its main aircraft programs. At the end of 3Q22, 737Max inventory amounted to 270 airplanes and 787 inventory was 115 aircrafts. How should we evaluate this large inventory amount? Is this inventory an asset or a liability for the company? To answer these questions, we have to take into consideration 2 factors. The first one is the aircraft demand vs supply balance. If the demand is weak, then the company cannot deliver the inventory. The inventory becomes then a burden giving the storage and maintenance costs. However, that is not the case at the moment. The aircraft demand is on steady recovery path from the pandemic shock. As September 2022, the global passenger traffic was 74% of pre-pandemic levels and we expect the recovery to continue going forward. On the supply side, inflation, labor shortages and other supply chain constraints continue to impact aircraft production. So based only on the supply-chain issues and the recovery demand of the airlines industry, we could say the inventory is an asset for Boeing. And actually this is the firm's view as confirmed by the management in the results conference call.

However there is one more factor we need to take into consideration when evaluating the inventory. That is the difficulty level of delivering the inventory in a timely manner. And it appears monetizing the large inventory is not an easy and quick process. 737Max inventory amounted to 270 airplanes as end of 3Q22, of which about half are for customers in China. The 737Max is still grounded in China and the timing of its return to service remains highly uncertain. Given the ongoing geopolitical uncertainty, Boeing is exploring options to remarket some of these airplanes. Regarding 787, Boeing had an inventory of 115 aircrafts as end of 3Q22. Boeing needs to do a finishing rework on each plane before taking it out of the storage and the timing of this process will decide the pace of future deliveries. If the inventory cannot be delivered in a timely manner, then the inventory becomes a burden to the company. A high inventory results in higher costs for storage and maintenance. Boeing also has to keep the production rates at low levels, below the production potential. This results in abnormal costs that put further pressure on profits and cash flows. We will continue to monitor closely the delivery and inventory numbers as these a key factors to Boeing's recovery.

We maintain the outlook negative given the weak credit metrics and the supply chain constraints that continue to impact both Commercial and Defense segments. Boeing doesn't face any significant liquidity issues at the moment. Boeing had \$14.3bn of cash and marketables on the balance sheet vs \$5.4bn of short term debt. Free operating cash flows also turned positive in the quarter. However, cash flows benefitted this time from a tax refund that will not repeat next year. We continue to monitor closely the cash flows trends to evaluate if Boeing can generate positive free cash flows on a sustainable basis.

### 3Q22 Financial Highlights

**Total revenues increased 4.4% y/y to \$16bn** due to higher commercial aircraft and services volumes. Commercial Airplanes (BCA) revenues increased 41% y/y to \$6.3bn driven by the resumption of 787 deliveries and higher 737Max deliveries. Commercial deliveries increased 32% y/y to 112 airplanes. Defense, Space and Security (BDS) revenues decreased 20% y/y to \$5.3bn due to charges on fixed-price defense development programs. Global Services (BGS) revenues increased 5% y/y to \$4.4bn driven by higher commercial services volume and favorable mix, partially offset by lower government volume.

**Total backlog increased 2.6% q/q to \$381.3bn** driven by BCA segment. BCA backlog (which represents 81% of the total backlog amount) increased 3.4% q/q to \$307.2bn and includes over 4,300 commercial airplanes. BDS backlog (14% share in the total backlog amount) declined 1.2% q/q to \$54.7bn. BGS backlog (5% share in the total backlog amount) increased 0.6% q/q to \$19.1bn.

**Operating income turned negative to \$(2.8)bn** largely driven by \$2.8bn charges on defense programs. BCA segment continues to make losses but operating losses reduced 7.2% y/y to \$(643)m. The negative operating income reflects abnormal costs and increased period expenses, including R&D expenses. BDS operating income turned negative to \$(2.8)bn due to losses on fixed-price defense development programs, driven by higher estimated manufacturing and supply chain costs, as well as technical challenges. Global Services (BGS) operating income increased 14% y/y to \$733m driven by higher commercial services volume and favorable mix.

**In 3Q22, free operating cash flow (cash flow from operations- CapEx) turned positive to \$2.9bn.** Operating cash flow (CFO) turned positive to \$3.2bn due to higher commercial deliveries, favorable timing of advance payments from order activity and a tax refund of \$1.5bn. CapEx increased 16% y/y to 284m.

Year-to-date, accumulated FCF was \$(841)m. For FY22, Boeing reiterated their expectations to generate positive annual FOCF, estimated at around \$1.5bn- \$2bn. For FY23, Boeing expects FOCF to further improve to \$3bn-\$5bn range.

**Cash and marketables increased 25% q/q to \$14.3bn** driven by the positive FOCF in the quarter. Boeing has also access to \$12bn of bank credit facilities, which remained undrawn.

**Total debt balance was flat q/q at \$57.2bn. Equity continues to be negative at \$(17.7)bn.** Boeing reiterated their commitment to reduce debt and to maintain its investment-grade credit rating.

### Update on Commercial Airplanes Programs

Regarding 737, Boeing delivered 88 airplanes in 3Q22, below Boeing's previous expectations due to supply chain disruptions which impacted flow time of taking airplanes out storage. For FY22, Boeing expects total deliveries to be approximately 375 aircrafts. The monthly delivery trend is expected to remain in the low 30s into next year (8 to 10 aircrafts are to be delivered out of the inventory). The remaining 737Max inventory amounted to 270 airplanes as end of 3Q22, of which about half are for customers in China. The 737Max is still grounded in China and the timing of its return to service remains uncertain. Boeing is exploring options to remarket some of these airplanes.

Regarding 787, Boeing resumed deliveries in August 2022 after it made inspection and retrofit changes needed to meet certification standards. Boeing delivered 9 airplanes in 3Q22 and had an inventory of 115 aircrafts as end of 3Q22. Boeing expects most of the inventory to be delivered over the next 2 years. The pace of deliveries from inventory going

forward will be based on finishing rework and customer fleet planning requirements. As a result of the high level of inventory, Boeing is producing at low rates and it plans to gradually return to 5 planes per month over time. The aircraft rework and the low production rates causes increased costs. Boeing recorded \$303m of abnormal costs related to 787 in 3Q22. Boeing expects approximately \$2bn more of abnormal costs, mostly to be incurred by the end of 2023.

Chart 1: Commercial Airplane Deliveries

Deliveries	Nine months ended September 30		Three months ended September 30	
	2022	2021	2022	2021
Commercial Airplanes				
737	277	179	88	66
747	3	4	—	2
767	21	24	9	11
777	18	20	6	6
787	9	14	9	—
<b>Total</b>	<b>328</b>	<b>241</b>	<b>112</b>	<b>85</b>

Source: Company materials

Chart 2: Financial Results

(\$m)	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	YOY	QOQ
Period End	'21/9	'21/12	'22/3	'22/6	'22/9		
<b>■ P/L</b>							
Total Revenues	15,278	14,793	13,991	16,681	15,956	4.4%	-4.3%
EBITDA	852	▲ 3,637	▲ 683	1,272	▲ 2,306	-----	---
EBITDA margin	5.6%	-24.6%	-4.9%	7.6%	-14.5%	▲ 20.0	▲ 22.1
Operating Income	329	▲ 4,171	▲ 1,169	774	▲ 2,799	-----	---
Interest expense	▲ 669	▲ 661	▲ 630	▲ 650	▲ 621	-7.2%	-4.5%
Pretax Income	▲ 310	▲ 4,700	▲ 1,618	377	▲ 3,132	-----	---
Net Income	▲ 109	▲ 4,143	▲ 1,219	193	▲ 3,275	-----	---
<b>■ C/F</b>							
Cash from operations	▲ 262	716	▲ 3,216	81	3,190	-----	3838.3%
Depreciation & Amortization	523	534	486	498	493	-5.7%	-1.0%
Cash from investing	2,966	1,935	2,965	3,266	290	-----	---
CapEx	▲ 245	▲ 222	▲ 349	▲ 263	▲ 284	15.9%	8.0%
Cash from financing	▲ 1,171	▲ 4,362	▲ 396	▲ 602	▲ 18	-98.5%	-97.0%
Share repurchases	0	0	0	0	0	-----	---
Dividends paid	0	0	0	0	0	-----	---
FOCF (CFO-CapEx)	▲ 507	494	▲ 3,565	▲ 182	2,906	-----	---
FCF (CFO-CFI)	2,704	2,651	▲ 251	3,347	3,480	28.7%	4.0%
<b>■ B/S</b>							
Assets	146,846	138,552	135,801	135,479	137,558	-6.3%	1.5%
Current assets	116,888	108,666	106,012	106,000	109,251	-6.5%	3.1%
Cash&Marketables	19,995	16,244	12,282	11,448	14,257	-28.7%	24.5%
Liabilities	161,112	153,398	151,069	150,270	155,193	-3.7%	3.3%
Current liabilities	85,771	81,992	81,692	84,799	89,618	4.5%	5.7%
Total Debt	62,419	58,102	57,741	57,200	57,219	-8.3%	0.0%
ST debt	5,377	1,296	2,591	5,406	5,431	1.0%	0.5%
LT debt	57,042	56,806	55,150	51,794	51,788	-9.2%	0.0%
Equity	▲ 14,440	▲ 14,999	▲ 15,398	▲ 14,888	▲ 17,699	-----	---
Net Debt	42,424	41,858	45,459	45,752	42,962	1.3%	-6.1%
<b>■ Financial Ratios</b>							
EBITDA margin	5.6%	-24.6%	-4.9%	7.6%	-14.5%	▲ 20.0	▲ 22.1
EBIT Interest Coverage	0.5	-6.3	-1.9	1.2	-4.5	▲ 5.0	▲ 5.7
Equity Ratio	-9.8%	-10.8%	-11.3%	-11.0%	-12.9%	▲ 3.0	▲ 1.9

Source: Company materials, Bloomberg; compiled by Daiwa

Chart 3: Segment Results

(\$m)	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	YOY	QOQ
Period End	'21/9	'21/12	'22/3	'22/6	'22/9		
<b>Total Revenues</b>	<b>15,278</b>	<b>14,793</b>	<b>13,991</b>	<b>16,681</b>	<b>15,956</b>	<b>4.4%</b>	<b>-4.3%</b>
Commercial Airplanes (BCA)	4,459	4,750	4,161	6,219	6,263	40.5%	0.7%
Defense, Space, & Security (BDS)	6,617	5,862	5,483	6,191	5,307	-19.8%	-14.3%
Global Services (BGS)	4,221	4,291	4,314	4,298	4,432	5.0%	3.1%
Boeing Capital (BCC)	71	63	46	52	52	-26.8%	0.0%
Unallocated items/eliminations	▲ 90	▲ 173	▲ 13	▲ 79	▲ 98	8.9%	24.1%
<b>Total Operating Income</b>	<b>329</b>	<b>▲ 4,171</b>	<b>▲ 1,169</b>	<b>774</b>	<b>▲ 2,799</b>	<b>-----</b>	<b>-----</b>
Commercial Airplanes (BCA)	▲ 693	▲ 4,454	▲ 859	▲ 242	▲ 643	-----	-----
Defense, Space, & Security (BDS)	436	▲ 255	▲ 929	71	▲ 2,798	-----	-----
Global Services (BGS)	644	401	632	728	733	13.8%	0.7%
Boeing Capital (BCC)	42	7	▲ 36	27	23	-45.2%	-14.8%
Unallocated items/eliminations	▲ 100	130	23	190	▲ 114	-----	-----
<b>Operating Margins</b>	<b>2.2%</b>	<b>-28.2%</b>	<b>-8.4%</b>	<b>4.6%</b>	<b>-17.5%</b>	<b>-----</b>	<b>-----</b>
Commercial Airplanes (BCA)	-15.5%	-93.8%	-20.6%	-3.9%	-10.3%	-----	-----
Defense, Space, & Security (BDS)	6.6%	-4.4%	-16.9%	1.1%	-52.7%	-----	-----
Global Services (BGS)	15.3%	9.3%	14.6%	16.9%	16.5%	1.3	-0.4
Boeing Capital (BCC)	59.2%	11.1%	-78.3%	51.9%	44.2%	-14.9	-7.7
<b>Total Backlog</b>	<b>367,108</b>	<b>377,499</b>	<b>370,835</b>	<b>371,730</b>	<b>381,315</b>	<b>3.9%</b>	<b>2.6%</b>
Commercial Airplanes (BCA)	289,644	296,882	290,930	297,044	307,168	6.1%	3.4%
Defense, Space, & Security (BDS)	58,435	59,828	59,739	55,401	54,740	-6.3%	-1.2%
Global Services (BGS)	18,781	20,496	19,822	18,960	19,072	1.5%	0.6%
Unallocated items/eliminations	248	293	344	325	335	35.1%	3.1%

Source: Company materials, Bloomberg; compiled by Daiwa.

## Back Numbers

### Industrials

Boeing	<a href="#">Commercial deliveries below expectations</a>	2022/09/02
GE	<a href="#">Aerospace remains the key growth driver</a>	2022/08/10
GE	<a href="#">Aviation recovery continues</a>	2022/06/16
Boeing	<a href="#">Limited impact from Russia-Ukraine conflict</a>	2022/05/30
Keppel	<a href="#">Agreed on the combination of Keppel O&amp;M and Sembcorp Marine</a>	2022/05/10
Airbus	<a href="#">Strong resilience</a>	2022/04/21
Boeing	<a href="#">Aircraft delivery remains uncertain</a>	2022/03/01
Keppel	<a href="#">Does the increased dividends mark a change in the firm's financial policy?</a>	2022/02/17

### Information Technology

Microsoft	<a href="#">Excellent execution abilities</a>	2022/09/09
Amazon	<a href="#">Increased capital spending requirements</a>	2022/04/28
Apple	<a href="#">Strong demand drives new revenue records</a>	2021/12/15
Microsoft	<a href="#">Well-balanced growth</a>	2021/09/22

### Communication Services

AT&T	<a href="#">On track to achieve the annual financial targets</a>	2022/11/11
AT&T	<a href="#">Warning of the challenging operating environment</a>	2022/08/09
AT&T	<a href="#">Exited media business</a>	2022/05/26
Disney	<a href="#">Could Genie grant Disney's wish?</a>	2022/02/14

### Energy

ExxonMobil	<a href="#">Record profits</a>	2022/09/08
ExxonMobil	<a href="#">Recorded losses from Russia exit</a>	2022/06/24

**IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

**Ratings**

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

**Target Prices**

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

**Disclosures related to Daiwa Securities**

Please refer to [https://lzone.daiwa.co.jp/l-zone/disclaimer/e\\_disclaimer.pdf](https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf) for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

**Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

<https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

**Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association