

The Boeing Company (BA US)

Global Credit Research GCRE101

Maintains annual delivery guidance

- 2Q23 Revenues increased 18% y/y to \$19.8bn due to higher volume of commercial aircrafts; Operating income was \$(99)m driven by losses at Commercial Airplanes and Defense segments
- Leverage level remains elevated and equity continues to be negative
- Outlook negative given the weak financial metrics and the ongoing challenges with increasing the production and the delivery of commercial aircrafts

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Credit Opinion

Boeing's 2Q23 results were mixed. As the airline industry is recovering from the COVID-19 pandemic, the demand for Boeing's airplanes remains strong which is credit positive. Boeing delivered 136 airplanes in 2Q23, which represents an increase of 12% y/y. The deliveries include 103 units of 737 and 20 units of 787. The increased commercial volume resulted in higher revenues and positive cash flows. Commercial Airplanes (BCA) revenues increased 41% y/y to \$8.8bn. Free operating cash flow turned positive to \$2.6bn vs \$(182)m in 2Q22 driven by higher commercial deliveries and favorable receipt timing.

On the other hand, the leverage level remains elevated resulting in a negative equity and high interest expenses. As of end of 2Q23, total debt balance was \$52.3bn which translates in approximately \$2.5bn of interest expenses annually. Besides this, the commercial aircraft inventory continues to be high for Boeing's main aircraft programs, resulting in abnormal costs for storage and maintenance. As end of 2Q23, 737Max inventory was 220 aircrafts and 787 inventory was 85 airplanes. Boeing expects to deliver most of the aircraft inventory by the end of 2024. We continue to monitor if the aircraft delivery goes according with the plans.

We maintain our negative outlook given the weak financial metrics and the ongoing challenges with increasing the production and delivery of the commercial aircrafts. Boeing plans to increase its production rates of its main aircraft programs but this will be a gradual process. We think execution risk remains due to the ongoing labor and supply chain constraints. We also note that Defense segment continues to have a weak performance. In 2Q23, Defense operating losses were \$(527)m vs. \$71m in 2Q22 reflecting losses on certain fixed-price development programs.

2Q23 Financial Highlights

Total revenues increased 18% y/y to \$19.8bn driven by higher volume of commercial aircrafts. Commercial Airplanes (BCA) revenues increased 41% y/y to \$8.8bn driven by higher 787 deliveries. Commercial deliveries increased 12% y/y to 136 airplanes, including 103 units of 737 and 20 units of 787. Defense, Space and Security (BDS) revenues were almost flat y/y at \$6.2bn. Global Services (BGS) revenues increased 10% y/y to \$4.7bn driven by higher commercial services volume and a favorable mix.

Chart 1: Commercial Airplane Deliveries

Deliveries	Six months ended June 30		Three months ended June 30	
	2023	2022	2023	2022
Commercial Airplanes				
737	216	189	103	103
747	1	3	—	2
767	9	12	8	7
777	9	12	5	9
787	31	—	20	—
Total	266	216	136	121

Source: Company materials

Total backlog increased 7% q/q to \$439.6bn. BCA backlog increased 9% q/q to \$362.9bn (over 4,800 commercial airplanes) as Boeing secured 460 net orders. BCA backlog represents 83% of the total backlog amount. BDS backlog (13% share in Boeing's backlog amount) decreased 1% q/q to \$57.5bn. BGS backlog (4% share in the total backlog amount) decreased 2% q/q to \$18.5bn.

Operating income turned negative to \$(99)m vs. \$780m in 2Q22 due to losses at BCA and BDS segments, partially offset by positive operating income at BGS segment. BCA operating losses were \$(383)m vs. \$(219)m in 2Q22 reflecting the ongoing abnormal costs and period expenses. BDS operating losses were \$(527)m vs. \$71m in 2Q22 reflecting losses on certain fixed-price development programs as well as the continued operational impact of labor instability and supply chain disruption on other programs. Global Services (BGS) operating income increased 18% y/y to \$856m driven by higher commercial services volume and a favorable mix. Boeing recorded \$(45)m of losses as Unallocated items and eliminations driven by deferred compensation expense.

Free operating cash flow (Cash flow from operations- CapEx) turned positive to \$2.6bn vs \$(182)m in 2Q22. Operating cash flow (CFO) improved 36 times y/y to \$2.9bn vs. 81m in 2Q22 due to higher commercial deliveries and favorable receipt timing. CapEx increased 13% y/y to 296m.

Cash and marketables decreased 7% q/q to \$13.8bn. Boeing has also access to \$12bn of bank credit facilities, which remained undrawn.

Total debt balance decreased 6% q/q to \$52.3bn due to pay down of maturing debt. Boeing reiterated their top priority to reduce debt and to maintain the investment-grade credit rating.

Liabilities continue to exceed assets resulting in \$(15.5)bn of equity as of end of June 2023.

Update on Commercial Airplanes Programs

The 737 program is transitioning production to 38 per month and plans to reach 50 per month in the 2025/2026 timeframe. The program maintains its target to deliver 400-450 airplanes this year. Regarding 737 supplier's production issue announced in 1Q22, Boeing resumed deliveries of reworked airplanes and also have begun producing new airplanes meeting the standard production requirements. As end of 2Q23, 737Max inventory was 220 aircrafts, including 85 aircrafts for customers in China and 55 aircrafts remarketed in line with previously announced plans. Boeing expects most of the inventory to be delivered by the end of 2024.

The 787 program increased production to four per month with plans to ramp to five per month in late 2023 and 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 85 airplanes, most of which should be delivered by the end of 2024.

FY23 Financial Outlook

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. By business segment, BCA is expected to generate between \$2.5bn and \$3bn of operating cash flow, BGS should generate between \$2.5bn and \$3bn of operating cash flow and BDS' operating cash flow is expected to be between \$(0.5)bn and \$(1)bn.

Chart 2: Financial Results

(\$m) Period End	Q2 2022 '22/6	Q3 2022 '22/9	Q4 2022 '22/12	Q1 2023 '23/3	Q2 2023 '23/6	YOY	QOQ
■ P/L							
Total Revenues	16,681	15,956	19,980	17,921	19,751	18.4%	10.2%
EBITDA	1,278	▲ 2,306	149	308	357	-72.1%	15.9%
EBITDA margin	7.7%	-14.5%	0.7%	1.7%	1.8%	▲ 5.9	0.1
Operating Income	780	▲ 2,799	▲ 353	▲ 149	▲ 99	-----	---
Interest expense	▲ 656	▲ 621	▲ 632	▲ 649	▲ 621	-5.3%	-4.3%
Pretax Income	377	▲ 3,132	▲ 649	▲ 496	▲ 400	-----	---
Net Income	193	▲ 3,275	▲ 634	▲ 414	▲ 149	-----	---
■ C/F							
Cash from operations	81	3,190	3,457	▲ 318	2,875	35.5	---
Depreciation & Amortization	498	493	502	457	456	-8.4%	-0.2%
Cash from investing	3,266	290	▲ 2,151	▲ 1,823	▲ 3,015	-----	65.4%
CapEx	▲ 263	▲ 284	▲ 326	▲ 468	▲ 296	12.5%	-36.8%
Cash from financing	▲ 602	▲ 18	▲ 250	▲ 1,680	▲ 3,413	466.9%	103.2%
Share repurchases	0	0	0	0	0	-----	---
Dividends paid	0	0	0	0	0	-----	---
FOCF (CFO-CapEx)	▲ 182	2,906	3,131	▲ 786	2,579	-----	---
FCF (CFO-CFI)	3,347	3,480	1,306	▲ 2,141	▲ 140	-----	---
■ B/S							
Assets	135,479	137,558	137,100	136,347	134,774	-0.5%	-1.2%
Current assets	106,000	109,251	109,523	108,811	107,412	1.3%	-1.3%
Cash&Marketable	11,448	14,257	17,220	14,767	13,762	20.2%	-6.8%
Liabilities	150,270	155,193	152,948	151,831	150,267	0.0%	-1.0%
Current liabilities	84,799	89,618	90,052	93,510	92,076	8.6%	-1.5%
Total Debt	57,200	57,219	57,001	55,391	52,268	-8.6%	-5.6%
ST debt	5,406	5,431	5,190	7,926	4,609	-14.7%	-41.8%
LT debt	51,794	51,788	51,811	47,465	47,659	-8.0%	0.4%
Equity	▲ 14,888	▲ 17,699	▲ 15,883	▲ 15,508	▲ 15,517	-----	---
Net Debt	45,752	42,962	39,781	40,624	38,506	-15.8%	-5.2%
■ Financial Ratios							
EBITDA margin	7.7%	-14.5%	0.7%	1.7%	1.8%	▲ 5.9	0.1
EBIT Interest Coverage	1.2	-4.5	-0.6	-0.2	-0.2	▲ 1.3	0.1
Equity Ratio	-11.0%	-12.9%	-11.6%	-11.4%	-11.5%	▲ 0.5	▲ 0.1

Source: Company materials, Bloomberg; compiled by Daiwa

Chart 3: Segment Results

(\$m)	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	YOY	QOQ
Period End	'22/6	'22/9	'22/12	'23/3	'23/6		
Total Revenues	16,681	15,956	19,980	17,921	19,751	18.4%	10.2%
Commercial Airplanes (BCA)	6,258	6,304	9,271	6,704	8,840	41.3%	31.9%
Defense, Space, & Security (BDS)	6,191	5,307	6,181	6,539	6,167	-0.4%	-5.7%
Global Services (BGS)	4,298	4,432	4,567	4,720	4,746	10.4%	0.6%
Unallocated items/eliminations	▲ 66	▲ 87	▲ 39	▲ 42	▲ 2	-----	-----
Total Operating Income	780	▲ 2,792	▲ 345	▲ 149	▲ 99	-----	-----
Commercial Airplanes (BCA)	▲ 219	▲ 622	▲ 603	▲ 615	▲ 383	-----	-----
Defense, Space, & Security (BDS)	71	▲ 2,798	112	▲ 212	▲ 527	-----	-----
Global Services (BGS)	728	733	634	847	856	17.6%	1.1%
Unallocated items/eliminations	200	▲ 105	▲ 488	▲ 169	▲ 45	-----	-----
Operating Margins	4.7%	-17.5%	-1.7%	-0.8%	-0.5%	-----	-----
Commercial Airplanes (BCA)	-3.5%	-9.9%	-6.5%	-9.2%	-4.3%	-----	-----
Defense, Space, & Security (BDS)	1.1%	-52.7%	1.8%	-3.2%	-8.5%	-----	-----
Global Services (BGS)	16.9%	16.5%	13.9%	17.9%	18.0%	1.1	0.1
Total Backlog	371,730	381,315	404,381	411,446	439,564	18.2%	6.8%
Commercial Airplanes (BCA)	297,044	307,168	329,824	333,656	362,866	22.2%	8.8%
Defense, Space, & Security (BDS)	55,401	54,740	54,373	58,150	57,505	3.8%	-1.1%
Global Services (BGS)	18,960	19,072	19,338	18,835	18,455	-2.7%	-2.0%
Unallocated items/eliminations	325	335	846	805	738	127.1%	-8.3%

Source: Company materials, Bloomberg; compiled by Daiwa.

Back Numbers

Industrials

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

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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