



The Boeing Company (BA)

Updated April 29th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$380	5 Year CAGR Estimate:	4.8%	Volatility Percentile:	63.9%
Fair Value Price:	\$287	5 Year Growth Estimate:	8.0%	Momentum Percentile:	59.6%
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Growth Percentile:	75.5%
Dividend Yield:	2.2%	5 Year Price Target	\$423	Valuation Percentile:	15.1%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	23.3%

Overview & Current Events

The Boeing Company is the world's largest commercial jet manufacturer, and second largest military weapons producer. The company has been in business since 1916. In the last 100+ years, the aerospace and defense company has gone from making canvas and wood airplanes to producing today's advanced planes, with Boeing helping to drive some of that change. It is composed of three divisions: Commercial Airplanes, Defense, Space & Security and Global Services.

On 3/10/2019, Ethiopian Airlines Flight 302 crashed shortly after takeoff. This followed the crash of Lion Air Flight 610 on 10/29/2018. Both planes were Boeing 737 MAXs and all 346 passengers and crew on both flights died. Shortly thereafter, all 387 Boeing 737 MAXs around the world were eventually grounded. A software malfunction is suspected to be at fault in both crashes. Boeing has stated that it expects to present a software update by the third week of May and will provide enhanced pilot training on the system. The company hopes to have its fleet ungrounded by mid-July.

Boeing released financial results for the first quarter on 4/24/2019. The company earned \$3.16 per share, beating estimates by \$0.03, but declining more than 13% from the same time period last year. Revenue declined 2% to \$22.9 billion, which was \$127 million below expectations.

Boeing delivered 149 commercial airplanes during the quarter, a drop of 19% from the previous year. Operating margins for the Commercial Airplanes segment declined 100 bps to 9.9%. The pause in 737 deliveries was the reason behind these year-over-year declines. 787 production increased to 14 airplanes per month and the company's first 777X flight test airplane was produced. Boeing ended the quarter with a backlog of more than 5,600 airplanes that are valued at \$400 billion. The Defense segment saw a 2% increase in revenues and a 110 bps improvement in operating margins. Gains for this segment were due to a higher volume of satellites, weapons and surveillance aircraft. Boeing was awarded multiple multi-year contracts for both its manned and unmanned aircraft during the quarter. The Defense backlog now totals \$67 billion. Revenues for the Global Services grew 17% due to higher volumes across the division. Operating margin decreased 230 bps due to a combination of mix and services.

Boeing's previous guidance did not reflect the impact of the pause in deliveries for 737 MAX aircraft. The company has pulled its prior guidance and will reissue new guidance at a future date. 787 MAXs represented slightly less than a third of total airplanes delivered in 2018. At the same time, production for the airplane was ramping up as 111 of the 256 MAX deliveries took place in the fourth quarter of last year. Because the MAX is so important to Boeing, we are lowering our estimate for earnings-per-share to \$16 from \$20 previously. This estimate is subject to potential revision if/when Boeing offers updated guidance for the year. The company also halted share repurchases going forward.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.87	\$4.46	\$4.82	\$5.11	\$5.96	\$7.38	\$7.44	\$10.84	\$11.71	\$16.01	\$16.00	\$23.51
DPS	\$1.68	\$1.68	\$1.68	\$1.76	\$1.94	\$2.92	\$3.64	\$4.36	\$5.68	\$6.84	\$8.22	\$12.08
Shares	726	735	745	756	747	707	667	617	591	550	544	500

Boeing has seen its earnings per share increase at a rate of more than 12% since 2008. While earnings-per-share were cut by more than half during the last recession, Boeing quickly returned to growth in 2010 and has increased earnings every year since. Due to the lack of guidance and the suspension of share repurchase, we have decreased our expected

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earnings-per-share growth rate to 8% from 12%. We will reassess our growth rate estimate once the company reissues guidance. Boeing has raised its dividend by 20%+ every year since 2013, including a 20.2% raise for 2/7/2019 payment.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	24.1	14.7	14.5	14.3	17.3	17.4	19.3	12.3	18.3	23.7	23.8	18.0
Avg. Yld.	3.7%	2.6%	2.4%	2.4%	1.9%	2.3%	2.5%	3.3%	2.7%	1.9%	2.2%	2.9%

Shares of Boeing have decreased \$8, or 2.1%, since our January 31st update. Based off of guidance for 2019, the stock has a price-to-earnings (P/E) ratio of 19.5. Over the last decade, shares have traded with a P/E ratio of 17. Due to the company's robust backlog and higher defense spending from the U.S. government, we have a 2024 target P/E ratio of 18. Total returns would be reduced by 5.4% per year through 2024 if shares reverted to our target valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

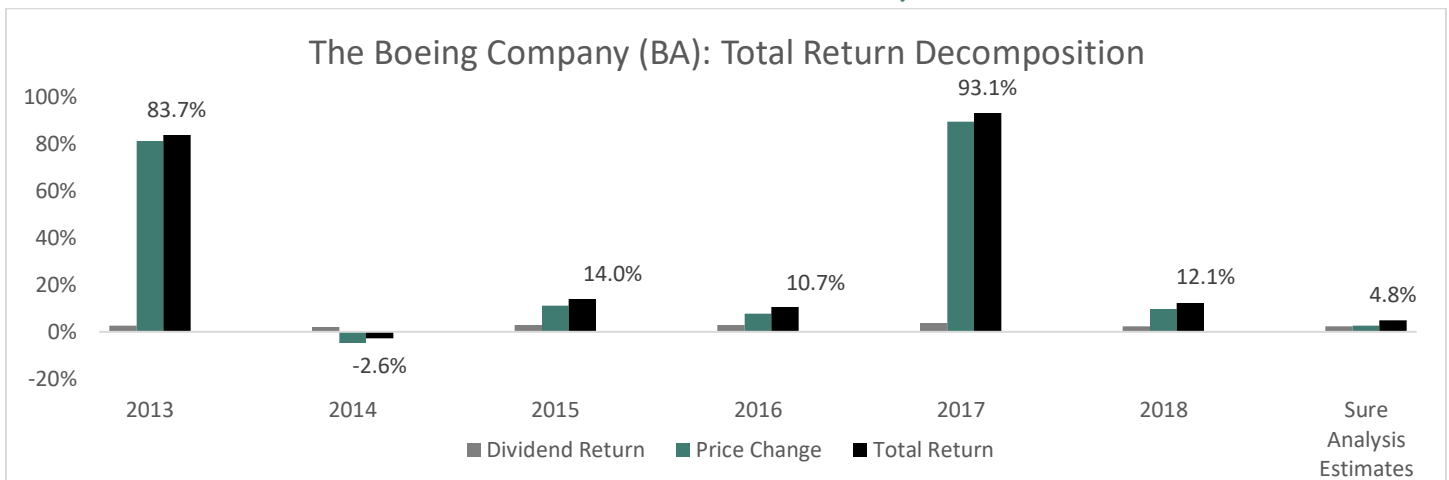
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	90%	38%	35%	34%	33%	40%	49%	40%	49%	43%	51%	51%

Boeing and Airbus form a duopoly in the commercial airplane business. They are each other's primary competition for customers. This gives Boeing pricing power and is the company's key competitive advantage. The company has also ramped up production. Boeing delivered more than 800 commercial airplanes in 2018 even though supply issues caused a slight slowdown in production this past summer. Boeing has an enormous backlog of airplanes that should give it several years of revenue growth.

Final Thoughts & Recommendation

Boeing's financial results have been impacted by the tragic 737 MAX crashes. The company has stated that they are in the midst of fixing the issues that are believed to be responsible for the crashes, and should be able to provide a software fix by the end of May, with a possible lift to the grounding by mid-July. In the meantime, Boeing has pulled its guidance for the year and halted its share repurchase program. We have lowered our estimates for earnings-per-share and earnings growth rate. After factoring in our changes, we estimate that Boeing can offer a total annual return of 4.8% through 2024, down from our prior estimate of 12.5%. There is too much uncertainty regarding the company at the moment which has led to the stock receiving a hold recommendation from Sure Dividend at this time. We have lowered our 2024 price target \$212 to \$423 due to changes in our growth assumptions.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	68281	64306	68735	81698	86623	90762	96114	93496	94005	101127
Gross Profit	11741	12463	12847	13033	13355	14010	14026	14470	17393	19637
Gross Margin	17.2%	19.4%	18.7%	16.0%	15.4%	15.4%	14.6%	15.5%	18.5%	19.4%
SG&A Exp.	3364	3644	3408	3717	3956	3767	3525	3613	4095	4567
D&A Exp.	1666	1746	1675	1811	1844	1906	1833	1889	2047	2114
Operating Profit	2120	4698	5521	6018	6328	7196	7170	6231	10119	11801
Op. Margin	3.1%	7.3%	8.0%	7.4%	7.3%	7.9%	7.5%	6.7%	10.8%	11.7%
Net Profit	1312	3307	4018	3900	4585	5446	5176	5034	8458	10460
Net Margin	1.9%	5.1%	5.8%	4.8%	5.3%	6.0%	5.4%	5.4%	9.0%	10.3%
Free Cash Flow	4417	1825	2310	5798	5941	6622	6913	7883	11476	13531
Income Tax	396	1196	1382	2007	1646	1691	1979	749	1649	1144

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	62.05	68.57	79.99	88.90	92.66	92.92	94.41	90.00	112.36	117.36
Cash & Equivalents	9215	5359	10049	10341	9088	11733	11302	8801	8813	7637
Acc. Receivable	5785	5422	4877	4887	5749	7048	8003	7804	2956	3936
Inventories	16933	24317	32240	37751	42912	46756	47257	43199	61388	62567
Goodwill & Int.	7196	7916	7989	8146	8095	7988	7783	7864	8132	11269
Total Liab. (\$B)	59.83	65.70	76.38	82.93	77.67	84.13	88.01	89.12	110.65	116.95
Accounts Payable	7096	7715	8406	9394	9498	10667	10800	11190	12202	12916
Long-Term Debt	12924	12421	12136	10230	9484	8909	9814	9814	10979	13691
Total Equity	2128	2766	3515	5867	14875	8665	6335	817	1656	339
D/E Ratio	6.07	4.49	3.45	1.74	0.64	1.03	1.55	12.01	6.63	40.39

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.3%	5.1%	5.4%	4.6%	5.1%	5.9%	5.5%	5.5%	8.4%	9.1%
Return on Equity	315%	135.1%	128%	83.1%	44.2%	46.3%	69.0%	141%	684%	1048%
ROIC	12.2%	21.7%	25.9%	24.4%	22.5%	25.8%	30.5%	37.4%	72.3%	78.1%
Shares Out.	726	735	745	756	747	707	667	617	591	550
Revenue/Share	95.71	86.76	91.57	107.29	112.85	123.20	138.29	145.45	154.11	172.72
FCF/Share	6.19	2.46	3.08	7.61	7.74	8.99	9.95	12.26	18.81	23.11

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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