



# The Boeing Company (BA)

Updated July 24<sup>th</sup>, 2019 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$361	<b>5 Year CAGR Estimate:</b>	3.4%	<b>Volatility Percentile:</b>	70.1%
<b>Fair Value Price:</b>	\$252	<b>5 Year Growth Estimate:</b>	8.0%	<b>Momentum Percentile:</b>	40.2%
<b>% Fair Value:</b>	143%	<b>5 Year Valuation Multiple Estimate:</b>	-6.9%	<b>Growth Percentile:</b>	76.3%
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$370	<b>Valuation Percentile:</b>	13.9%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	20.9%

## 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. The company trades with a market capitalization of \$203 billion, with annual sales of \$87 billion.

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 and will provide enhanced pilot training on the system. The company hopes to have its fleet ungrounded by early October, which is later than its previous forecast of mid-July.

Boeing released financial results for the second quarter on 7/24/2019. Boeing took a \$4.9 billion after-tax charge related to concessions to customers due to the grounding of 737 MAX and delivery delays. This resulted in a negative impact of \$5.6 billion to revenue during the quarter. Boeing lost \$5.82 per share in the quarter, which was \$0.84 better than expected. Revenue declined 35% year-over-year to \$15.8 billion, though this was almost \$700 million above estimates.

Commercial airplane deliveries declined 54% to 90 in the quarter, which resulted in a 66% drop in revenues. CEO Dennis Muilenburg stated on the conference call that the company could reduce or temporarily shut down its production of the 737 MAX aircraft if its estimated return to service date has to be pushed back further. Boeing had expected to increase its 737 MAX production from 42 aircraft per month to 57 by 2020. At the end of the quarter, Boeing had a backlog of 5,500 commercial airplanes worth \$390 billion. Defense, Space & Security revenues improved 8% while operating margins increased to 14.7% from 6.2%. This segment saw higher volumes across its aircraft, satellites and weapons programs. The increase in operating margins was due to sales and lower costs in the KC-46 Tanker program. The backlog for this segment was \$64 billion at the end of the quarter. Global Services revenues were higher by 11%. Operating margins improved 40 bps to 15.1%. The company's acquisition of KLX, now called Boeing Distribution Services Inc, was the main contributor to growth. Due to lower 737 MAX deliveries, free cash flow was negative \$0.6 billion in the quarter.

The company pulled its guidance in the previous quarter due to the uncertainty regarding the 737 MAX. Boeing once again stated that it would provide guidance at a later date. With the continued uncertainty around the 737 MAX, we have lowered our earnings-per-share estimate to \$14 on an adjusted basis, down from \$16 previously. This estimate is subject to potential revision if/when Boeing offers updated guidance for the year

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.87	\$4.46	\$4.82	\$5.11	\$5.96	\$7.38	\$7.44	\$10.84	\$11.71	\$16.01	<b>\$14.00</b>	<b>\$20.57</b>
<b>DPS</b>	\$1.68	\$1.68	\$1.68	\$1.76	\$1.94	\$2.92	\$3.64	\$4.36	\$5.68	\$6.84	<b>\$8.22</b>	<b>\$12.08</b>
<b>Shares</b>	726	735	745	756	747	707	667	617	591	550	<b>544</b>	<b>500</b>

*Disclosure: This analyst has a long position in the security discussed in this research report.*



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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 repurchases, we have decreased our expected 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	25.8	18.0
Avg. Yld.	3.7%	2.6%	2.4%	2.4%	1.9%	2.3%	2.5%	3.3%	2.7%	1.9%	2.3%	3.3%

Shares of Boeing have decreased \$19, or 5%, since our 1/31/2019 update. Based off of our revised guidance for 2019, the stock has a price-to-earnings (P/E) ratio of 25.8. 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 6.9% per year through 2024 if shares reverted to our target valuation.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

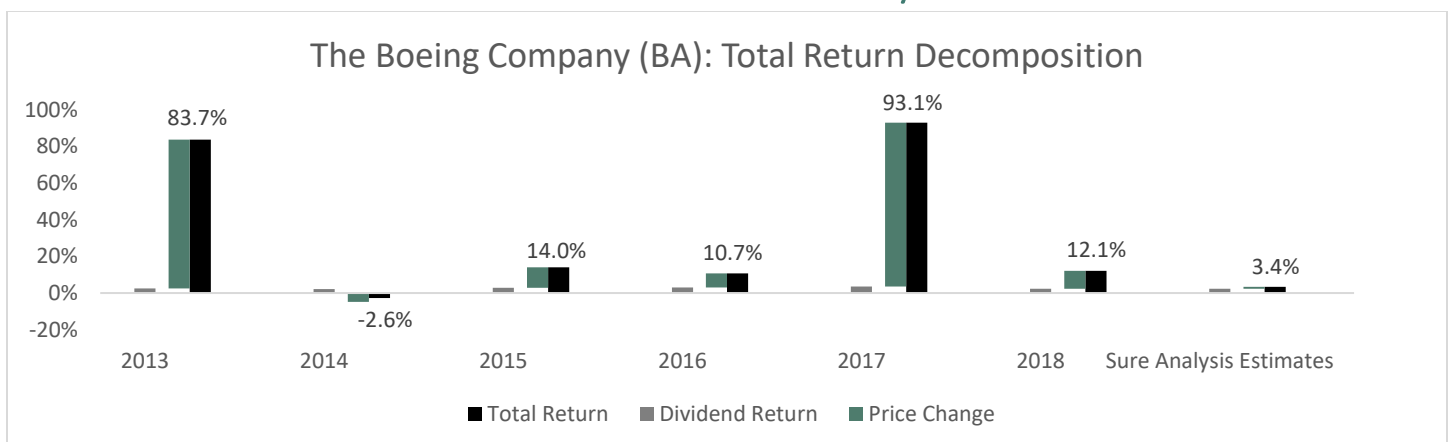
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	90%	38%	35%	34%	33%	40%	49%	40%	49%	43%	59%	59%

Boeing and Airbus form a duopoly in the commercial airplane business, as 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, delivering more than 800 commercial airplanes in 2018, despite supply issues. Boeing has an enormous backlog of airplanes that should give it several years of revenue growth.

## Final Thoughts & Recommendation

Boeing's financial results continue to be impacted by the tragic 737 MAX crashes. The company saw fewer planes delivered during the quarter and pushed back its expected date of when the 737 MAX will be allowed to fly again. Another pushback and Boeing may have to consider reducing its production of the aircraft. With no clear guidance for 2019, we again lowered our expected earnings-per-share for the current year. Due to this, we expect Boeing to offer an annual return of 3.4% through 2024, down from 4.8% previously. Boeing receives a sell rating from Sure Dividend at the moment because of low expected returns. We have lowered our 2024 price target \$53 to \$370 to reflect our revised earnings-per-share estimates. These estimates are subject to change should the 737 MAX be ungrounded.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	62.05	68.57	79.99	88.90	92.66	92.92	94.41	90.00	112.36	117.36
<b>Cash &amp; Equivalents</b>	9215	5359	10049	10341	9088	11733	11302	8801	8813	7637
<b>Acc. Receivable</b>	5785	5422	4877	4887	5749	7048	8003	7804	2956	3936
<b>Inventories</b>	16933	24317	32240	37751	42912	46756	47257	43199	61388	62567
<b>Goodwill &amp; Int.</b>	7196	7916	7989	8146	8095	7988	7783	7864	8132	11269
<b>Total Liab. (\$B)</b>	59.83	65.70	76.38	82.93	77.67	84.13	88.01	89.12	110.65	116.95
<b>Accounts Payable</b>	7096	7715	8406	9394	9498	10667	10800	11190	12202	12916
<b>Long-Term Debt</b>	12924	12421	12136	10230	9484	8909	9814	9814	10979	13691
<b>Total Equity</b>	2128	2766	3515	5867	14875	8665	6335	817	1656	339
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	2.3%	5.1%	5.4%	4.6%	5.1%	5.9%	5.5%	5.5%	8.4%	9.1%
<b>Return on Equity</b>	315%	135.1%	128%	83.1%	44.2%	46.3%	69.0%	141%	684%	1048%
<b>ROIC</b>	12.2%	21.7%	25.9%	24.4%	22.5%	25.8%	30.5%	37.4%	72.3%	78.1%
<b>Shares Out.</b>	726	735	745	756	747	707	667	617	591	550
<b>Revenue/Share</b>	95.71	86.76	91.57	107.29	112.85	123.20	138.29	145.45	154.11	172.72
<b>FCF/Share</b>	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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