



The Boeing Company (BA)

Updated October 24th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$341	5 Year CAGR Estimate:	4.4%	Volatility Percentile:	76.1%
Fair Value Price:	\$252	5 Year Growth Estimate:	8.0%	Momentum Percentile:	24.5%
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.9%	Growth Percentile:	80.1%
Dividend Yield:	2.4%	5 Year Price Target	\$370	Valuation Percentile:	16.9%
Dividend Risk Score:	D	Retirement Suitability Score:	F	Total Return Percentile:	28.4%

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 \$192 billion, with annual sales of \$82 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 passengers died. Shortly thereafter, all 387 Boeing 737 MAXs around the world were eventually grounded. A malfunction in the Maneuvering Characteristics Augmentation System, or MCAS, 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. On 10/18/2019, text messages between two high level Boeing employees were released and seemed to show that the company was aware of issues with the MCAS in the 737 MAX as early as 2016. Boeing has stated that the text messages were referring to a simulator program that was still undergoing testing. The company hopes to have its fleet ungrounded sometime in the fourth quarter.

Boeing reported earnings results for the third quarter on 10/23/2019. Boeing earned \$1.45 per share, \$0.67 below estimates and a 59% decrease from last year. Revenue dropped 20.5% to \$20 billion, \$23 million below estimates.

Much of the steep decline can be attributed to fewer plane deliveries as Boeing delivered 62 planes in the third quarter, a 67% decline from last year's 190 deliveries. Boeing is reducing its 787-production rate to 12 airplanes per month in early 2020 due to a lack of orders from China due to the ongoing trade war with the U.S. Boeing continues to build 42 737 MAXs per month and has a backlog of nearly 5,500 commercial airplanes at a value of \$470 billion. The company expects to increase 737 MAX production to 57 per month by late 2020 once it receives regulatory approval for the airplane to return to service. Defense, Space & Security sales increased 2% on higher volumes for its satellites, weapons and T-7A Red Hawk programs. The F-15 program had lower volumes compared to last year. This segment received its fifth production order for 15 KC-46 Tanker aircraft. Revenue for Global Services improved 14% mostly due to the company's acquisition of Boeing Distribution Services Inc, formerly known as KLX. Free cash flow was a negative \$2.4 billion during the quarter due to fewer 737s deliveries. Shares of Boeing closed the trading session 1% higher following the earnings release. 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.

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	\$14.00	\$20.57
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
Shares¹	726	735	745	756	747	707	667	617	591	550	544	500

¹ In millions of shares

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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	24.4	18.0
Avg. Yld.	3.7%	2.6%	2.4%	2.4%	1.9%	2.3%	2.5%	3.3%	2.7%	1.9%	2.4%	3.3%

Shares of Boeing have decreased \$20, or 5.5%, since our 7/24/2019 update. Based off of our revised guidance for 2019, the stock has a price-to-earnings (P/E) ratio of 24.4. 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 5.9% per year through 2024 if shares reverted to our target valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

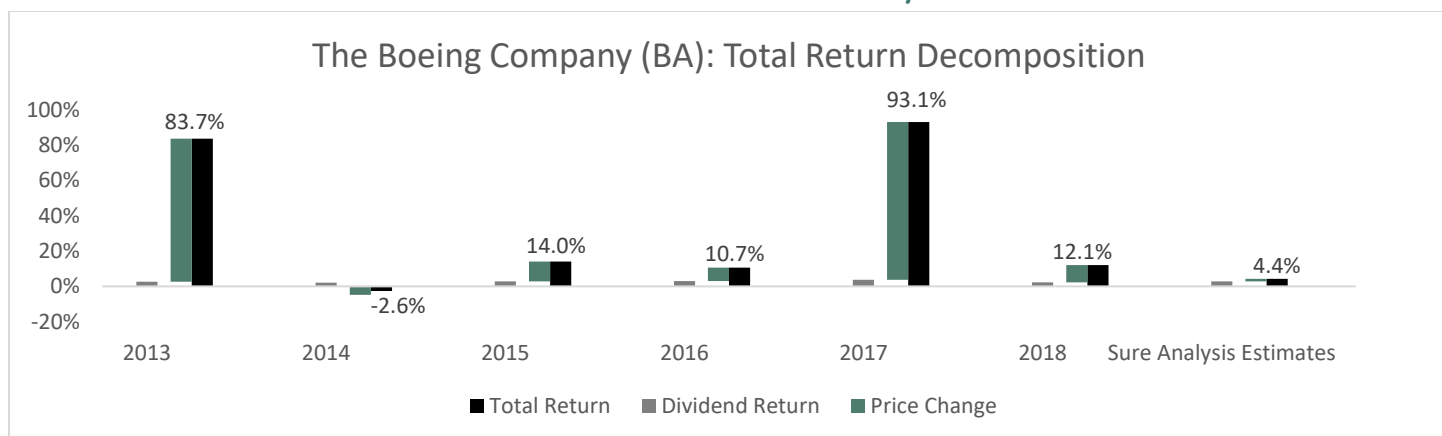
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	90%	38%	35%	34%	33%	40%	49%	40%	49%	43%	59%	59%

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

As expected, Boeing's business continues to be significantly impacted by the grounding of the 737 MAX since the tragic crashes. The recent release of text messages between employees appears to show that Boeing may have known about the issues with the MCAS before it had previously stated, though the company disputes this. While the company is still producing 737 MAXs, it hasn't made deliveries. Still, Boeing maintains a robust backlog of commercial airplanes as there are just two companies capable of building these types of aircraft. We expect that shares of the company can offer a total annual return of 4.4% through 2024, up from 3.4% previously. We are reiterating our sell recommendation on the shares, but we maintain our 2024 price target of \$370.

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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