



# The Boeing Company (BA)

Updated February 4<sup>th</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$318	<b>5 Year CAGR Estimate:</b>	2.3%	<b>Market Cap:</b>	\$179 billion
<b>Fair Value Price:</b>	\$153	<b>5 Year Growth Estimate:</b>	15.0%	<b>Ex-Dividend Date:</b>	2/13/2020
<b>% Fair Value:</b>	207%	<b>5 Year Valuation Multiple Estimate:</b>	-13.6%	<b>Dividend Payment Date:</b>	3/6/2020
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$308	<b>Years Of Dividend Growth:</b>	8
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	20.2%

## 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, with annual sales of \$93 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. 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. 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. In January, Boeing suspended its production of its grounded 737 MAX fleet. The aircraft is not expected to return to service until at least mid-2020.

Boeing reported earnings results for the fourth quarter on 1/29/2020. On an adjusted basis, the company lost \$2.33 per share for the quarter, missing estimates by \$0.50. Revenue declined 37% to \$17.9 billion, which was \$3.9 billion less than expected. For the fiscal year, adjusted earnings-per-share were a loss of -\$3.47. This was the company's first annual loss since the mid-1990s. Revenue for the year declined 24% to \$76.6 billion.

As with previous quarters, much of this decrease in revenue and earnings is attributed to the lack of deliveries of the 737 MAX. Total aircraft deliveries declined 67% to 79 for the quarter and was lower by 53% to 380 for the year. The 787 program booked 36 net orders during the quarter, but Boeing is decreasing production from 14 aircraft per month to 12 later this year. Boeing's backlog remains robust at 5,400 aircraft worth an estimated \$380 billion. The other segments within the company also experience declines during the quarter. Defense, Space & Security revenue for the fourth quarter and full year revenue declined 13% and 1%, respectively. This drop in quarterly results is due to a charge stemming from an additional uncrewed mission for the Commercial Crew Program. Product mix also played a role in results. Global services were down 5% for the quarter, but up 8% for 2019. Lower volumes for commercial services was the primary reason for the year-over-year decline. Free cash flow turned negative in the fourth quarter and full year, finishing down \$4.3 billion at the end of 2019. The company did end the year with \$9.5 billion in cash. Boeing also secured a \$12 billion loan from several financial institutions as well. Analysts have an average estimate of \$9.58 of adjusted earnings-per-share for 2020.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$4.46	\$4.82	\$5.11	\$5.96	\$7.38	\$7.44	\$10.84	\$11.71	\$16.01	-\$3.47	<b>\$9.58</b>	<b>\$19.27</b>
<b>DPS</b>	\$1.68	\$1.68	\$1.76	\$1.94	\$2.92	\$3.64	\$4.36	\$5.68	\$6.84	\$8.22	<b>\$8.22</b>	<b>\$10.49</b>
<b>Shares<sup>1</sup></b>	735	745	756	747	707	667	617	591	550	565	<b>565</b>	<b>565</b>

<sup>1</sup> 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. Despite the issues in the near term, we believe that Boeing will return to a high rate of growth once the 737 MAX is cleared to fly again. We feel that a growth rate of 15% (up from 8%) could occur given the low base earnings-per-share for the current year.

Boeing has increased its dividend by at least 20% every year since 2013, we feel that the dividend will likely grow at lower rate. We estimate that rate to be 5% annually over the next five years.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.7	14.5	14.3	17.3	17.4	19.3	12.3	18.3	23.7	---	33.2	16.0
Avg. Yld.	2.6%	2.4%	2.4%	1.9%	2.3%	2.5%	3.3%	2.7%	1.9%	2.1%	2.6%	3.4%

Shares of Boeing have decreased \$23, or 6.7%, since our 10/24/2019 update. Based off of estimates for 2020, the stock has a price-to-earnings (P/E) ratio of 33.2. Over the last decade, shares have traded with a P/E ratio of 17. Due to the issues with the 737 MAX and estimates, we are lowering our target P/E ratio to 16 from 18. Total returns would be reduced by 13.6% per year through 2025 if shares reverted to our target valuation.

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

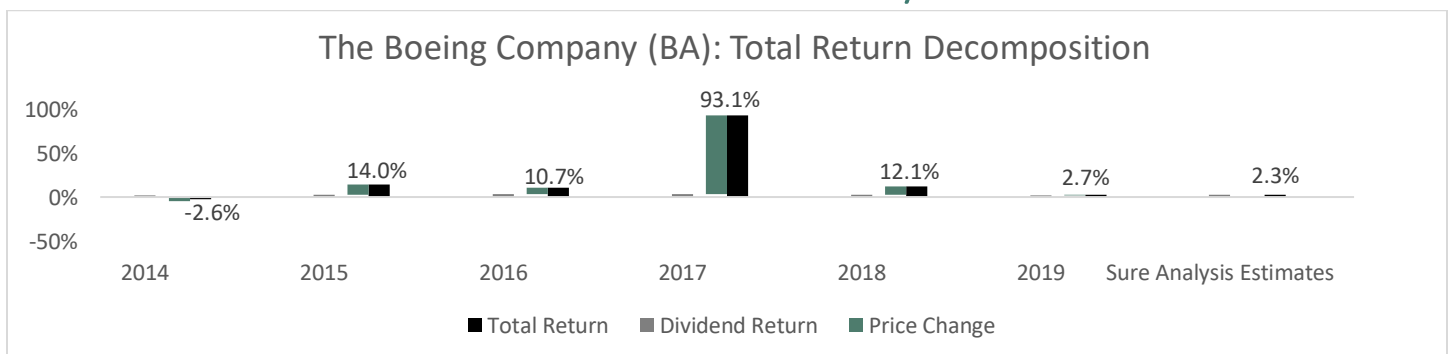
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	38%	35%	34%	33%	40%	49%	40%	49%	43%	---	86%	54%

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. Boeing has an enormous backlog of airplanes that should give it several years of revenue growth.

## Final Thoughts & Recommendation

Not surprisingly, Boeing finished a difficult 2019 on a very poor note. The company posted its first earnings-per-share annual loss in more than two decades and revenues were down by a significant amount. The stop in production of the 737 MAX as well as news that the plane will remain grounded until at least July has weighed heavily on the stock. For now, the company's backlog remains robust. In the short term, the 737 MAX is going to be a major headwind to results. Boeing will likely have to pay airlines a substantial payment due to the lack of deliveries for the aircraft. As such, Boeing is expected to return just 2.3% per year through 2025, down from our previous estimate of a 4.4% return. We have lowered our 2025 price target \$62 to \$308 due to estimates for 2020 and a decrease in our target P/E ratio. We continue to recommend that investors consider selling shares of Boeing.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	64,306	68,735	81,698	86,623	90,762	96,114	93,496	94,005	101,127	76,559
<b>Gross Profit</b>	12,463	12,847	13,033	13,355	14,010	14,026	14,470	17,393	19,637	4,466
<b>Gross Margin</b>	19.4%	18.7%	16.0%	15.4%	15.4%	14.6%	15.5%	18.5%	19.4%	5.8%
<b>SG&amp;A Exp.</b>	3,644	3,408	3,717	3,956	3,767	3,525	3,613	4,095	4,567	3,909
<b>D&amp;A Exp.</b>	1,746	1,675	1,811	1,844	1,906	1,833	1,889	2,047	2,114	2,271
<b>Operating Profit</b>	4,698	5,521	6,018	6,328	7,196	7,170	6,231	10,119	11,801	(2,662)
<b>Op. Margin</b>	7.3%	8.0%	7.4%	7.3%	7.9%	7.5%	6.7%	10.8%	11.7%	-3.5%
<b>Net Profit</b>	3,307	4,018	3,900	4,585	5,446	5,176	5,034	8,458	10,460	(636)
<b>Net Margin</b>	5.1%	5.8%	4.8%	5.3%	6.0%	5.4%	5.4%	9.0%	10.3%	-0.8%
<b>Free Cash Flow</b>	1,825	2,310	5,798	5,941	6,622	6,913	7,883	11,476	13,531	(4,407)
<b>Income Tax</b>	1,196	1,382	2,007	1,646	1,691	1,979	749	1,649	1,144	(1,623)

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets (\$B)</b>	68,565	79,986	88,896	92,663	92,921	94,408	89,997	112,362	117,359	133,625
<b>Cash &amp; Equivalents</b>	5,359	10,049	10,341	9,088	11,733	11,302	8,801	8,813	7,637	9,485
<b>Acc. Receivable</b>	5,422	4,877	4,887	5,749	7,048	8,003	7,804	2,956	3,933	3,337
<b>Inventories</b>	24,317	32,240	37,751	42,912	46,756	47,257	43,199	61,388	62,567	76,622
<b>Goodwill &amp; Int.</b>	7,916	7,989	8,146	8,095	7,988	7,783	7,864	8,132	11,269	11,398
<b>Total Liab. (\$B)</b>	65,703	76,378	82,929	77,666	84,131	88,011	89,120	110,649	116,949	141,925
<b>Accounts Payable</b>	7,715	8,406	9,394	9,498	10,667	10,800	11,190	12,202	12,916	15,553
<b>Long-Term Debt</b>	12,421	12,136	10,230	9,484	8,909	9,814	9,814	10,979	13,691	27,073
<b>Total Equity</b>	2,766	3,515	5,867	14,875	8,665	6,335	817	1,656	339	(8,617)
<b>D/E Ratio</b>	4.49	3.45	1.74	0.64	1.03	1.55	12.01	6.63	40.39	(3.14)

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	5.1%	5.4%	4.6%	5.1%	5.9%	5.5%	5.5%	8.4%	9.1%	-0.5%
<b>Return on Equity</b>	135.1%	127.9%	83.1%	44.2%	46.3%	69.0%	140.8%	684.0%	1048.6%	
<b>ROIC</b>	21.7%	25.9%	24.4%	22.5%	25.8%	30.5%	37.4%	72.3%	78.1%	-3.9%
<b>Shares Out.</b>	735	745	756	747	707	667	617	591	550	565
<b>Revenue/Share</b>	86.76	91.57	107.29	112.85	123.20	138.29	145.45	154.11	172.72	135.41
<b>FCF/Share</b>	2.46	3.08	7.61	7.74	8.99	9.95	12.26	18.81	23.11	(7.79)

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

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