



The Boeing Company (BA)

Updated May 6th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$124	5 Year CAGR Estimate:	12.2%	Market Cap:	\$68.8 billion
Fair Value Price:	\$170	5 Year Growth Estimate:	5.4%	Ex-Dividend Date:	N/A
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.5%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$221	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

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 normalized annual sales of about \$90 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 first quarter on 4/29/2020. Adjusted earnings-per-share of -\$1.70 compared to \$3.16 in Q1 2019. Results were \$0.21 below estimates. Revenue decreased more than 26% to \$16.9 billion, though this was slightly higher the analyst community expected.

As has been the case with previous quarters, much of this decrease in revenue and earnings is attributed to the lack of deliveries of the 737 MAX. Revenue for Commercial Airplanes declined 48%. Boeing delivered 50 commercial airplanes during the quarter, a 66% decrease from the previous year. 787 production has been decreased to 10 from 14 per month for the year. The company expects to reduce it further to 7 per month in 2022. Boeing has 12 787 orders during the quarter and the Commercial Airplanes segment has a backlog of more than 5,000 planes worth \$352 billion. Revenues for the Defense, Space & Security segment dropped 8% due to a charge on the KC-46A program. Results were also impacted by COVID-19 pandemic. Global Services revenues were flat as higher government services volumes were offset by lower commercial services volumes as a result of the ongoing pandemic. Free cash flow was negative \$4.7 billion compared to \$2.3 billion in the previous year. Analysts expect Boeing to lose \$2.67 of earnings-per-share in 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.46	\$4.82	\$5.11	\$5.96	\$7.38	\$7.44	\$10.84	\$11.71	\$16.01	-\$3.47	-\$2.67	\$13.80
DPS	\$1.68	\$1.68	\$1.76	\$1.94	\$2.92	\$3.64	\$4.36	\$5.68	\$6.84	\$8.22	---	---
Shares¹	735	745	756	747	707	667	617	591	550	565	565	565

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. Boeing has an average return on assets of 5.4% over the last decade. Until the company experiences

¹ In millions of shares

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some clarity with the 737 MAX, we feel that this is a more appropriate growth rate going forward. Boeing had increased its dividend by at least 20% every year since 2013, but has paused its dividend payments effective on 3/20/2020.

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	---	11.7	16.0
Avg. Yld.	2.6%	2.4%	2.4%	1.9%	2.3%	2.5%	3.3%	2.7%	1.9%	2.1%	0.0%	0.0%

Shares of Boeing have decreased \$194, or 61%, since our 2/4/2020 update. Using current assets, expected return on assets and average share count, we believe that Boeing has earnings power of \$10.61. We will use this figure to determine fair value and total returns. 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 reaffirming our target P/E ratio of 16. Total returns would add 6.5% per year through 2025 if shares reverted to our target valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

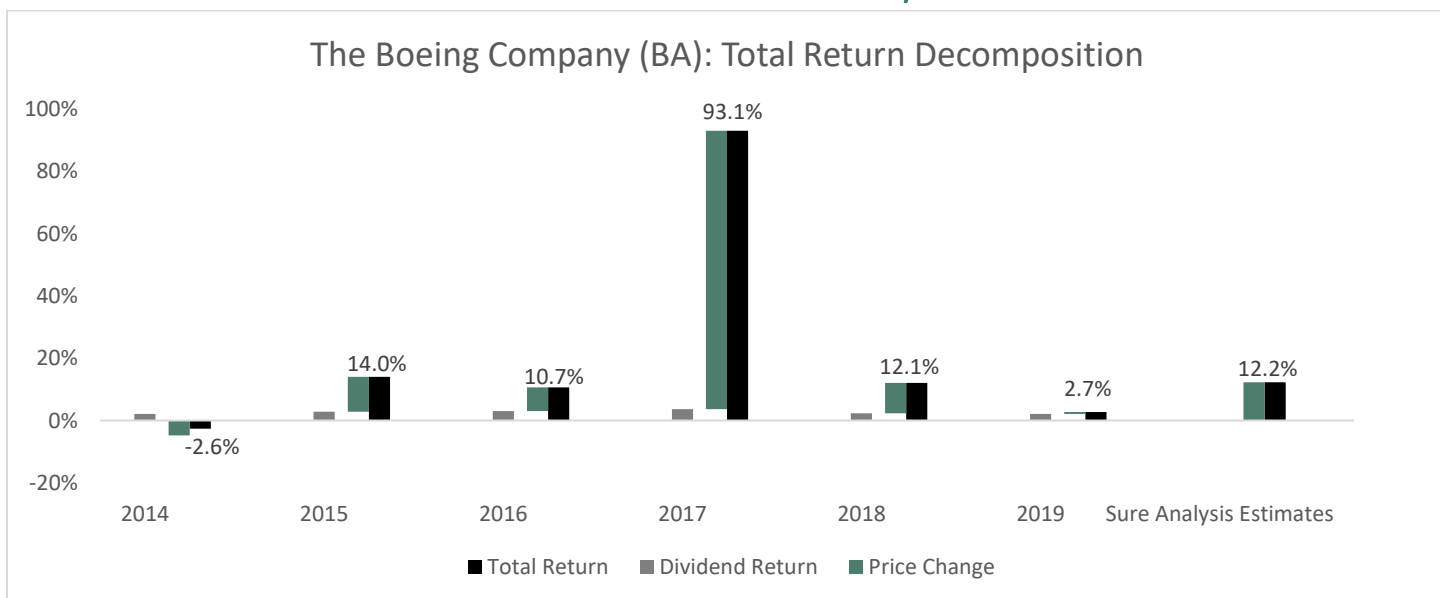
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	38%	35%	34%	33%	40%	49%	40%	49%	43%	---	0%	0%

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

As with the end of 2019, Boeing had an extremely difficult first quarter of 2020. Already challenged due to the 787 MAX grounding, the COVID-19 pandemic also impacted results causing shares to fall more than 60% since our last update. Boeing is expected to offer a total annual return 12.2% through 2025, up from our previous estimate of 2.3%. We have lowered our 2025 price target \$87 to \$221 to more accurately reflect our earnings power estimate. Potential returns for the stock often earn a buy recommendation from Sure Dividend, but we feel that only investors with a higher tolerance for risk consider buying shares of Boeing. All others are encouraged to view the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	64,306	68,735	81,698	86,623	90,762	96,114	93,496	94,005	101,127	76,559
Gross Profit	12,463	12,847	13,033	13,355	14,010	14,026	14,470	17,393	19,637	4,466
Gross Margin	19.4%	18.7%	16.0%	15.4%	15.4%	14.6%	15.5%	18.5%	19.4%	5.8%
SG&A Exp.	3,644	3,408	3,717	3,956	3,767	3,525	3,613	4,095	4,567	3,909
D&A Exp.	1,746	1,675	1,811	1,844	1,906	1,833	1,889	2,047	2,114	2,271
Operating Profit	4,698	5,521	6,018	6,328	7,196	7,170	6,231	10,119	11,801	(2,662)
Op. Margin	7.3%	8.0%	7.4%	7.3%	7.9%	7.5%	6.7%	10.8%	11.7%	-3.5%
Net Profit	3,307	4,018	3,900	4,585	5,446	5,176	5,034	8,458	10,460	(636)
Net Margin	5.1%	5.8%	4.8%	5.3%	6.0%	5.4%	5.4%	9.0%	10.3%	-0.8%
Free Cash Flow	1,825	2,310	5,798	5,941	6,622	6,913	7,883	11,476	13,531	(4,407)
Income Tax	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
Total Assets (\$B)	68,565	79,986	88,896	92,663	92,921	94,408	89,997	112,362	117,359	133,625
Cash & Equivalents	5,359	10,049	10,341	9,088	11,733	11,302	8,801	8,813	7,637	9,485
Acc. Receivable	5,422	4,877	4,887	5,749	7,048	8,003	7,804	2,956	3,933	3,337
Inventories	24,317	32,240	37,751	42,912	46,756	47,257	43,199	61,388	62,567	76,622
Goodwill & Int.	7,916	7,989	8,146	8,095	7,988	7,783	7,864	8,132	11,269	11,398
Total Liab. (\$B)	65,703	76,378	82,929	77,666	84,131	88,011	89,120	110,649	116,949	141,925
Accounts Payable	7,715	8,406	9,394	9,498	10,667	10,800	11,190	12,202	12,916	15,553
Long-Term Debt	12,421	12,136	10,230	9,484	8,909	9,814	9,814	10,979	13,691	27,073
Total Equity	2,766	3,515	5,867	14,875	8,665	6,335	817	1,656	339	(8,617)
D/E Ratio	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
Return on Assets	5.1%	5.4%	4.6%	5.1%	5.9%	5.5%	5.5%	8.4%	9.1%	-0.5%
Return on Equity	135.1%	127.9%	83.1%	44.2%	46.3%	69.0%	140.8%	684.0%	1048.6%	
ROIC	21.7%	25.9%	24.4%	22.5%	25.8%	30.5%	37.4%	72.3%	78.1%	-3.9%
Shares Out.	735	745	756	747	707	667	617	591	550	565
Revenue/Share	86.76	91.57	107.29	112.85	123.20	138.29	145.45	154.11	172.72	135.41
FCF/Share	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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