



The Boeing Company (BA)

Updated February 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$196	5 Year CAGR Estimate:	4.1%	Market Cap:	\$114 billion
Fair Value Price:	\$185	5 Year Growth Estimate:	5.4%	Ex-Dividend Date:	N/A
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$240	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	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 \$80 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. After more than a year of grounding, the 737 MAX has been cleared to fly again in several markets, including in the U.S. and Europe, in recent months.

Boeing announced fourth quarter and full year earnings results on 1/27/2021. Adjusted earnings-per-share of -\$15.25 compared unfavorably to -\$2.33 in the previous year and missed analysts' estimates by \$13.62. Revenue decreased 14.6% to \$15.3 billion, missing expectations by \$60 million. For the year, the company had -\$23.25 of earnings-per-share compared to -\$3.47 in the prior year. Revenue was down 24% to \$58.2 billion.

Included in quarterly results was a \$6.5 billion pre-tax charge for the 777X program. Commercial Airplanes revenue decreased 37% to \$4.7 billion as Boeing experienced a 25% decline in deliveries to 59 aircraft. Aircraft deliveries for the year fell 59% to 157. COVID-19 has dampened air travel and the company estimates it will be at least three years to return to 2019 levels. The company expects to gradually increase production of the 737 MAX to 31 per month in early 2022 with gradual increases depending on market demand. Defense, Space & Security increased 14% to \$6.8 billion due to higher volumes in the fighter programs. Global Services remained challenge as revenue fell 20% to \$3.7 million due to lower commercial services volumes related to the ongoing pandemic. Free cash flow was a -\$4 billion for the quarter. Boeing's total backlog stood at \$363 billion, more than four years' worth of revenue under normalized conditions. Analysts expect that Boeing will produce adjusted earnings-per-share of -\$0.32 for the current year, which would be a remarkable improvement from 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.82	\$5.11	\$5.96	\$7.38	\$7.44	\$10.84	\$11.71	\$16.01	-\$3.47	-\$23.25	-\$0.32	\$15.01
DPS	\$1.68	\$1.76	\$1.94	\$2.92	\$3.64	\$4.36	\$5.68	\$6.84	\$8.22	---	---	---
Shares¹	745	756	747	707	667	617	591	550	565	569	566	565

Boeing saw its earnings per share increase at a rate of more than 12% until 2019. 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 further

¹ In millions of shares

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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 stopped its dividend payments effective 3/20/2020.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.5	14.3	17.3	17.4	19.3	12.3	18.3	23.7	---	---	17.0	16.0
Avg. Yld.	2.4%	2.4%	1.9%	2.3%	2.5%	3.3%	2.7%	1.9%	2.1%	0.0%	0.0%	0.0%

Shares of Boeing have increased \$52, or 36.1%, since our 11/1/2020 update. Using current assets of \$121.6 billion, expected return on assets and average share count, we believe that Boeing has earnings power of \$11.54, down from our prior estimate \$12.42. We will use this figure to determine valuation, 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 be reduced by 1.2% annually over the next five years if shares trade with our target valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

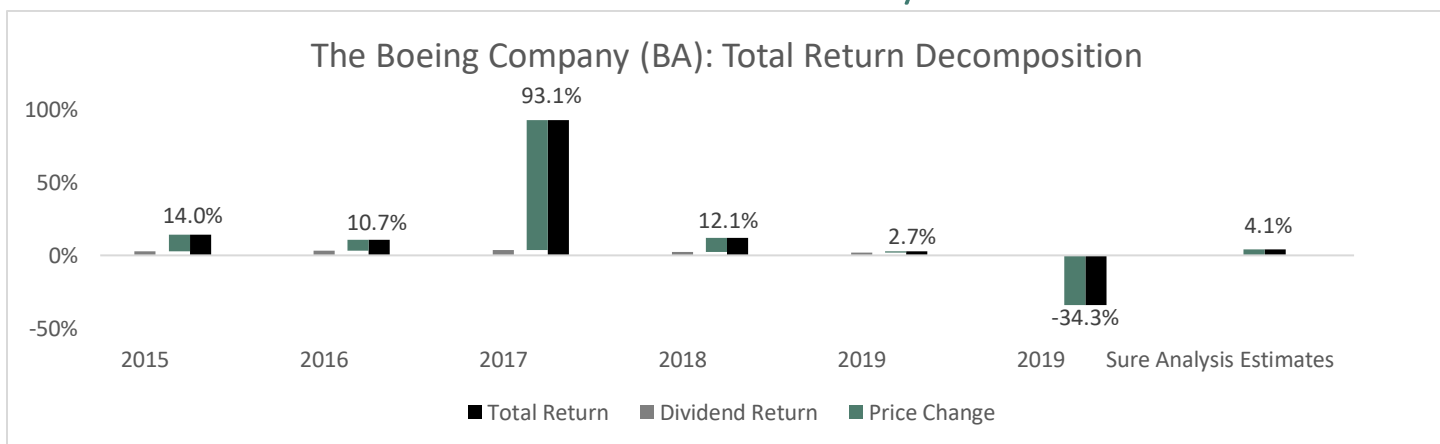
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	35%	34%	33%	40%	49%	40%	49%	43%	---	0%	0%	0%

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

Following fourth quarter and full year earnings results, Boeing is expected to offer a total annual return of 4.1% through 2026, down from our previous estimate of 12.4%. Our projected return stems from a 5.4% expected earnings growth rate partially offset by a low single-digit valuation headwind. The 737 MAX issues and COVID-19 combined to greatly impact Boeing during the quarter and the year. There has been some clarity on the 737 MAX and we believe the approval of return to service in most markets to be a positive. That said, Boeing is forecasting that it will take at least a year for 737 production to return more in-line with pre-crash levels. Just as important, demand for air travel will likely remain for the duration of the COVID-19 pandemic and beyond. Between the 737 MAX issues and the pandemic, we feel that there are too many unknowns with Boeing. We have lowered our five-year price \$18 to \$240 and recommend investors sitting on gains consider taking profits on their position.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	68,735	81,698	86,623	90,762	96,114	93,496	94,005	101,127	76,559	58,158
Gross Profit	12,847	13,033	13,355	14,010	14,026	14,470	17,393	19,637	4,466	(5,685)
Gross Margin	18.7%	16.0%	15.4%	15.4%	14.6%	15.5%	18.5%	19.4%	5.8%	-9.8%
SG&A Exp.	3,408	3,717	3,956	3,767	3,525	3,613	4,095	4,567	3,909	4,817
D&A Exp.	1,675	1,811	1,844	1,906	1,833	1,889	2,047	2,114	2,271	2,246
Operating Profit	5,521	6,018	6,328	7,196	7,170	6,231	10,119	11,801	(2,662)	(12,978)
Op. Margin	8.0%	7.4%	7.3%	7.9%	7.5%	6.7%	10.8%	11.7%	-3.5%	-22.3%
Net Profit	4,018	3,900	4,585	5,446	5,176	5,034	8,458	10,460	(636)	(11,873)
Net Margin	5.8%	4.8%	5.3%	6.0%	5.4%	5.4%	9.0%	10.3%	-0.8%	-20.4%
Free Cash Flow	2,310	5,798	5,941	6,622	6,913	7,883	11,476	13,531	(4,407)	(19,713)
Income Tax	1,382	2,007	1,646	1,691	1,979	749	1,649	1,144	(1,623)	(2,535)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	79,986	88,896	92,663	92,921	94,408	89,997	112,362	117,359	133,625	152,136
Cash & Equivalents	10,049	10,341	9,088	11,733	11,302	8,801	8,813	7,637	9,485	7,752
Acc. Receivable	4,877	4,887	5,749	7,048	8,003	7,804	2,956	3,933	3,337	1,955
Inventories	32,240	37,751	42,912	46,756	47,257	43,199	61,388	62,567	76,622	81,715
Goodwill & Int.	7,989	8,146	8,095	7,988	7,783	7,864	8,132	11,269	11,398	10,924
Total Liab. (\$B)	76,378	82,929	77,666	84,131	88,011	89,120	110,649	116,949	141,925	170,211
Accounts Payable	8,406	9,394	9,498	10,667	10,800	11,190	12,202	12,916	15,553	12,928
Long-Term Debt	12,136	10,230	9,484	8,909	9,814	9,814	10,979	13,691	27,073	63,583
Total Equity	3,515	5,867	14,875	8,665	6,335	817	1,656	339	(8,617)	(18,316)
D/E Ratio	3.45	1.74	0.64	1.03	1.55	12.01	6.63	40.39	(3.14)	(3.47)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.4%	4.6%	5.1%	5.9%	5.5%	5.5%	8.4%	9.1%	-0.5%	-8.3%
Return on Equity	127.9%	83.1%	44.2%	46.3%	69.0%	140.8%	684.0%	1048.6%		
ROIC	25.9%	24.4%	22.5%	25.8%	30.5%	37.4%	72.3%	78.1%	-3.9%	-36.9%
Shares Out.	745	756	747	707	667	617	591	550	565	569
Revenue/Share	91.57	107.29	112.85	123.20	138.29	145.45	154.11	172.72	135.41	102.21
FCF/Share	3.08	7.61	7.74	8.99	9.95	12.26	18.81	23.11	(7.79)	(34.65)

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

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