

The Boeing Company (BA)

\$179.41 (As of 08/10/20)

Price Target (6-12 Months): **\$152.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/29/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

Boeing's commercial business has been suffering significantly, courtesy of lower 737 deliveries as well as impact of the COVID-19 pandemic on commercial aerospace. The global outbreak of COVID-19 coupled with the ongoing grounding of the 737 MAX airplane has been significantly impacting Boeing's business. Moreover, Airbus beat Boeing as the world's largest plane maker in 2019 for the first time in the last eight years. Although the company projects its 737 MAX deliveries to resume during the fourth quarter of 2020, until successful delivery of these jets start and substantial revenues are generated from the same, Boeing's commercial business is likely to perform poorly. Its share price underperformed its industry in the past year. Nevertheless Boeing remains the largest aircraft manufacturer in the United States.

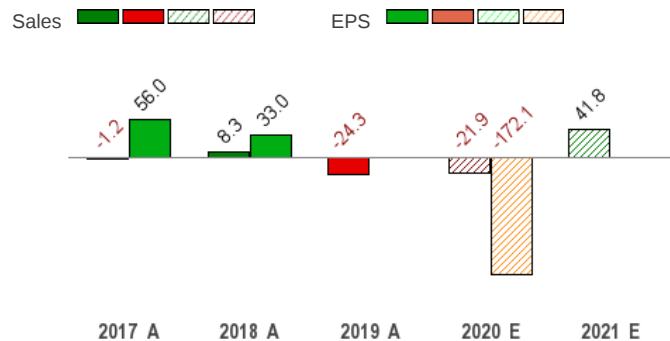
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$391.00 - \$89.00
20 Day Average Volume (sh)	33,662,896
Market Cap	\$101.3 B
YTD Price Change	-44.9%
Beta	1.37
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-63.5%
Last Sales Surprise	-6.4%
EPS F1 Est- 4 week change	-54.6%
Expected Report Date	10/28/2020
Earnings ESP	-4.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	20,069 E	20,690 E	20,856 E	21,050 E	84,781 E
2020	16,908 A	11,807 A	14,563 E	15,867 E	59,787 E
2019	22,917 A	15,751 A	19,980 A	17,911 A	76,559 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.99 E	\$1.22 E	\$1.25 E	\$2.74 E
2020	-\$1.70 A	-\$4.79 A	-\$2.03 E	-\$1.41 E	-\$9.44 E
2019	\$3.16 A	\$2.92 A	\$1.45 A	-\$2.33 A	-\$3.47 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.5

The data in the charts and tables, except sales and EPS estimates, is as of 08/10/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/11/2020.

Overview

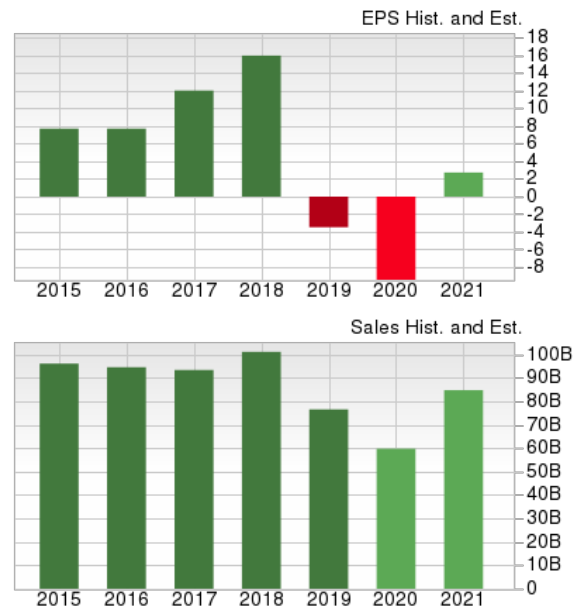
The **Boeing Company** is the largest constituent of the Dow Jones Industrial Average. The company's premier jet aircraft along with varied defense products positions it as one of the largest defense contractors in the United States. Its customers include domestic and foreign airlines, the U.S. Department of Defense (DoD), the Department of Homeland Security, the National Aeronautics and Space Administration (NASA), other aerospace prime contractors, and certain U.S. government and commercial communications customers. Currently the company operates in four segments:

Boeing Commercial Airplanes (BCA) Segment – This segment develops, produces and markets commercial jets, along with providing related support services. The company is a leading producer of commercial aircraft and has a series (737 Next-Generation narrow-body model and the 747, 767, 777 and 787 wide-body models) of commercial jetliners. Segment revenues in 2019 were \$32.26 billion, representing 42% of the company's top line.

The three units that comprise the **Boeing Defense, Space & Security (BDS)** segment are as follows: Boeing Military Aircraft (BMA), Network and Space Systems (N&SS) and Global Services and Support (GS&S). The segment recorded revenues of \$26.23 billion in 2019, contributing 34.3% to the company's top line.

Boeing Global Services (BGS) Segment – This segment brings together certain Commercial Aviation Services businesses and BDS businesses. It provides parts, maintenance, modifications, logistics support, training, data analytics and information-based services to commercial and government customers worldwide. Revenues for this segment in 2019 amounted to \$18.47 billion, comprising 24% of the company's top line.

Boeing Capital Corporation (BCC) Segment – In the commercial aircraft market, BCC provides selective financing solutions for the Commercial Airplanes segment customers. In the space and defense markets, BCC arranges and structures financing solutions for BDS segment government customers. Revenues for this segment in 2019 amounted to \$0.24 billion, comprising 0.3% of the company's top line.



Reasons To Sell:

- ▼ Boeing's commercial business has been suffering due to lower 737 deliveries as a result of the worldwide grounding of 737 Max jets since March 2019, following two fatal crashes involving these jets. Consequently, its commercial deliveries plunged 78% year over year, resulting in a huge 65% decline in the unit's revenues during the second quarter. Such dismal performance recorded by Boeing's largest revenue-generating business segment also hit the company's cash position and hampered other operational results. Boeing incurred adjusted loss of \$4.79 per share in second-quarter 2020. Moreover, operating cash outflow was \$9.58 billion at the end of the reported against cash inflow of \$2.20 billion at the end of June 2019.

Risks related to lower 737 deliveries and increasing competition with Airbus raise concerns.

Further, the BCA unit incurred \$712 million of abnormal production costs related to the 737 MAX program, which in turn dragged down the segment's operating margin in the second quarter. Although the company projects its 737 MAX deliveries to resume during the fourth quarter of 2020, until successful delivery of these jets start and substantial revenues are generated, we expect the performance of Boeing's commercial business to remain poor.

- ▼ The global outbreak of COVID-19 coupled with the ongoing grounding of the 737 MAX airplane has been significantly impacting Boeing's business. As a result of these factors, the aerospace giant expects to witness significant reduction in its revenues, earnings and operating cash flow in the future quarters. Meanwhile, the aerospace industry is facing an unprecedented slump, which has created a tremendous challenge for Boeing's customers, business and the entire aerospace manufacturing and services sector. Notably, the jet maker previously planned to reduce production rate for its 787 to 10 per month in 2020 and gradually reduce to 7 per month by 2022. In light of the ongoing challenges presented by the pandemic and its impact on Boeing's airline customers, the company now plans to reduce the 787 production rate from the current 10 per month to 6 per month in 2021. Such reduced production rate does not bode well for commercial aerospace giants like Boeing.

Moreover, the company currently expects that it will take 2-3 years for travel to return to 2019 levels and a few years beyond that for the industry to return to long-term trend growth. This indicates further operational losses for its BCA unit and makes us skeptical about the segment's recovery in the near term. These latest developments must have discouraged investors interested in this stock. Evidently, Boeing's shares have declined 46.1% in the past year compared with the industry's decline of 27.6%.

- ▼ Canadian, Russian and Chinese manufacturers will begin delivering airplanes, comparable to Boeing 737 over the next few years. In this context, it is imperative to mention that the Commercial Aircraft Corp of China is aiming to make the first delivery of its C919 single-aisle jet in 2021, with several prototypes of C919 taking off in the recent past. The successful launch and delivery of this jet may hamper Boeing's business in the Asia Pacific in the long run.
- ▼ Airbus crossed its 2019 delivery target of 860 planes and beat its long-time rival, Boeing, thereby seizing the title of the world's largest plane maker, for the first time in last eight years. Undoubtedly, the dramatic grounding of Boeing's fastest-selling 737 Max planes in March 2019, followed by the production rate cut of this jetliner in April are to be blamed for this unfortunate turn of events. Needless to say, new orders dried up after two fatal crashes forced Boeing to ground 737 Max jets as airlines refused to take any new delivery. As a result, Boeing's commercial aircraft deliveries touched rock bottom, offering Airbus the golden opportunity to snatch the largest plane maker title. Additionally, Airbus is leading the emerging market for long-range, midsize jets. These recent developments reflect the tough terrain that Boeing's commercial business is going through and the losses it is expected to incur until 737 returns to service.

Risks

- Boeing remains the largest aircraft manufacturer in the United States in terms of revenue, orders and deliveries, and is one of the largest aerospace and defense contractors. Furthermore, its revenue exposure is spread across more than 90 countries around the globe. Although its commercial business outlook for the near term appears grim, over the long run, the jet maker holds immense growth prospects. Per Boeing's latest commercial market outlook (CMO), the company anticipates that the world will need 44,040 new planes, worth \$6.8 trillion between 2019 and 2038. This estimated figure reflects a 3.1% improvement over the company's prior 20-year forecast for jetliner demand.

Boeing expects the commercial fleet to be fueled by sustained annual growth in commercial passenger traffic along with a big wave of retiring, old planes. Of the total units, 44% of the demand will be for the replacement of old aircraft, while the rest will support future growth. Considering such solid projections for a steady improvement in passenger and freight traffic, demand for Boeing's diverse family of commercial airplanes should continue to witness a notable uptick, over the long run.

- While Boeing's commercial business has not been performing well for the past couple of quarters on account of lower 737 deliveries, the outlook for the aerospace giant's defense business remains optimistic. The current U.S. government's inclination toward strengthening the nation's defense system should act as a growth catalyst for defense players like Boeing. Notably, as part of the fiscal 2021 defense budget proposal, \$740.5 billion has been allocated as funding for the Pentagon, reflecting 3% growth over the fiscal 2020 budget. In particular, the budget has allotted \$3 billion for procurement of 15 KC-46, \$2.1 billion for 24 F/A-18 E/F Super Hornets, \$1.2 billion for 52 AH-64E Attack Helicopters, \$0.3 billion for P-8A jets and \$1.6 billion for F-15 EX jets. The financial plan also includes an allotment of \$0.4 billion for the procurement of 1,490 Small Diameter Bomb II. All these expansionary budgetary provisions will immensely boost Boeing's defense business.

Notably, during the second quarter, BDS unit won key contracts worth \$7 billion and the segment's backlog now stands at \$64 billion. Looking ahead, Boeing is focused on future franchise programs such as the MQ-25, the T-7A Red Hawk and the MH-139A Grey Wolf. The company is also working to ensure strong performance of its existing platforms, especially U.S. Air Force KC-46 program and its space programs, including Commercial Crew and Space Launch Systems.

- Boeing's cash and cash equivalent at the end of second quarter of 2020 was \$32.43 billion, compared with \$15.53 billion at the end of March 2020. On the other hand, the company's short-term debt and current portion of long-term debt was worth \$2.92 billion as of Jun 30, 2020, compared with \$5.17 billion as of Mar 31, 2020. This is much lower than its cash reserve balance as of Jun 30, 2020, indicating the jet maker's ability to pay off its short-term obligations.

Moreover, the company's current ratio was 1.41 as of Jun 30, 2020, compared with 1.81 as of Mar 31, 2020. Now, not only does this ratio has improved but is also more than 1, thereby indicating the fact that the jet maker has enough capital on hand to meet its short-term obligations. This makes us optimistic about the firm's ability to meet debt obligations in the near future.

Last Earnings Report

Boeing Q2 Earnings Miss Estimates, Sales Decline Y/Y

Boeing incurred adjusted loss of \$4.79 per share for second-quarter 2020, wider than the Zacks Consensus Estimate of a loss of \$2.93. However, the bottom line improved from the year-ago quarter's loss of \$5.82.

Including one-time items, the company posted GAAP loss of \$4.20 per share compared with loss of \$5.21 registered in the second quarter of 2019.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-6.35%
EPS Surprise	-63.48%
Quarterly EPS	-4.79
Annual EPS (TTM)	-7.37

Revenues

In the quarter under review, Boeing's revenues amounted to \$11.81 billion, which missed the Zacks Consensus Estimate of \$12.61 billion by 6.3%. The top line declined 25% from the year-ago quarter's figure of \$15.75 billion. This decline was due to lower year-over-year revenues that the company's segments recorded in the reported quarter, except its defense unit.

Total Backlog

Backlog at the end of second-quarter 2020 slipped to \$408.7 billion from \$438.6 billion at the end of first-quarter 2020.

Segmental Performances

Commercial Airplane: Revenues at this segment plunged 65% to \$1.63 billion due to lower delivery volume. The segment incurred operating loss of \$2.76 billion compared to loss of \$4.95 billion in the year-ago quarter.

Boeing delivered 20 commercial planes during the quarter under review, down 78%.

Backlog for this segment remains healthy with over 4,500 airplanes valued at \$326 billion.

Boeing Defense, Space & Security (BDS): This segment recorded revenues worth \$6.59 billion in the second quarter, reflecting almost no year-over-year change. While COVID-19 had an adverse impact on derivative aircraft programs, higher volume across the remainder of the portfolio offset that impact.

Meanwhile, this unit generated operating income of \$600 million, compared with \$975 million in the year ago quarter.

Backlog at BDS was \$64 billion, 31% of which comprised orders from international clients.

Global Services: Revenues at this segment declined 23% to \$3.49 billion on account of COVID-19 impacts. Moreover, this unit incurred operating loss of \$672 million against operating income of \$687 million in the year-ago quarter.

Boeing Capital Corporation (BCC): This segment reported quarterly revenues of \$69 million compared with \$75 million registered in the year-ago quarter.

At the end of second-quarter 2020, BCC's portfolio balance was \$2.1 billion.

Financial Condition

Boeing exited the second quarter with cash and cash equivalents of \$20 billion, and short-term and other investments of \$12.44 billion. At the end of 2019, the company had \$7.64 billion of cash and cash equivalents, and \$0.93 billion of short-term and other investments. Long-term debt amounted to \$58.46 billion at the end of the reported quarter, up from \$19.96 billion at 2019 end.

Boeing's operating cash outflow at the end of the second quarter was \$9.58 billion against cash inflow of \$2.20 billion at the end of June 2019.

Free cash outflow totaled \$10.36 billion at second-quarter 2020 end against free cash flow of \$1.28 billion at the end of second-quarter 2019.

Guidance

Due to the uncertainty regarding the timing and conditions related to the 737 MAX fleet's return to service, Boeing has once again refrained from issuing its guidance for now.

Recent News

On **Jul 14, 2020**, Boeing announced program deliveries across its commercial and defense operations for the second quarter of 2020. The figures show a massive 77.8% decline in commercial shipments from the previous year. However, the company's defense shipments increased 18.9% year over year. Combining both segments, Boeing's total deliveries in the second quarter of 2020 were a mere 64 units compared with 127 delivered in the year-ago quarter.

On **Jul 10, 2020**, Boeing declared that it has completed delivery of all new AH-64E Apache and CH-47F Chinook military helicopters to the Indian Air Force (IAF). The final five of the 22 Apache attack helicopters were handed over to the IAF at Air Force Station, Hindan. Earlier in March, Boeing handed over the last five of 15 CH-47F Chinook heavy-lift helicopters to the IAF.

On **Jun 24, 2020**, Boeing announced that Morocco has recently signed a contract to acquire 24 of its AH-64 Apache helicopters. Boeing has delivered nearly 2,500 Apache helicopters to 16 nations to date, including the U.S., Netherlands, Greece, United Kingdom, Japan, India, Singapore, South Korea and Saudi Arabia. Deliveries to Morocco are expected to begin in 2024.

On **Jun 10, 2020**, Boeing announced that its joint venture with Textron, Bell Boeing has recently delivered the 400th V-22 aircraft, a CV-22 for U.S. Air Force Special Operations Command.

The first production V-22 was delivered on May 24, 1999, and today deliveries occur under the Multi-year Procurement III contract valued at \$5 billion. That contract runs through 2024 and includes variants for the Marines, Air Force, and Navy, as well as the first international customer, Japan.

On **May 27, 2020**, Boeing announced that it has decided to terminate 12,000 of its employees in the United States, including 6,770 involuntary layoffs. This is consistent with the company's earlier announcement of cutting 10% of its worldwide workforce of 160,000 by the end of 2020 made in April.

In a separate press release, Boeing declared resumption of production of its 737 MAX commercial jet at its Renton, WA, plant at a low rate. These back-to-back announcements instilled new hope among the jet giant's investors. The stock has been going downhill since last March.

On **May 17, 2020**, Boeing declared that it has secured two contracts worth a combined \$2.6 billion for manufacturing air-to-surface and anti-ship missiles for Saudi Arabia and other nations across the globe. Both contracts have been awarded by the Naval Air Systems Command, Patuxent River, MD.

The first contract worth \$1.97 billion involves the production and delivery of 650 Standoff Land Attack Missile Expanded Response (SLAM ER) missiles to Saudi Arabia, whereas the second contract worth \$657 million is related to the delivery of 467 Harpoon Block II missiles. The second deal also entails the delivery of support equipment to Saudi Arabia, Japan, Brazil, Thailand, the Netherlands, India and South Korea.

Valuation

Boeing's shares are down 44.9% in the year to date period and 46.1% over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 23.1% and 33.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 27.6% while the sector is down 33.2%.

The S&P 500 index is up 3.9% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 1.4X forward 12-months sales, which compares to 1.3X for the Zacks sub-industry, 1.7X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.3X and as low as 0.6X, with a 5-year median of 1.5X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$152 price target reflects 1.15X forward 12-months sales.

The table below shows summary valuation data for BA

Valuation Multiples - BA					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.35	1.29	1.67	3.66
	5-Year High	2.33	1.64	1.67	3.66
	5-Year Low	0.59	0.95	0.92	2.53
	5-Year Median	1.54	1.28	1.18	3.05
EV/EBITDA F12M	Current	32.11	14.49	17.61	12.72
	5-Year High	32.11	16.49	17.61	14.22
	5-Year Low	6.75	7.81	6.85	9.05
	5-Year Median	12.52	17.79	9.01	11.02
EV/SALES TTM	Current	1.91	1.64	2.3	3.25
	5-Year High	2.69	1.96	2.32	3.46
	5-Year Low	0.72	0.96	1.03	2.14
	5-Year Median	1.71	1.5	1.54	2.86

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Airbus Group (EADSY)	Neutral	3
General Dynamics Corporation (GD)	Neutral	3
L3Harris Technologies Inc (LHX)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	3
Raytheon Technologies Corporation (RTX)	Neutral	3
Safran SA (SAFRY)	Neutral	4
Textron Inc. (TXT)	Neutral	3

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	BA	X Industry	S&P 500	EADSY	GD	LMT
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	A	B	A
Market Cap	101.27 B	11.53 B	23.56 B	66.11 B	44.92 B	108.81 B
# of Analysts	7	5	14	1	8	8
Dividend Yield	0.00%	0.01%	1.71%	0.00%	2.81%	2.47%
Value Score	F	-	-	B	B	B
Cash/Price	0.34	0.09	0.07	0.25	0.05	0.03
EV/EBITDA	159.92	9.86	13.39	13.99	9.67	13.01
PEG Ratio	NA	1.99	2.92	NA	2.72	2.33
Price/Book (P/B)	NA	3.36	3.18	9.78	3.23	28.74
Price/Cash Flow (P/CF)	331.37	10.51	12.69	9.05	10.51	14.80
P/E (F1)	NA	16.14	22.16	56.97	14.12	16.14
Price/Sales (P/S)	1.52	1.16	2.55	1.02	1.17	1.73
Earnings Yield	-5.26%	3.91%	4.33%	1.76%	7.08%	6.20%
Debt/Equity	-5.14	0.75	0.77	2.62	0.75	3.22
Cash Flow (\$/share)	0.54	2.73	6.94	2.33	14.89	26.30
Growth Score	F	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	-7.63%	14.85%	10.41%	9.21%	6.15%	18.30%
Proj. EPS Growth (F1/F0)	-171.96%	1.87%	-6.51%	-71.09%	-7.45%	9.87%
Curr. Cash Flow Growth	-97.35%	11.64%	5.26%	11.92%	3.16%	18.08%
Hist. Cash Flow Growth (3-5 yrs)	-48.30%	7.38%	8.55%	5.74%	6.36%	9.70%
Current Ratio	1.41	1.31	1.34	0.91	1.27	1.31
Debt/Capital	NA%	42.98%	44.59%	72.37%	42.98%	76.28%
Net Margin	-4.27%	5.59%	10.13%	-7.63%	8.47%	10.25%
Return on Equity	-3.08%	10.92%	14.59%	27.24%	24.10%	182.05%
Sales/Assets	0.47	0.79	0.51	0.51	0.76	1.29
Proj. Sales Growth (F1/F0)	-21.91%	0.00%	-1.54%	-31.83%	-2.49%	8.29%
Momentum Score	F	-	-	B	F	B
Daily Price Chg	5.52%	2.18%	0.91%	3.69%	2.35%	0.94%
1 Week Price Chg	7.61%	1.53%	2.30%	12.13%	4.25%	1.75%
4 Week Price Chg	2.14%	6.96%	8.54%	12.67%	9.62%	10.25%
12 Week Price Chg	32.47%	17.70%	13.68%	41.76%	12.24%	3.10%
52 Week Price Chg	-46.10%	-15.15%	3.71%	-39.56%	-13.66%	3.25%
20 Day Average Volume	33,662,896	651,559	2,015,804	328,513	1,276,143	1,231,497
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-54.60%	0.00%	1.67%	254.17%	-0.58%	2.01%
(F1) EPS Est 12 week change	-87.00%	-1.22%	2.27%	143.53%	-1.22%	2.04%
(Q1) EPS Est Mthly Chg	-19.35%	-1.23%	0.67%	NA	-1.37%	-1.17%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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