

Boeing Co. (BA)

Alert: Bloomberg 787-9 Headlines Completely Misleading

What's New – Bloomberg News published headlines earlier today giving readers the impression that it was breaking new news on Boeing's 787-9 program. These headlines were completely misleading and broke no news.

What Did Bloomberg Say? – Bloomberg reported that American Airlines is to experience delays in the first delivery of its first 787-9 due to production issues at Boeing.

What's Not Right with Bloomberg's Reporting? – The language in AMR's filings has been exactly the same since its 10Q filing in April 2012, which has read precisely this: "American's first Boeing 787-9 aircraft was previously scheduled to deliver (subject to reconfirmation rights) in 2014; however, due to production issues such delivery has been delayed." There was no change to this language in today's filing by AMR.

Buy BA Shares on Weakness Driven by This Headline – Bloomberg is breaking no news with its headline and BA has since confirmed through a spokesperson that there has been no change to the 787-9 program.

The BA Long Thesis – In our view, today's Boeing story is more about cash deployment and less about the near-term vagaries of daily order blips and 787 production rate speculation. The backlog and working capital are built, difficult development projects are coming to a close, and execution is in keen focus. Now it's time to generate cash returns for shareholders, and with free cash yields likely pushing the mid-teens by mid-decade (on current prices), we view this as highly likely. As such, we remain buyers of the stock and expect Board-level cash deployment decisions, continued 787 execution, and increasing investor confidence with the company's backlog to act as catalysts.

Company Update

Buy	1
Price (17 Oct 12)	US\$73.61
Target price	US\$89.00
Expected share price return	20.9%
Expected dividend yield	2.7%
Expected total return	23.7%
Market Cap	US\$55,340M

Price Performance (RIC: BA.N, BB: BA US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Boeing Co.

Valuation

We apply a sum-of-the-parts valuation methodology to Boeing. To the commercial business (68% of 2014 segment income) we apply a 15x FTM P/E multiple, in line with commercial aerospace peers. In our view, a premium multiple is warranted due to the production up-cycle we're embarking upon as well as the relative resiliency of the commercial aerospace market. We apply a 10.6x multiple to the defense business (32% of income), representing a 20% discount to the market. This is a slight premium to our target defense multiple (25% discount) due to BDS' premium backlog visibility and international content. This gives us a blended target multiple of 13.6x, which yields an \$89 target price when applied to our 2014 EPS estimate of \$6.51.

Risks

The commercial aerospace industry is intrinsically risky given its vulnerability to unpredictable shocks that cannot be incorporated into earnings models, such as terrorism, volatile oil prices, and epidemics. Furthermore, the industry is highly correlated to economic growth, and relies on economic expansion for air traffic growth. The company's other exposure is the defense market, which is subject to changes in public opinion, global threats to the U.S. and its allies, the state of the federal budget, and the condition of existing U.S. and allied military equipment.

Boeing's shares may materially underperform our target price should the broader economy slip back into recession, resulting in decreased airline traffic and plane orders. Shares would also underperform to the extent that DoD budgets were severely cut. The company is also subject to intense commercial competition with Airbus, especially in the narrow-body segment, where defending market share could come at the expense of margin. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Appendix A-1

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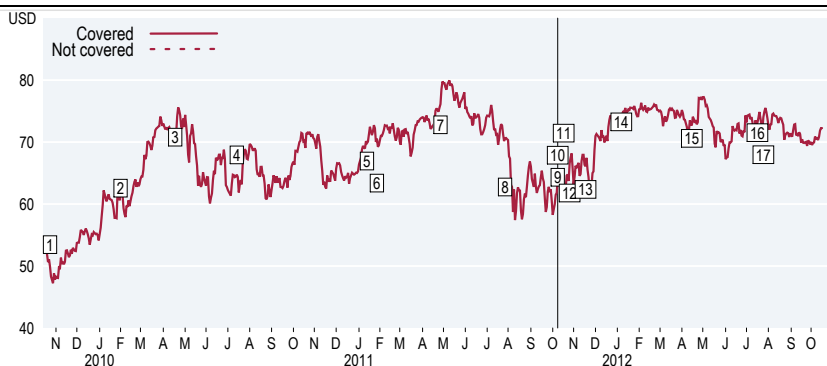
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Boeing Co. (BA)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	23-Oct-09	2H	*50.00	49.89
2	31-Jan-10	2H	*59.00	60.60
3	19-Apr-10	2H	*73.00	70.96
4	14-Jul-10	*1H	*80.00	64.75
5	13-Jan-11	1H	*85.00	69.83
6	27-Jan-11	1H	*84.00	70.56

* Indicates change

	Date	Rating	Target Price	Closing Price
7	27-Apr-11	1H	*90.00	76.12
8	27-Jul-11	1H	*85.00	70.63
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	85.00	61.81
11	18-Oct-11	1	*87.00	63.47
12	26-Oct-11	1	*78.00	66.56

	Date	Rating	Target Price	Closing Price
13	17-Nov-11	1	*82.00	66.09
14	6-Jan-12	1	*87.00	73.98
15	16-Apr-12	1	*89.00	72.68
16	17-Jul-12	1	*93.00	73.11
17	25-Jul-12	1	*89.00	74.03

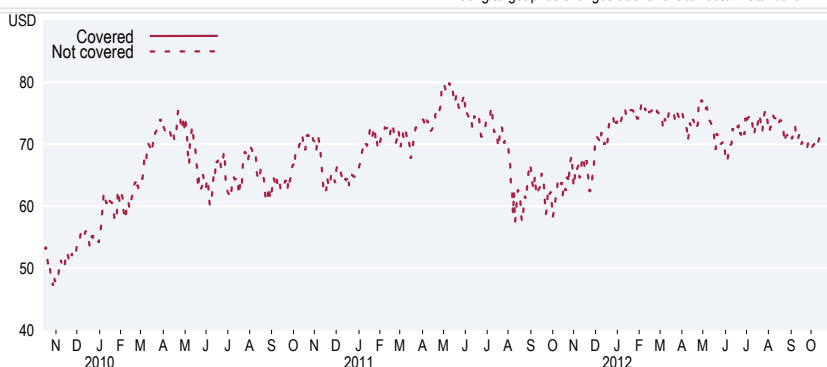
Rating/target price changes above reflect Eastern Standard Time

Boeing Co. (BA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

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