

23 October 2013 | 7 pages

Aerospace & Defense  
North America | United States

# Boeing Co. (BA)

## Results: Momentum Continues

- **Citi's Take** — BA printed a solid quarter, raised 2013 guidance, and offered up some details suggesting the longer-term building blocks for continued growth are coming together. This should give shares a boost today.
- **Quarter details** — Sales / EPS of \$22.13B / \$1.80 beat Street estimates of \$21.7b / \$1.55. Upside was driven largely by BCA margins (11.6% vs. Citi at 10.1%) as the company continues to execute. Importantly, 787 deferred production costs appear to have decelerated q/q. The company also repurchased \$800M in stock this quarter.
- **Guidance** — No change to sales outlook but EPS guidance raised to \$6.60 to \$6.65 vs. the Street at \$6.52 driven by a better margin outlook for both BCA and BDS. The company also boosted its cash flow outlook by \$500M (to operating cash flow to greater than \$7B).
- **Long-Term Building Blocks** – The company suggests 787 production rates will head 20% higher by 2016 and 40% higher by the end of the decade. This should provide some visibility on longer-term revenue and earnings growth.
- **Conference Call** — 10:30 AM ET. Dial 612-332-0725, password: Boeing.
- **Implications** — The higher production rates on the 787 should be positive for suppliers such as BEAV, PCP, and COL, amongst others.

<b>Buy</b>	<b>1</b>
Price (22 Oct 13)	US\$122.48
Target price	US\$142.00
Expected share price return	15.9%
Expected dividend yield	1.8%
<b>Expected total return</b>	<b>17.7%</b>
Market Cap	US\$92,404M

### 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. We apply a 17x FTM P/E multiple to the commercial business (74% of 2015 segment EBIT) reflecting a PEG of ~1x for that business alone (EBIT growth on production rate increases & margin improvement). In our view, this premium multiple vs. the market is warranted due to on-going production up-cycle and record backlogs combining for a resilient commercial aero market with multi-year visibility. We apply a 12.8x multiple to the defense business, representing a ~15% discount to the market. This is a premium to where defense shares have historically traded during similar budget environments due to BDS enjoying a more robust cash outlook, good backlog visibility, and high international content. The blended target multiple of 15.9x is applied to our 2015 core EPS estimate to yield our \$142 target price. We expect investors to focus on this pension-adjusted "core EPS" now that Boeing has begun guiding specifically to this figure which accurately reflects underlying performance.

### 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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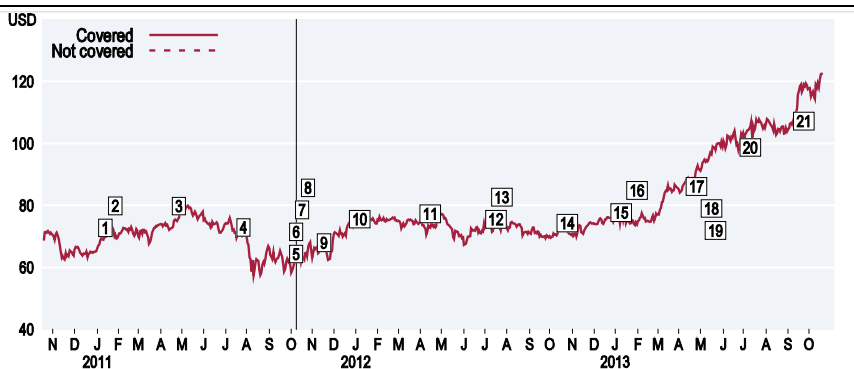
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Analyst: Jason Gursky



Date	Rating	Target Price	Closing Price
1 13-Jan-11	1H	*85.00	69.83
2 27-Jan-11	1H	*84.00	70.56
3 27-Apr-11	1H	*80.00	76.12
4 27-Jul-11	1H	*85.00	70.63
5 8-Oct-11	Stock rating system changed		
6 8-Oct-11	*1	85.00	61.81
7 18-Oct-11	1	*87.00	63.47

\* Indicates change

Date	Rating	Target Price	Closing Price
8 26-Oct-11	1	*78.00	66.56
9 17-Nov-11	1	*82.00	66.09
10 6-Jan-12	1	*87.00	73.98
11 16-Apr-12	1	*89.00	72.68
12 17-Jul-12	1	*93.00	73.11
13 25-Jul-12	1	*89.00	74.03
14 25-Oct-12	1	*84.00	71.54

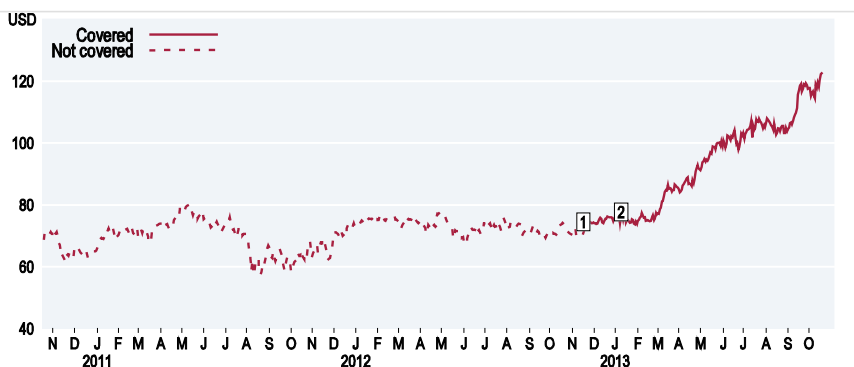
Date	Rating	Target Price	Closing Price
15 9-Jan-13	1	*104.00	76.76
16 31-Jan-13	1	*100.00	73.87
17 25-Apr-13	1	*105.00	91.67
18 16-May-13	1	*112.00	96.58
19 22-May-13	1	*118.00	97.93
20 10-Jul-13	1	*122.00	105.50
21 24-Sep-13	1	*142.00	119.00

Rating/target price changes above reflect Eastern Standard Time

### Boeing Co. (BA)

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

Analyst: Jason Gursky



Date	Rating	Target Price	Closing Price
1 16-Nov-12	*ADD MP	-	70.77

\* Indicates change

Date	Rating	Target Price	Closing Price
2 9-Jan-13	*REM MP	-	76.76

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Data current as of 30 Sep 2013

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