

THE OIC GROUP

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# Monthly Report

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November 2024



# OIC Research Group | Analyst Group Report

Associate: Jason Chiang    Analysts: Karson Shi, Richard Lo, and Yvonne Do

November 2024

## Boeing US\$24.3bn Stock Offering

### Transaction Summary

Announcement Date	October 28, 2024
Common Stock	112,500,000 shares
	Par value US\$5.00 per share
	Public offering price of US\$143.00 per share
Depositary Shares	US\$5 bn
	Public offering price of US\$50.00 per share
	Each representing a 1/20th interest in a share of newly issued 6.00% Series A Mandatory Convertible Preferred Stock
Over-allotment	16,875,000 shares of Common Stock
	US\$750 mn of Depositary Shares
Bookrunning Managers	GM, BofA, Citi, JPM

### Deal Background

- Underperformance in stock price and financials:** Boeing's stocks are trading at lows not seen since 2022, where [shares have slumped by over 40% this year](#). According to 3Q24 financial reports, the Company is suffering from [a loss of US\\$6.17bn](#), widening the gap from a loss of US\$1.64bn in 3Q23.
- Questioned safety matters:** In the last five years, Boeing has been faced with [multiple safety concerns](#), 2 fatal crashes of its 737 Max and other cases with faulty components. The Federal Aviation Administration (FAA) will open a [three-month review of Boeing's compliance with safety regulations](#).
- Union workers on strike:** Since Sep 13, 2024, around [33,000 machinists working on key products](#) have been on strike, demanding a 40% wage increase, the restoration of a defined-benefit pension, and a fundamental culture change. On Nov 5, 2024, 59% of the members voted in favor of a new contract that includes a [38% pay rise over four years](#), ending the seven-week strike.

### Deal Rationale

- Preserve investment-grade credit rating:** The credit score on Boeing's [unsecured debt has stood at Baa3](#) with Moody's Ratings since April 2024. After the strike, Boeing is at risk of being [downgraded to the junk category](#) if its cash balance falls below US\$10 bn.
- Shove up its financials:** The company has [over US\\$57 bn of outstanding debt](#), in which the strike is estimated to cost Boeing US\$1.5 bn a month. The company also reported US\$10.5 bn in cash and marketable securities in 3Q24, showing [a decrease of US\\$2.0 bn QoQ](#).
- Cover general corporate purposes:** Boeing intends to use the funds to [repay debt, increase working capital and expenditures, and fund in Boeing's subsidiaries](#).

### Company



#### The Boeing Company (US: BA)

The Boeing Co. is [an aerospace company that manufactures commercial jetliners and defense, space, and security systems](#). It operates through four segments: Commercial Airplanes (BCA), Defense, Space and Security (BDS), Global Services (BGS), and Boeing Capital (BCC). As a leading global aerospace firm and a top U.S. exporter, Boeing utilizes a worldwide supplier network to promote economic opportunity and sustainability. There are more than [10,000 Boeing commercial jetliners in service](#), flying passengers and freight more efficiently than competing models. Being [the world's second-largest defense company](#), BDS provides capabilities for mission requirements from the seabed to outer space, while Boeing Global Services offers [cost-effective service solutions for commercial, defense, and space customers](#).

Founded Year	1916
HQ	Virginia, USA
Sector	Aerospace & Defense
Market Cap	US\$ 113.39 bn
3Q24 Revenue	US\$ 17.84 bn
3Q24 EBIT	US\$ -5.76 bn
3Q24 Net Loss	US\$ -6.17 bn
EV/Revenue	2.19x
EV/EBITDA	111.56x

Boeing Co. Stock Price 2024



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## Pre-Offering: Myriad of problems concerning corporate stability

- **Strategic Focus on Aircraft Production Recovery:** The equity issuance can be viewed as a way for Boeing to **recover its aircraft production levels**, including for high-demand models like the 737 MAX and the 787 Dreamliner, which faced previous setbacks due to **supply chain disruptions**. Restoring production levels is key to regaining market share.
- **Credit Rating Concerns:** Boeing's credit rating was at risk of being **downgraded to junk status** due to its deteriorating financial position. Maintaining an investment-grade rating was crucial to avoid increased borrowing costs and to preserve investor confidence.
- **Regulatory Scrutiny and Certification Delays:** Boeing has faced significant regulatory challenges, notably with the **777X program**. The Federal Aviation Administration (FAA) has delayed the aircraft's certification due to design and testing issues, pushing the expected first delivery to 2026. These delays have disrupted production schedules and strained customer relationships, emphasizing the need for enhanced compliance and quality assurance measures.

## Post-Offering: Hope to restore investor confidence and boost credit rating

- **Financial Strength:** Given that Boeing as of September of 2024, only had **10.5 mn liquid assets**, which is not enough to cover the **11.5 bn bond redemption payment** in February 2025 without further selling of assets. The equity financing could be used to lessen pressure.
- **Capital Structure:** Having a negative while decreasing equity contribution (**169.1% of debts and 69.1% of common equity** as of September 2024 book capital structure), Boeing may be over-leveraged. The deal will lower the financial leverage and invest in more equity. The capital structure risk level would be lower after the share issuance.
- **Investor confidence:** The equity issuance can be able to secure the level of **at least US\$10 bn** in liquid assets in order not to be downgraded to a non-investment credit rating grade. Having negative profit and free cash flow for consecutive years, the equity raising may mark the confidence towards its future development.

## Risk and Considerations

- **Cash Flow Constraints:** Boeing's liquidity position remains under pressure, with cash and marketable securities reported at **US\$10.5 bn in 3Q24**—a drop of **US\$2.0 bn** QoQ. If **insufficient equity financing is raised**, Boeing risks further downgrades in its credit rating and potential deterioration of investor confidence.
- **Potential Dilution for Existing Shareholders:** Including both common stock and mandatory convertible preferred stock, Boeing could issue between approximately **170.78 mn** and **182.44 mn** new shares. This would result in a total of approximately **770.78 mn to 782.44 mn shares** outstanding. Existing shareholders could see their ownership percentage **diluted** by approximately **22.2% to 23.3%**, depending on the final conversion rate of the preferred shares.
- **Market Volatility:** The aerospace and defence industry remains susceptible to macroeconomic shocks, geopolitical risks, and fluctuating demand for commercial and defence products. Boeing's ability to navigate these external challenges will significantly impact the success of its post-offering recovery efforts and shareholder returns.

## Precedent Transaction

Offering Date	Company	Ticker	Amount Raised (US\$)	EV/Sales	EV/EBITDA
Oct 28, 2024	The Boeing Company	NYSE: BA	16.1 bn	1.92x	-39.73x
May 28, 2024	FTAI Aviation Ltd.	NasdaqGS:FTAI	163.7 mn	3.08x	6.47x
Nov 13, 2023	AerCap Holdings N.V.	NYSE:AER	1743.6 mn	7.92x	15.21x
Nov 9, 2023	Spirit AeroSystems Holdings, Inc.	NYSE:SPR	200 mn	1.11x	-22.75x
Nov 17, 2021	Montana Aerospace AG	SWX:AERO	163.8 mn	2.19x	44.30x
Mar 23, 2018	Bombardier Inc.	TSX:BBDB	496.38 mn	0.95x	18.35x
Apr 17, 2013	Airbus SE	ENXTPA:AIR	2.95 bn	-0.01x	-0.13x
<b>Mean</b>				<b>2.5x</b>	<b>3.1x</b>
<b>Median</b>				<b>1.9x</b>	<b>6.5x</b>