The Credit Suisse “Beyond the Pandemic” series reflects investment themes that will shape the fortunes of industries and companies in the “new-normal” of a post-COVID-19 world. This note is a brief companion piece to our full report slide deck.

The goal of this report is to provide a clear bottom-up (program level) projection of Boeing’s likely FCF trajectory through 2024 for the purpose of valuing the equity. This, in our view, should make the absolute estimate more useful and provide a simpler framework to spark discussion within the investor base about the post-crisis cash profitability of the business. This note is accompanied by a rebuild of our Boeing model. We now forecast FY’24 (normalized) FCF/sh of $18.50. We value the company using an 8.0% FCF yield on 2024 CSe, discounted back 3 years at 8%—resulting in our $184 target price. We reiterate Neutral given limited upside to our TP, long-only fatigue, increased financial leverage, proven fragility, an increased likelihood of future development issues (due to mass layoffs—the same occurred on 787 post 9/11 layoffs), and increased uncertainty regarding the company’s terminal value. However, we note there could be some near-term opportunity for shares given the catalyst path (MAX ungrounding, potential vaccine/therapeutic progress).

**2024 FCF/sh Summary:** For 2024, which is the first year to NOT include inventory liquidations in our model, we forecast FCF/sh of $18.50, consisting of ~$12 from BCA, ~$4 at BGS, and ~$3 at BDS (difference to total due to rounding). Our BCA estimate is fully burdened by $2.79/sh of after liquidations in our model, partially offset by $2.43/sh of working capital benefit.

**Model update:** Our FY’20-22 Core EPS est. revise to $(10.46)/0.01/7.14 from $(9.10)/2.88/8.83, and we introduce our ’23-24 ests of $8.95/9.07.

**Valuation / Risks:** We expect investors to continue to value BA on FCF given distortion from program accounting’s smoothing bias in EPS. In that vein, we value BA using an 8.0% yield on ‘24E FCF/sh of $18.50, discounted back 3 years at 8%. This results in our TP of $184 (increased from $154). Risks include the demand impact of COVID-19, customer bankruptcies, changes to the competitive landscape, lower defense budgets.
**Company Background**

The Boeing Company (Boeing) is an aerospace company. Boeing is engaged in the design, development, manufacture, sale and support of commercial jetliners, military aircraft, satellites, missile defense, human space flight, and launch systems and services.

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**Blue/Grey Sky Scenario**

### Analyst: Robert Spingarn  
**Rating:** Neutral [V]  
**Target Price:** (from 154.00) 184.00

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**Price (02 Oct 2020): US$168.08**  
**Valuation:** (from 205.00) 262.00

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**Share price performance**

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**On 02-Oct-2020 the S&P 500 INDEX closed at 3348.44**

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**Daly Oct04, 2019 - 02-Oct, 2020, 10/04/19 = US$375.7**

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**Boeing (BA)**

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**Price Statement (02 Oct 2020): US$168.08**

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**Income Statement**

<table>
<thead>
<tr>
<th>12/19A</th>
<th>12/20E</th>
<th>12/21E</th>
<th>12/22E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (US m)</td>
<td>76,560.0</td>
<td>59,947.9</td>
<td>81,552.3</td>
</tr>
<tr>
<td>EBITDA (US$ m)</td>
<td>(1,121)</td>
<td>(4,408)</td>
<td>4,526</td>
</tr>
<tr>
<td>Dep. &amp; amort.</td>
<td>(2,271)</td>
<td>(2,230)</td>
<td>(2,190)</td>
</tr>
<tr>
<td>EBIT (US$)</td>
<td>(1,975)</td>
<td>(5,254)</td>
<td>3,703</td>
</tr>
<tr>
<td>Net interest exp</td>
<td>(294)</td>
<td>(1,658)</td>
<td>(2,068)</td>
</tr>
<tr>
<td>PBT (US$)</td>
<td>(2,259)</td>
<td>(6,912)</td>
<td>1,635</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1,625</td>
<td>4,326</td>
<td>(294)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>(636)</td>
<td>(4,586)</td>
<td>1,341</td>
</tr>
<tr>
<td>EPS</td>
<td>US$168.08</td>
<td>US$145.971</td>
<td>US$158.922</td>
</tr>
<tr>
<td>Net margin (%)</td>
<td>0.98</td>
<td>1.72</td>
<td>3.16</td>
</tr>
<tr>
<td>Pretax margin (%)</td>
<td>0.31</td>
<td>0.46</td>
<td>0.46</td>
</tr>
<tr>
<td>EPS growth (%)</td>
<td>0.98</td>
<td>1.72</td>
<td>3.16</td>
</tr>
<tr>
<td>ROIC (%)</td>
<td>1.89</td>
<td>3.72</td>
<td>7.56</td>
</tr>
<tr>
<td>Gearing</td>
<td>0.98</td>
<td>1.72</td>
<td>3.16</td>
</tr>
</tbody>
</table>

---

**Balance Sheet (US$)**

<table>
<thead>
<tr>
<th>12/19A</th>
<th>12/20E</th>
<th>12/21E</th>
<th>12/22E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>9,485</td>
<td>11,410</td>
<td>11,545</td>
</tr>
<tr>
<td>Total current assets</td>
<td>102,229</td>
<td>118,694</td>
<td>108,751</td>
</tr>
<tr>
<td>Total assets</td>
<td>133,625</td>
<td>145,971</td>
<td>136,998</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>97,312</td>
<td>82,712</td>
<td>73,786</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>141,925</td>
<td>158,922</td>
<td>148,546</td>
</tr>
<tr>
<td>Total assets and equity</td>
<td>133,625</td>
<td>145,971</td>
<td>136,998</td>
</tr>
<tr>
<td>Net debt</td>
<td>17,817</td>
<td>47,219</td>
<td>45,934</td>
</tr>
<tr>
<td>Dividends (US$)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>(7.56)</td>
<td>(38.93)</td>
<td>1.81</td>
</tr>
<tr>
<td>Cash flow per share</td>
<td>(7.56)</td>
<td>(38.93)</td>
<td>1.81</td>
</tr>
</tbody>
</table>

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**Our Blue Sky Scenario (US$)**

Our Blue Sky valuation embeds a scenario in which the recovery outpaces our expectations and BA’s ability to take cost out results in strong post-crisis operating margins. Under these circumstances we could see ~25% upside to our estimates and a higher multiple (7.0% FCF yield), resulting in our $262 blue sky valuation.

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**Our Grey Sky Scenario (US$)**

Our Grey Sky valuation embeds a scenario in which the recovery underperforms our expectations and BA's ability to take cost out is offset by lost efficiencies from lower production rates. Under these circumstances we could see ~15% downside to our estimates and a lower multiple (9.0% FCF yield), resulting in our $139 grey sky valuation.
Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Boeing (BA.N)

Method: Our target price of $184 values BA using an 8.0% yield on ‘24E FCF/sh, discounted back 3 years at 8%. With limited upside to our TP we rate shares Neutral.

Risk: Risks to our $184 target price and our Neutral rating include COVID-19, further delays in the MAX return to service, long-term reputational damage associated with MAX, order cancellations for MAX, MAX-associated legal risk, further safety issues, labor productivity and labor relations, weaker-than-expected commercial aircraft outlook, free cash flow shortfall resulting from a slower burn down of 787 deferred.
Disclosure Appendix

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**Neutral (N)**: The stock’s total return is expected to be in line with the relevant benchmark* over the next 12 months.

**Underperform (U)**: The stock’s total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock’s total return relative to the relevant benchmark* over the next 12 months. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock’s total return relative to the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock’s absolute total return potential to its current share price and (2) the relative attractiveness of a stock’s total return potential within an analyst’s coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR is less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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**Market Weight:** The analyst’s expectation for the sector’s fundamentals and/or valuation is neutral over the next 12 months.

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<table>
<thead>
<tr>
<th>Rating</th>
<th>Versus universe (%)</th>
<th>Of which banking clients (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outperform/Buy</td>
<td>50%</td>
<td>(33% banking clients)</td>
</tr>
<tr>
<td>Neutral/Hold</td>
<td>36%</td>
<td>(28% banking clients)</td>
</tr>
<tr>
<td>Underperform/Sell</td>
<td>12%</td>
<td>(19% banking clients)</td>
</tr>
<tr>
<td>Restricted</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

*For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor’s decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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This research report is authored by:

Credit Suisse Securities (USA) LLC................................................................. Robert Spingarn; Scott Deuschle; Scott Mikus

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