ONE CAPITAL MANAGEMENT, LLC

Perspective

January 14, 2020

January 2020 Catalyst - The Boeing Co.

The Boeing Co. (BA) - New Position

Boeing is the world's largest aerospace company. Alongside its main competitor Airbus, Boeing is one of only two major manufacturers of large airplanes for the commercial airline industry. Boeing jet aircraft models include the 737, 747, 767, 777, and 787 in both passenger and cargo configurations. The company also researches, develops, produces, modifies, and supports information, space, and defense systems, including military aircraft, helicopters and space and missile systems.

Over the past fifteen months, the company has suffered challenges following accidents of two 737 MAX aircraft. The poor handling of the situation and the ensuing negative sentiment surrounding the company weighed on their image and value. While we acknowledge the serious nature of the problems surrounding the 737 MAX, we believe the technical and regulatory solutions to fix them are largely formulated and being put in place. We also believe the adverse financial impact to Boeing is already reflected in the stock price.

Taking a broader view, Boeing is a unique company with special competitive advantages that position it extremely well for the long-run. We expect demand for commercial aircraft to increase over the next twenty years driven by growing demand for passenger routes and cargo. Rising middle class travelers who can afford to travel should bolster airline demand in the coming years, particularly in Asia. Airlines seeking improved fuel efficiency, optimized route networks, and improved passenger flying experiences should further support demand for new commercial aircraft.

With a world-class product line-up and design pipeline, Boeing is well-positioned to take advantage of the market trends. On that note, Boeing ended 2019 with an order backlog of over 7,400 commercial airplanes, worth almost ten years of production – over 4,500 of those orders are represented by the 737 MAX. Parting ways with the previous CEO puts the company on its way to fixing the problems with the MAX and getting back to business-as-usual.

Valued at sixteen times 2021 earnings with a 2.5% dividend yield, BA trades at a discount to both the S&P 500 and its own 5-year average valuation. With normalized annual revenue and cash flow of over $100 billion and $15 billion, respectively, we feel that BA is well-positioned to absorb the losses and rebound from its current challenges, even if it must increase loss provisions for the MAX to $10 billion from approximately $6 billion currently. We acknowledge that the company may issue debt or utililze additional borrowing to support medium-term cash flow needs, but feel that it will be able to readily repay amortized principal once MAX deliveries restart in mid-2020. Boeing's recent missteps provide an attractive entry point for a strategic investment in a bellwether company.