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RATINGS

The Boeing Company

Senior unsecured	A2
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Boeing Company (The)

Reducing 737 MAX production to 42 per month implies a longer grounding, A2 rating unaffected at this time

On April 5, 2019, Boeing announced that it will slow the production of its 737 line to 42 aircraft per month, effective in mid-April, down from the current monthly rate of 52. Boeing had increased its 737 production to 52 per month in 2018 and had indicated plans to increase production to 57 per month sometime in 2019.

We believe the company's decision to slow the production rate indicates that more time is needed than first thought for the MAX to return to service. The FAA grounded the MAX on March 13, after Boeing's March 11 press release in which it stated that the flight control software enhancement it had developed would be deployed across the MAX fleet in “the coming weeks.” Implicitly, Boeing believed that the MAX aircraft would be ready to return to service in a timely manner. This view supported sustaining production at 52 per month. In its April 5 announcement, Boeing stated that slowing the rate will allow it to devote more resources to restoring the MAX to service, including the enhancements to the MCAS (Maneuvering Characteristics Augmentation System) software, the re-certification process and enhancing the 737 production system.

Boeing needs to complete the enhancements to the aircraft's MCAS (Maneuvering Characteristics Augmentation System) software, which played a part in the two MAX crashes. Additionally, a second aspect of the aircraft's flight management software also requires an update. Once Boeing completes these identified software updates, regulatory authorities, including from Canada, China and Europe, in addition to the FAA, will need to certify the functioning of these updates to allow the aircraft to return to service globally. The timing of these approvals could be lengthy. However, following receipt of the updated software, up to 90 days is a reasonable starting point for the various aviation authorities to evaluate the updated systems on the aircraft. Boeing's program to restore the aircraft's flight status includes updating pilot training courses and supplementary educational material for all MAX operators, which could also slow the return to service, including timing of deliveries of new aircraft.

We believe that slowing the rate will not meaningfully reduce working capital demands while deliveries are suspended. Boeing has said that employment levels for the program and production will be maintained. We have no visibility of how pre-delivery payment schedules have been affected since the grounding was implemented, but these payments have likely slowed.

Cash flow pressure will mount if the grounding extends well beyond four months. The company's liquidity coming into 2019 was sufficient for it to manage significant unplanned lower cash inflows and larger cash outflows. Cash and short-term investments was about $8.5 billion on December 31. We estimated free cash flow of about $10 billion for the year, the majority of which we believe comes from the 737 program. We now anticipate that free cash flow will fall significantly below our original estimate for 2019. Boeing also issued $1.5 billion of new notes in February to refinance upcoming maturities. The company also has $5.1 billion of revolving credit facilities to help fund working capital needs as it continues production during the delivery hiatus. The next debt maturities are Boeing Capital Corporation's 4.7%, $500 million notes due October 27, 2019 and the company's 4.875%, $750 million notes due February 15, 2020 and the 1.65% notes due October 30, 2020.

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