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Boeing Recovery May Be Stunted in Airline Credit Gap

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Jan. 27 (Bloomberg) -- Boeing Co., emerging from a year in which production delays and a strike hurt earnings, may find scant relief in 2009 as the global recession and credit crunch cripple the ability of airlines to buy planes.

The world's second-largest commercial-plane maker last month said its record $276 billion order backlog has hardly been hit by cancellations or deferrals. That may change as customers of Boeing and larger rival Airbus SAS come up as much as $25 billion short of what they need in financing, investors and bankers said before tomorrow's fourth-quarter earnings report.

"Boeing has been trying to put a rather upbeat face on the reality of the market, and I think they're behind the curve," said Jon Kutler, chairman of Admiralty Partners Inc., a Los Angeles-based investment firm that focuses on closely held aerospace companies. "It's going to be a tough year." Boeing's biggest customer, Los Angeles-based International Lease Finance Corp., is being sold. American Airlines, another big buyer, posted a wider loss last week and is among carriers that may see profits shrink this year if they cut fares to lure travelers. The foreign demand that accounts for 80 percent of Boeing's backlog may wane as the International Air Transport Association predicts a 3 percent drop in 2009 traffic.

"Boeing could be in good health itself, but the airlines have to be able to afford to order -- meaning financing -- and they have to feel secure enough about their own outlook," Kutler said. "This is a global downturn, so there are few places to hide."

Boeing's backlog is "very diverse by airline type, airplane type and by region, so we believe we're in a good position to work through these tough times to the other end of the cycle," said Jim Proulx, a company spokesman in Seattle.

Market Value Falls

Boeing lost more than half its market value in 2008 as it pushed back the 787 Dreamliner's delivery until 2010, slowed by the strike and defective parts, and fought Toulouse, France-based Airbus' parent for a $35 billion U.S. military contract that remains unresolved. The company may say tomorrow fourth-quarter net income fell to 77 cents a share from $1.36 as sales dropped 23 percent to $13.3 billion, the average estimate of 17 analysts polled by Bloomberg.

"Operationally, 2009 will be a much better year than 2008," said William Alderman, president of Alderman & Co. Capital, a broker dealer specializing in aerospace and defense in South Norwalk, Connecticut. "But financially, we are in the midst of a deep global recession, and the financing sector is in pretty bad shape."

Gap in Funding

As much as $25 billion of the $65 billion in planes that Airbus and Boeing plan to deliver this year don't yet have financing, according to Christian McCormick, chief executive officer of Natixis Transport Finance, the aircraft-finance division of France's fourth-biggest bank. Airlines generally pay a deposit when they order a jet and the rest once they get it, with much of the financing coming from European banks.

"A significant portion of the global bank lending capacity may be moving away from new deliveries financing," Bertrand Grabowski, the board member responsible for aviation at Germany's DVB Bank SE, said in a statement last week. He predicts about 10 percent of this year's planned Boeing and Airbus deliveries will be deferred or canceled.

The outlook was more grim in a survey of global airlines released last week by UBS Investment Research. Almost a third of carriers said they were likely to defer delivery, up from 8 percent three months earlier, the report said.

Governments are offering some help. The U.S. Export-Import Bank said Jan. 21 it may have to boost its guarantees of bank loans for Boeing aircraft purchases outside the U.S. and Europe by more than 70 percent this year, to as much as $9 billion, and take the unusual step of lending money directly.

Export-Import Bank

Societe de Financement de l'Economie Francaise, a finance company owned by the French government and a group of banks, has earmarked about 5 billion euros ($6.6 billion) to fund the purchase of Airbus planes by foreign airlines. The funding-gap estimates may be overdone, said Howard Rubel, an analyst at Jefferies & Co. in New York. Boeing's prediction that it will have to offer about $1 billion in direct financing to customers this year may be off by only about $500 million, he said. Most airlines have already locked in funding for 2009's purchases and if the situation worsens in 2010, Boeing will cut production rather than offer more financing, he said.

Delivery Outlook

Boeing shares still may be attractive if the company meets its development goals with the 787 and other delayed programs and ships as many or more planes than in 2008, Alderman said. The company's average 12-month target price is $48.71 in a Bloomberg survey of 14 analysts. The shares rose 21 cents to $43.22 at 4:15 p.m. in New York Stock Exchange composite trading.

Boeing delivered 375 aircraft last year, a 15 percent drop from 2007 and 108 planes fewer than Airbus. After the eight-week strike ended Nov. 2, it took Boeing a month to restart the assembly lines and replace thousands of a supplier's parts that had been discovered to be faulty. The strike alone hurt profit by more than $10 million each day it ran in the third quarter.

Since then, Boeing has said it's cutting 4,500 jobs, about 6.6 percent of its commercial-aircraft workforce, to pare expenses. Scott Carson, the top executive for the company's airliners business, said Jan. 9 that Boeing will maintain production rates even with the layoffs.

"There are troubles on the horizon for Boeing, but they're not operational or technological, they're purely financial," said Alderman, who doesn't own Boeing stock. "Long-term, I'm wildly optimistic for Boeing."