

Aerospace and Defense

Aircraft delivery uncertainty, steady defense

This report does not constitute a rating action.

What's changed?

Boeing outlook revised to negative. We see a heightened risk for a delayed recovery in Boeing's credit measures while it improves quality control on its 737 MAX aircraft.

Stronger aircraft market fundamentals. Aircraft delivery rates are well below prevailing demand and older commercial aircraft remain in service longer than expected. Companies focused on aftermarket parts and services have been key beneficiaries, and upgrades have followed.

Higher defense spending was formalized. The 2024 budget for the U.S. Department of Defense is \$842 billion--a 3% increase over the 2023 budget. The request for 2025 represents a 1% increase, and slowing growth is likely.

What to look out for?

Boeing delivery expectations for 2025. We assume the company's production and deliveries of 737 Max aircraft will increase in the second half of this year from current low levels. A downgrade could result if Boeing does not make progress towards more normalized levels.

Shareholder-friendly initiatives. Strong cash flow but elevated share repurchases that could lead to a reassessment of financial policies and pressure on certain investment grade ratings.

Elections. Roughly 50% of the world's population is subject to elections this year. Material changes in defense policies could impact projected spending levels in the U.S. and reprioritization of defense platforms and projects.

What are the key risks around the baseline?

Supply chain and productivity constraints. Parts availability limitations and relatively unseasoned manufacturing workforces could increase costs and impede an increase to production.

Fixed-price contract cost inflation. Delays and cost increases on fixed-priced development contracts and early-stage production for defense programs may result in losses.

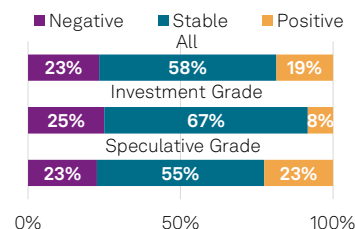
Share repurchases. Heightened levels of buybacks could delay (or reverse) projected credit measure improvement among certain higher-rated defense companies.

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Rating Trends

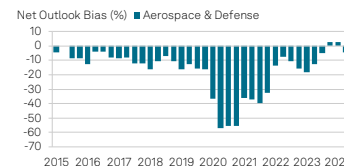
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	12	31	43
Downgrades	0	1	1
Upgrades	0	3	3

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	4.8	6.8
EBITDA growth (Y/Y%)	7.9	14.9
EBITDA margin (%)	15.0	12.6
Capex growth (Y/Y%)	9.2	11.0
Debt/EBITDA (x)	2.5	5.4
FFO/Debt (%)	27.0	9.1
FOCF/Debt (%)	21.7	2.5

All data as of end-June 2024.

* Year-to-date. Current ratings only.

Related Research

- [Boeing Co.'s Use Of Equity For Spirit](#)
- [AeroSystems Acquisition Is Better For Long-Term Credit Metrics](#), July 1, 2024
- [TransDigm Inc. Upgraded To 'BB-' On Strengthening EBITDA; Outlook Stable](#), June 6, 2024