

Boeing sees progress on 787 but warns on supply chain

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A Boeing 737 at the Farnborough Airshow where the company announced significant new plane orders.

Boeing said Wednesday it is close to receiving regulatory approval to resume 787 jet deliveries, a move that could help reverse lackluster

profits, but warned that its production ramp-up for the 737 MAX would be slowed by supply chain problems.

The US aviation giant's two most popular commercial planes figured prominently in its mixed quarterly earnings report, with the lack of revenue from the 787 Dreamliner again a big drag.

Shares gyrated before finishing the session slightly higher.

A resumption of 787 deliveries will restore a key source of revenue, but a more protracted 737 MAX ramp-up suggests Boeing won't deliver as many of those planes as quickly as had been expected.

"A lot of things good happened over the quarter," said Chief Executive Dave Calhoun, who described the company as "on the verge" of garnering approval from US air safety officials on the 787, though he declined to give a precise target date.

Calhoun reported no sign of overall slowdown in the sector, telling analysts that "this general recession thing so far hasn't impacted our aviation industry."

"Will it at some moment? Maybe," he said, while noting that air travel appears to have been "prioritized fundamentally to a higher slot" by consumers tired of pandemic restrictions.

Engine trouble

Calhoun however warned that the company had no timetable for lifting production of the MAX to 38 per month from the current level of 31, calling "limited" engine capacity a "constraint" on the company's outlook.

"Some investment has to get made and capacity has to expand for the engine suppliers to keep up with what I believe will be continued robust demand," Calhoun said.

Boeing Chief Financial Officer Brian West told analysts to expect MAX deliveries in the "low 400s" in 2022 after previously estimating around 500.

For the quarter ending June 30, Boeing reported a 67 percent plunge in quarterly profits to \$193 million, as revenues declined 1.9 percent to \$16.7 billion.

The company missed analyst estimates for revenues and earnings-per-share, but stock prices initially rose after the report, as Boeing confirmed it still expects to have positive cash flow in 2022.

On the 787, the company has been working with the Federal Aviation Administration to address a series of manufacturing issues uncovered in 2020 and since.

Boeing took a \$3.5 billion charge for additional rework costs on the 787 in the fourth quarter of 2021. It said in April it also expects another \$2 billion in "abnormal costs" for the 787.

At the end of June, Boeing had 120 Dreamliner planes in inventory and was producing the jet "at very low rates," the company said in a filing.

On Wednesday, the company said it was working with US air safety officials on "final actions" to resume 787 deliveries.

China haze

The enhanced regulatory scrutiny of the 787 and other Boeing planes

comes on the heels of a pair of crashes in 2018 and 2019 on the 737 MAX, which led to a lengthy global grounding of the plane.

But the MAX has since returned to service, enabling Boeing to resume deliveries and announce significant new orders, including at the Farnborough Airshow earlier this month.

But Boeing still has 290 MAX planes in inventory. A key wild card remains when deliveries will resume in China, where the MAX has still not returned to service.

"While we expect 737 MAX deliveries to our customers in China to resume in 2022, subject to final regulatory approvals, risk remains around the timing and rate of those deliveries," Boeing said in a securities filing Wednesday.

Despite the latest Farnborough orders, Boeing's backlog of orders in the pipeline lags that of archrival Airbus, but Calhoun told CNBC Wednesday he is not worried about the difference.

"We don't need to close that gap," Calhoun said, adding that the aviation industry is "supply constrained for as far as I can see."

Boeing's job is "to deliver against our backlog," he said. "My job is to make sure I've got a big enough backlog to continue to increase my rate, stay stable in production and satisfy our customers every step of the way."

Shares fell during the conference call, but recovered later and finished at \$156.09, up 0.1 percent.

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