ANALYSTS CONTINUE PANICKING ABOUT THE BOEING 777

News / Manufacturer



In the past year or so, a growing contingent of aerospace analysts have made dire predictions about demand for **Boeing**'s 777 widebody jet. They found some support for their bearish viewpoint earlier this year, when Boeing announced plans to cut the 777 production rate from 8.3 per month to seven per month for 2017.

Weak demand for the current-generation 777 could potentially be explained away because Boeing will introduce the new, more fuel-efficient 777X in 2020. However, some analysts now claim that demand for the 777X is also weak. Here's why they're probably overreacting.

Boeing has time and opportunities

Let's start by looking at the current-generation 777. As of the end of February, there were 213 firm orders in the backlog. Boeing needs to secure nearly 200 more orders over the next few years -- roughly 40 per year -- to bridge the gap until 777X production fully ramps up.

So far this year, Boeing has won an order for six 777-300ERs from Air China. Furthermore, Boeing CEO Dennis Muilenberg revealed at an industry conference last month that Boeing is engaged in about a dozen sales campaigns for the current-generation 777.

The 777 is a good option for airlines looking to replace aging 747s. It is significantly more fuel-efficient than the 747, it's relatively cheap, and there isn't a multi-year waiting list. For example, **United Continental**

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is thinking about accelerating its 747 retirement schedule, according to Bloomberg. That makes it a prime candidate to order more 777-300ERs.

Muilenberg also sees some potential demand from airlines looking to replace older 777s. Most importantly, low oil prices are stimulating strong air traffic growth across the world, including 15% growth in China last year. That creates a need for more airplanes. Models like the 787 and A350 are sold out for the next five years or so; the 777 isn't.

Of course, that's not a guarantee that Boeing will get the 777 orders it needs. But Boeing has already sold all of its 777 delivery slots for 2016 and 80% of its 2017 slots. It has time to round up the remaining 150-200 orders it needs.

Analysts find something else to worry about

Even if Boeing fell a little short in terms of 777 orders, it would only be a short-term problem, as the current-generation 777 will presumably go out of production in the early 2020s. However, some analysts are now worried about demand for the next-gen 777X. That would be a much bigger problem, as the 777X is one of the three pillars of Boeing's post-2020 product portfolio.

Bears would note that 777X orders have dried up lately. In fact, Boeing launched the 777X in late 2013 with 259 advance commitments from four airlines. In the past two years, it has added fewer than 50 additional orders, for a total backlog of 306 units.

Yet this is hardly the disaster some pundits are making it out to be. Boeing didn't reach 300 orders for the original 777 until 1997, two years *after* the first delivery. By contrast, the 777X is still four years away from its entry into service.

Airlines don't want to commit to multibillion-dollar airplane purchases so far in advance if they can avoid it. But interest in the 777X is likely to build over the next few years -- along with the order backlog.

Major 747 and 777 customers like United Continental and British Airways could look to order the 777X within the next few years. They each have numerous large widebodies that will be ripe for retirement in the next 10 years or so. United and British Airways have both ordered the 787 and A350 already, but they will need to order many more planes to complete their widebody fleet renewal plans.

Boeing also has huge opportunities in China. None of the big three Chinese airlines has ordered the 777X yet. But they haven't committed to the rival A350 either, except for a small 10-aircraft order from Air China. Chinese airlines seem to be waiting to assess the market, but at some point they are bound to spring into action, given the strong growth of air travel demand there.

There are plenty of other 777X sales opportunities across the world, too -- anywhere that airlines foresee a large pool of demand for long-haul air travel over the next few decades.

Don't panic yet

It's true that 777 and 777X orders haven't come in as fast as Boeing might have hoped in the past year or two. However, Boeing has lots of sales leads for the current-generation 777, and it really doesn't need that many orders.

Meanwhile, the 777X backlog hasn't grown much in the past couple of years, but that's partially because the plane isn't available until after 2020. As airlines refine their post-2020 fleet plans over the next few years, the order flow should pick up. It's way too early for Boeing investors to hit the

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panic button.

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