



THIS WEEK AT FARNBOROUGH: BOEING AND AIRBUS NEED WIDEBODY ORDERS

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The Farnborough Airshow -- the largest of the year -- officially opens on Monday. In recent years, Boeing and Airbus have used the semiannual air shows at Farnborough and Paris to announce big aircraft orders.

In the past year, both aircraft manufacturers have experienced a slowdown in orders for the widebody planes typically used for long-haul international flights. This has made Boeing and Airbus investors anxious recently. To ease these concerns, both companies need to announce a meaningful number of widebody sales this week, particularly for their slower-selling models.

It is important for Boeing and Airbus to bring in some widebody orders this week. Image source: Boeing.

Boeing: It's all about the 777

For Boeing, the coming week is really all about the 777. Production volumes for the aging 747 and 767 models are fairly low and thus not very meaningful to Boeing's long-term results. Meanwhile, the 787 backlog remains healthy at more than 700 units, roughly five years of production at the current rate.

By contrast, the 777 has been a huge cash cow for Boeing in recent years but has a dwindling backlog. At the end of June, Boeing had just 175 firm orders remaining for current-generation 777s. The company probably has at least a dozen open 777 delivery slots in 2017 and nearly 150

open slots in the 2018-2020 timeframe.

Boeing has said that it needs to sell 40-50 777s annually for the next few years to complete the "bridge" to the next-generation 777X, which is expected to enter into service in 2020. However, it only sold 38 current-generation 777s in 2015 and has just 8 net firm orders year to date.

The good news is that Boeing had 10-12 ongoing sales campaigns for the current-generation 777 as of a month ago, according to CEO Dennis Muilenberg. Most investors are skeptical about whether there is enough interest for Boeing to meet its sales goals. A couple of meaningful order announcements this week would show that management's apparent confidence is more than just hot air.

Some analysts have even raised concerns about the next-generation 777X. Boeing has 306 firm orders ahead of its planned 2020 entry into service, but order activity has slowed to a crawl, with just 20 firm orders in 2015 and none thus far in 2016. However, with minimal availability until 2022, 777X orders are a lower priority both for airlines and for Boeing right now.

Airbus needs A330neo and A380 orders

Meanwhile, Airbus' first priority ought to be nailing down more orders for the A330neo. The A330neo faces much more immediate demand issues than Boeing's 777X. It is supposed to enter service with TAP Portugal near the end of 2017, but Airbus only had 186 firm orders as of the end of June.

A330neo order activity has been fairly lackluster thus far. Image source: Airbus.

Furthermore, 66 of those orders are from a single airline, AirAsia X. These orders are spread out over nearly a decade. Additionally, AirAsia X has been unprofitable for most of the past few years, forcing it to defer some aircraft deliveries. It is starting to return to profitability, but its expansion plans are clearly ambitious -- perhaps too much so.

Airbus needs to diversify its A330neo customer base -- and it needs to win a lot more orders before the A330neo enters service. Right now, it doesn't have enough orders to keep the line busy for more than a couple of years after the A330neo enters production.

The need for A330neo orders pales in comparison to the situation facing the A380 jumbo-jet. At the end of June, Airbus had 126 firm orders left on the books. Nearly half of those belong to Emirates. Of the other 65 orders, the majority are likely to be canceled -- fewer than 20 are solid orders.

Airbus currently needs to build about 30 A380s a year just to break even on production. While Emirates loves the A380, it can't support the whole program by itself. Even if Airbus builds only 20-25 A380s annually in the near future, Emirates could be the only customer left by the end of 2018 the way things are going.

Thus, winning some firm orders for the A380 is an absolute necessity if the program is to avoid reaching an untimely end. Unfortunately, it may already be too late to save the A380. Opens a New Window..

Iran is a wild card

In addition to the usual parade of orders, investors should be on the lookout this week for any updates on Iran's plans to buy more than 100 aircraft each from Airbus and Boeing. Both orders

are in limbo for the moment, waiting for export licenses and financing to be lined up. (Boeing is also facing backlash in Congress for dealing with Iran.)

Iran is interested in several of the models that Boeing and Airbus are most eager to sell, including Boeing's 777, 777X, and 747 as well as Airbus' A330neo and A380. Getting these orders firmed up and financed would be an important step in bolstering the backlogs for these models.

With widebody demand starting to fade, Airbus and Boeing can't afford to go home from Farnborough empty-handed.

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