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BUSINESS

GE's New Billion-Dollar Problem? Boeing's 737 MAX

General Electric helps make the jet's engines, and the grounding could drain as much as $1.4 billion from its cash flow this year

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PHOTO: LINDSEY WASSON/REUTERS

By Thomas Gryta

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General Electric Co. is contending with a fresh strain on its finances due to the extended grounding of Boeing Co. 's 737 MAX jets, just as the industrial conglomerate says it is making progress on some of its other thorny problems.

GE, a longtime aerospace supplier and major buyer of commercial planes, warned Wednesday that the grounding could drain as much as $1.4 billion from its cash flow this year as its factories produce fewer engines for the aircraft and cannot get fully paid for them. The MAX jet is powered exclusively by LEAP engines made by GE in partnership with France's Safran SA .

"When Boeing delivers the airframes, we will get paid for those engines. It's just a delay in cash timing," said Jamie Miller, GE's outgoing finance chief.

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For now, that means GE didn't take in an expected $600 million in the first half of the year and won't take in another $400 million per quarter in the second half if the plane remains grounded.

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"$400 million per quarter is what is likely to happen if we do not see a return to service," GE Chief Executive Larry Culp said. GE's revised financial forecast for the full year, which calls for cash flow between $1 billion and negative $1 billion, reflects the MAX delays.

GE has slowed production this year of the engine model used in the MAX. The project is a major driver of growth for the company's aviation unit, which accounted for $3 billion of GE's roughly $5 billion in industrial profits in the first half of the year. The LEAP, which is also used on Airbus SE jets, has attracted more than 17,000 orders. GE also makes avionics and other parts for the MAX.

"GE is heavily tied to Boeing's narrowbody fortunes," said John Inch, an analyst at Gordon Haskett, an investment research firm. He said once the single-aisle MAX is approved to fly again, Boeing may need to discount the price of the plane and that could mean less money for GE as well.

"You could have emerging issues in the long-term aviation story that everyone presumes is rock solid," he said.

The aviation unit, which is now GE's largest by revenue, has propped up the conglomerate's results in recent years as GE has struggled with deep losses in its core power division and finance arm. Those troubles have forced GE to slash its dividend and pursue plans to sell off major business units.

Boeing has said it hopes to restart MAX deliveries in the fourth quarter, but some government and industry officials don't expect it to carry passengers again until next year. The MAX has been barred by regulators from commercial flight since March after two fatal crashes over the past year.

With hundreds of finished jets piling up on tarmacs, Boeing in April slowed monthly production of its 737 jets to 42 from 52. Boeing executives recently warned they might further slow or halt production if regulators don't approve the plane's return to service by the end of this year.

"We're at a lower level of production than we thought we would be at this point in the year, for obvious reasons," Mr. Culp said Wednesday. He declined to comment on the ramifications of another slowdown or complete halt in MAX production.

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Spirit AeroSystems Holdings Inc., which makes the fuselages and other parts for the MAX, said Wednesday that 200 workers have taken voluntary retirement as part of efforts to cut costs by 5% to counter the impact of the production cut. Boeing said it has made no staff cuts as a result of the MAX grounding.

GE is also is one of the aircraft maker's top customers. The company's finance arm operates one of the world's biggest jet-leasing companies, known as Gecas. That business owns 29 MAX planes, with 25 of those rented to customers who are obligated to continue making payments during the grounding, according to a GE securities filing.

Gecas has made pre-delivery payments for 150 more of the planes and financing commitments to buy another 19 under purchase-leaseback contracts with airlines, the filing shows. At the end of 2018, Gecas owned or had on order more than 1,850 aircraft, according to a regulatory filing.

Overall, GE had $2.1 billion worth of MAX jets with no impairment charges incurred in the first half as the company expects the planes will ultimately be delivered and return to service.

Meanwhile, Boeing recently pushed back the expected first flight of its 777X long-haul jetliner, blaming problems with GE's new engine for the plane. GE said it has redesigned a part that was wearing out faster than expected and is working with Boeing on the issue.

"The scheduled flight is obviously disappointing given how well the aircraft has been performing in preflight tests and that we are on track on non-engine activities," Dennis Muilenburg, Boeing's CEO said last week. "The engine issue has added significant risk to the schedule."

Boeing now hopes to fly the 777X next year and deliver the first ones by the end of 2020.

—Doug Cameron contributed to this article.

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