

Carnival Corporation(CCL)

\$50.69 (As of 01/21/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: B

Summary

Shares of Carnival have outperformed the industry in the past six months. The outperformance is primarily attributed to the company's strong booking trends along with initiatives to drive revenue yields. It also provided a robust view for fiscal 2020. Carnival expects fiscal 2020 adjusted EPS of \$4.30-\$4.60, whereas it reported \$4.40 in the prior-year. The rollout of a state-of-the-art revenue-management system, YODA, will likely help Carnival drive revenues. Over the past 30 days, earnings estimate for the current and next quarter have been revised upwards, depicting analysts' optimism over the stock's potential. However, voyage disruptions, a ship delivery delay and the U.S. government's policy change on travel to Cuba are expected to negatively impact its performance in fiscal 2020.

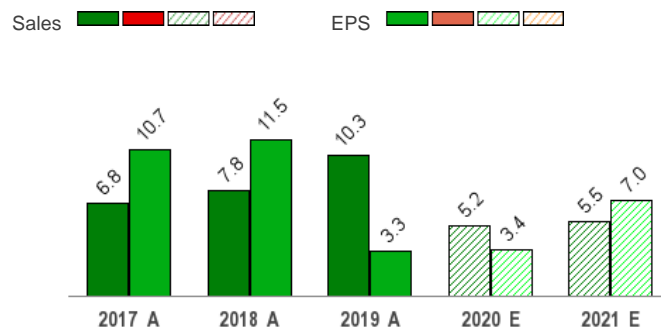
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.24 - \$39.92
20 Day Average Volume (sh)	4,003,404
Market Cap	\$26.7 B
YTD Price Change	-0.3%
Beta	1.14
Dividend / Div Yld	\$2.00 / 3.9%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 25% (192 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.6%
Last Sales Surprise	3.8%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	03/24/2020
Earnings ESP	1.3%
P/E TTM	11.5
P/E F1	11.1
PEG F1	1.1
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,137 E	5,350 E	7,220 E	5,430 E	23,113 E
2020	4,853 E	5,037 E	6,783 E	5,144 E	21,906 E
2019	4,673 A	4,838 A	6,533 A	4,781 A	20,825 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.72 E	\$2.88 E	\$0.69 E	\$4.87 E
2020	\$0.50 E	\$0.66 E	\$2.74 E	\$0.67 E	\$4.55 E
2019	\$0.49 A	\$0.66 A	\$2.63 A	\$0.62 A	\$4.40 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

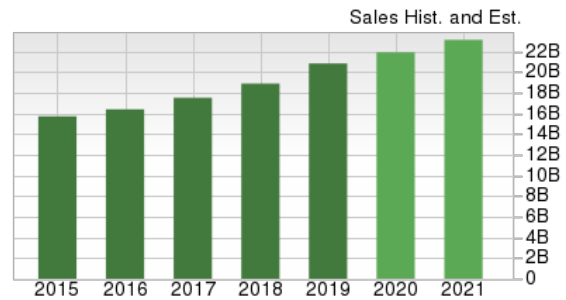
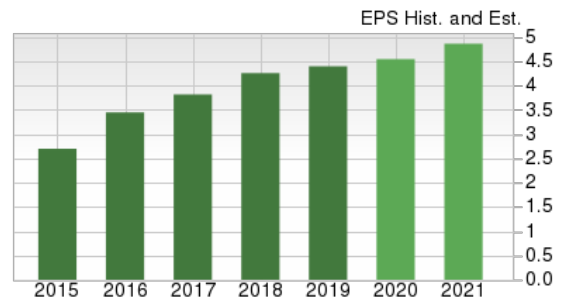
Overview

Founded in 1972 and headquartered in Miami, FL, Carnival Corporation operates as a cruise and vacation company. As a single economic entity, Carnival Corporation & Carnival plc forms the largest cruise operator in the world. Carnival is the world's leading leisure travel firm and carries nearly half of the global cruise guests. The company has operations on North America, Australia, Europe and Asia.

The company's cruise brand includes Carnival, Princess Cruises, Holland America Line, P&O Cruises (Australia), Seabourn, Costa, AIDA, P&O Cruises (UK) and Cunard. As of Nov 30, 2018, the company had a total of 21 cruise ships planned to be delivered through 2025.

Carnival has four reportable segments, namely, (1) North America 65% of total 2018 revenues) (2) Europe, Australia & Asia ("EAA") (33% of total 2018 revenues) (3) Cruise Support (1% of total 2018 revenues) and (4) Tour and Other (1% of total 2018 revenues).

Carnival Cruise Line is one of the most recognizable brands in the cruise industry and carried 12.4 million guests in 2018.



Reasons To Buy:

▲ **Better-Than-Expected Q4 Results & Upbeat View:** Carnival reported better-than-expected results in fourth-quarter fiscal 2019. Both earnings and revenues surpassed the consensus estimate for the fourth straight quarter. In the quarter under review, it reported adjusted earnings of 62 cents per share, surpassing the Zacks Consensus Estimate of 51 cents. Revenues of \$4.78 billion outpaced the consensus mark of \$4.6 billion by 3.8% and increased 6.7% year over year. This upside can be attributed to strength in passenger tickets, onboard and other as well as tour and other businesses. Carnival expects adjusted EPS of \$4.30-\$4.60 for fiscal 2020. Notably, it reported adjusted earnings of \$4.40 per share in the prior-year quarter.

Carnival's planned launch of new ships, its strategy to tap into the fast-growing Asian markets, strong booking trends along with initiatives to drive revenue yields are likely to prove beneficial going ahead

▲ **Strong Brand Recognition:** Carnival is the largest and historically, the most profitable cruise operator in the world. The company's cruise brands are well diversified across diverse geographies, including Asia and Europe, and strategically positioned at various price points within the larger North American cruise market. This enables the company to cater to passengers in various geographic regions as well as within the contemporary, premium and luxury cruise segments. With the strength and diversity of its brands and itineraries, the company boasts a broader passenger base among potential and repeat cruise vacationers.

Carnival's market-leading position offers a cost advantage, allowing it to generate higher return on investment than smaller companies. Further, its leadership position provides the scope to expand capacity — by upgrading current ships and increasing the fleet — due to higher cash from operations and comparatively lower debt burden. Carnival's capacity growth should allow it to maintain market share without putting pressure on pricing.

▲ **YODA to Drive Revenues:** During third-quarter fiscal 2018, Carnival completed the rollout of its new state-of-the-art revenue-management system, YODA. The revenue management system, which has been deployed across six of Carnival's brands, will likely help it garner incremental revenues. The company believes that the implementation of YODA will help it to squeeze additional yield by taking full advantage of the trade-offs. Resultantly, Carnival expects 5% rise in net cruise revenues and 6.6% capacity growth for fiscal 2020.

▲ **Launch of New Ships:** The company continues to introduce new flagships to form additional demand creation opportunities. In June 2017, its Germany-based AIDA Cruises brand launched AIDAprera, one of the world's most eco-friendly and technologically advanced ships. Carnival also launched Majestic Princess from Princess Cruises in March, which is the world's first cruise ship built specifically for the Chinese market. In fact, the ship has been very well received by its guests. Carnival has 18 new ships scheduled to be included in its portfolio of leading global cruise brands between 2018 and 2022. During third-quarter fiscal 2018, the company finalized contracts for two more next-generation ships powered by LNG to be delivered in 2023 and 2025. Order for LNG powered ship has increased to 11.

Notably, with these new launches, the company also aims to formulate measured capacity growth over time that allows its global fleet to meet escalating demand for cruise vacations in every region of the world. In fact, launching new ships is a part of the company's long-term strategy to build state-of-the-art vessels that aid in providing guests with a remarkable vacation experience at an exceptional value. Moreover, we note that along with focusing on new-builds to stimulate demand creation, Carnival also continues to invest in its existing fleets to further enhance guest experiences.

▲ **Exploring Foreign Shores:** Carnival has adopted a strategy to grow beyond its familiar itineraries and capitalize on new markets. The Asian source market for cruises is expected to continue to grow significantly, as it becomes more consumer-driven. Carnival is especially optimistic about the growth prospects of the Japanese and Australian markets. By 2020, China's cruise market is projected to grow to 4.5 million passengers, up from 1 million in 2015, as per data from the Chinese Ministry of Transport. Also, by 2030, China is expected to become the world's second-largest cruise market, after the United States. In a bid to expand its leading presence in China, Carnival has also entered into a joint venture with the country's largest shipbuilder—China State Shipbuilding Corporation—to order two new cruise ships with an option for four more. The joint venture for the first ever cruise ships to be built in China supports the country's efforts to prioritize cruise industry growth in its five-year economic development plan. The first such Chinese-built ship is slated to be delivered in 2023.

Meanwhile, the company is continually on the lookout to sail to new destinations in order to drive demand for cruising. Markedly, the company sailed to markets like Cuba, Mexico and Bermuda where demand is expected to ramp up and boost revenues significantly. In fact, Carnival Cruise Line's Carnival Paradise is the largest ship sailing from the United States to Havana and is capturing attractive ticket price premium. Going forward, Carnival has more sailing scheduled to Cuba than any other major U.S. operator.

▲ **Strategic Initiatives Improve Revenue Yields:** Carnival continues to enjoy ticket price improvements for both its North American and EAA brands, with particularly robust ticket price improvements in its core Caribbean deployment. The company continues to drive revenue yield growth by creating demand in excess of measured capacity growth through its ongoing guest experience, marketing and public relations effort. The company is particularly positive on its recent innovations like the transformational new ocean experience platform, featuring Ocean Medallion, a guest experience platform; PlayOcean, a proprietary mobile gaming portfolio; and OceanView, a proprietary digital streaming network. These new offerings are anticipated to accelerate and expand engagement, and step up the company's already high guest experience delivery by leveraging its industry-leading scale. Meanwhile, Carnival believes that it is well-positioned for continued earnings growth, given the current strength in bookings, particularly in the Caribbean, Alaska, Europe, Asia and Australia along with pricing trends for 2020.

Reasons To Sell:

- ▼ **Policy Change on Travel to Cuba:** Trump administration's policy change on travel to Cuba is concerning. Travel ban to Cuba will have a huge impact on the cruise industry. The company expects voyage disruptions due to bad weather, a ship delivery delay and the U.S. government's policy change on travel to Cuba to impact fiscal 2020 earnings by 12-17 cents.
- ▼ **Higher Costs:** Carnival aims to make additional investments this year as its brands have identified further revenue-generating opportunities. Though these efforts are expected to benefit the company over the long run, these might weigh on the near-term margins and earnings. Also, increased investments in advertising and TV programming are adding to the company's costs. During fiscal 2020, net cruise costs (excluding fuel), per ALBD, are expected to increase 5% from the prior-year reported figure, at constant currency. In fourth-quarter fiscal 2019, net cruise costs per available lower berth day (ALBD), excluding fuel, increased 2.6% from the prior-year quarter.
- ▼ **Currency & Fuel Headwinds:** Negative currency translation is a concern for Carnival. With a major portion of its revenues coming from Asia and Europe, the company is highly exposed to the impact of negative currency translation. Thus, continual strengthening of the U.S. dollar against the functional currencies of the company's foreign operations is likely to adversely impact the company's results. Moreover, an increase in fuel prices is further likely to prove detrimental to the company's earnings growth.
- ▼ **Macro Headwinds:** Terror assaults on key European cities like London, Paris and Brussels in recent years have affected tourism. In Europe, economic/political conditions are expected to be further challenging after U.K.'s exit from the 28-member economic bloc. Moreover, the company is investing heavily in China, where a cooling economy may impact discretionary spending, thus hurting demand and putting pressure on Carnival's top line. Also, prevention of port calls to some of the company's most premium destinations due to itinerary restrictions is a cause of concern. The company also said that the political uncertainty in Germany and France is worrisome.

Negative currency translation along with macroeconomic issues in key operating regions remains potent headwinds

Last Earnings Report

Carnival Q4 Earnings & Revenues Surpass Estimates

Carnival reported better-than-expected fourth-quarter fiscal 2019 (ended Nov 30, 2019) results. Both the top and bottom lines surpassed the Zacks Consensus Estimate.

In the quarter under review, it reported adjusted earnings of 62 cents per share, beating the Zacks Consensus Estimate of 51 cents by 21.6% but declining 11.4% from 70 cents reported a year ago. Revenues of \$4.78 billion outpaced the consensus mark of \$4.6 million by 3.8% and increased 6.7% year over year. This upside can be attributed to strength in passenger tickets, onboard and other, as well as tour and other businesses.

On a constant-currency basis, net revenue yields fell 1.8% year over year. The metric was expected to decline 2-3%. Net on-board and other yields increased 0.9% in constant currency.

Segmental Revenues

Carnival generates revenues from the following businesses: Passenger Tickets, Onboard and Other, as well as Tour and Other. Revenues at the Passenger Tickets business segment increased 2% year over year to \$3,171 million. Onboard and Other revenues totaled \$1,520 million, up 29.9% year over year. Tour and Other revenues rose 82% year over year to \$91 million.

Expenses

Net cruise costs (in constant dollar) per available lower berth day (ALBD), excluding fuel, increased 2.6% from the prior-year quarter. However, the reported figure was better than expected due to cost improvements realized during the quarter and the timing of expenses between quarters. Gross cruise costs (including fuel) per ALBD, in current dollars, rose 6.9% from the year-ago quarter.

Balance Sheet

Carnival exited the fiscal fourth quarter with cash and cash equivalents of approximately \$518 million, down from \$982 million as of Nov 30, 2018. Trade and other receivables summed \$444 million, up from \$358 million as of Nov 30, 2018. Long-term debt amounted to approximately \$9,675 million.

Cash from operations totaled \$1,062 million in the quarter under review. Carnival's capital expenditure was \$1,981 million. It paid out dividend worth \$346 million during the quarter.

Fiscal 2020 Guidance

Carnival expects fiscal 2020 adjusted EPS in the range of \$4.30-\$4.60. Adjusted earnings of \$4.40 per share were reported the prior-year quarter. The company expects Voyage disruptions due to weather, a ship delivery delay and U.S. government's policy change on travel to Cuba to impact fiscal 2020 earnings by 12-17 cents.

In constant currency, net revenue yields are expected to be down nearly 1.5% year over year. Also, net cruise costs (excluding fuel) per ALBD are expected to increase 5% from a year ago, with capacity growth of 6.6% in constant currency.

Quarter Ending **11/2019**

Report Date	Dec 20, 2019
Sales Surprise	3.82%
EPS Surprise	21.57%
Quarterly EPS	0.62
Annual EPS (TTM)	4.40

Recent News

Carnival's Brands Plan to Launch Four Ships in 2020-Jan 07,2020

As part of its fleet enhancement strategy, Carnival Corporation recently announced that four of its global cruise line brands namely Carnival Cruise Line, Costa Cruises, P&O Cruises (UK) and Princess Cruises plan to launch four new ships in 2020.

The company also plans to introduce 16 new ships to its fleet by 2025 in an effort to improve the overall guest experience.

Valuation

Carnival's shares are up by 1.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up by 9.8% but sector is up by 22.7%.

The S&P 500 index is up 25.3% in the past year.

The stock is currently trading at 7.05x trailing 12-month EV/EBITDA, which compares to 9.15x for the Zacks sub-industry, 12.97x for the Zacks sector and 12.38x for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.85x and as low as 5.68x, with a 5-year median of 8.21x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$53 price target reflects 11.55x forward 12-month Price to Earnings value.

Valuation Multiples - CCL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.05	9.15	12.97	12.38
	5-Year High	9.85	11.38	17.76	12.86
	5-Year Low	5.68	7.06	11.07	8.5
	5-Year Median	8.21	8.93	12.42	10.67
P/E F12M	Current	11.04	17.41	20.86	19.18
	5-Year High	19.98	22.68	23.35	19.34
	5-Year Low	9.01	15.64	16.16	15.17
	5-Year Median	14.03	18.92	20.11	17.44
P/B TTM	Current	1.05	1.4	3.63	4.55
	5-Year High	1.61	1.71	5.04	4.55
	5-Year Low	0.84	0.97	3.13	2.85
	5-Year Median	1.26	1.38	4.28	3.61

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (192 out of 255)



Top Peers

Lindblad Expeditions Holdings Inc. (LIND)	Neutral
Malibu Boats, Inc. (MBUU)	Neutral
Vail Resorts, Inc. (MTN)	Neutral
Norwegian Cruise Line Holdings Ltd. (NCLH)	Neutral
Royal Caribbean Cruises Ltd. (RCL)	Neutral
Red Rock Resorts, Inc. (RRR)	Neutral
SeaWorld Entertainment, Inc. (SEAS)	Neutral
MGM Resorts International (MGM)	Underperform

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	CCL Neutral	X Industry	S&P 500	MBUU Neutral	NCLH Neutral	RCL Neutral
VGM Score	B	-	-	A	B	A
Market Cap	26.72 B	957.72 M	24.43 B	873.45 M	12.33 B	27.18 B
# of Analysts	9	4	13	4	6	9
Dividend Yield	3.95%	0.00%	1.75%	0.00%	0.00%	2.41%
Value Score	A	-	-	B	A	A
Cash/Price	0.02	0.09	0.04	0.04	0.03	0.01
EV/EBITDA	6.62	9.85	14.00	8.32	9.74	11.27
PEG Ratio	1.06	1.57	2.06	1.08	1.26	1.25
Price/Book (P/B)	1.05	1.87	3.39	4.10	1.99	2.27
Price/Cash Flow (P/CF)	5.14	8.60	13.69	9.21	7.68	9.19
P/E (F1)	11.14	18.42	19.00	10.81	10.33	12.27
Price/Sales (P/S)	1.28	1.35	2.68	1.19	1.94	2.52
Earnings Yield	8.98%	5.30%	5.26%	9.25%	9.68%	8.15%
Debt/Equity	0.38	0.77	0.72	0.53	0.90	0.79
Cash Flow (\$/share)	9.87	1.90	6.94	4.63	7.54	14.11
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	15.63%	15.63%	10.60%	37.33%	22.42%	25.65%
Proj. EPS Growth (F1/F0)	3.36%	10.93%	7.57%	5.05%	10.90%	10.88%
Curr. Cash Flow Growth	3.07%	10.60%	14.00%	40.74%	16.99%	12.46%
Hist. Cash Flow Growth (3-5 yrs)	10.47%	10.36%	9.00%	32.76%	26.71%	18.07%
Current Ratio	0.23	0.93	1.23	1.61	0.25	0.17
Debt/Capital	27.61%	56.37%	42.99%	34.74%	47.49%	45.51%
Net Margin	14.36%	5.93%	11.15%	9.64%	15.14%	17.85%
Return on Equity	12.29%	7.28%	17.16%	42.48%	18.67%	17.67%
Sales/Assets	0.47	0.53	0.55	1.60	0.40	0.37
Proj. Sales Growth (F1/F0)	5.19%	4.38%	4.05%	7.58%	11.08%	8.26%
Momentum Score	B	-	-	C	D	B
Daily Price Chg	-2.33%	-0.85%	-0.27%	0.14%	-2.85%	-3.98%
1 Week Price Chg	6.24%	0.95%	2.29%	8.56%	2.92%	1.40%
4 Week Price Chg	-0.49%	0.00%	2.13%	4.22%	-0.74%	-2.47%
12 Week Price Chg	14.79%	1.97%	6.99%	22.89%	10.13%	14.49%
52 Week Price Chg	-7.02%	-9.92%	21.25%	11.35%	24.36%	19.38%
20 Day Average Volume	4,003,404	110,672	1,415,064	103,358	1,091,212	992,496
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.08%	0.11%
(F1) EPS Est 4 week change	0.84%	0.00%	0.00%	0.00%	-0.08%	-0.50%
(F1) EPS Est 12 week change	3.23%	-4.73%	-0.34%	2.26%	-2.29%	-1.78%
(Q1) EPS Est Mthly Chg	1.34%	0.00%	0.00%	0.00%	0.22%	-0.52%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	D
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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