

## Carnival Corporation(CCL)

**\$16.28** (As of 05/26/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/14/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: D

### Summary

Shares of Carnival have underperformed the industry in the past six months. The dismal performance can primarily be attributed to the coronavirus pandemic. The outbreak has been hurting the company's operations and global bookings, which is down for rest of 2020 and first-half 2021. This pandemic is likely to cause delay in ship deliveries as the shipyards have been impacted as well. Notably, the Centers for Disease Control (CDC) has extended the "No Sail Order" for cruise ships for nearly three months. In the past 60 days, earnings estimates for 2020 and 2021 have witnessed sharp downward revisions. Recently, the company reported first-quarter fiscal 2020 results, wherein earnings missed the consensus estimate but revenues surpassed the same. Earnings also declined sharply year over year owing to the coronavirus related disruptions.

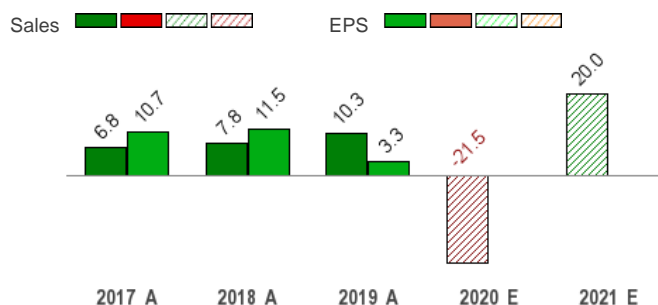
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$53.86 - \$7.80
20 Day Average Volume (sh)	54,619,316
Market Cap	\$8.6 B
YTD Price Change	-68.0%
Beta	1.95
Dividend / Div Yld	\$2.00 / 12.3%
Industry	<a href="#">Leisure and Recreation Services</a>
Zacks Industry Rank	Bottom 49% (128 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-21.4%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/18/2020
Earnings ESP	0.0%
P/E TTM	3.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,870 E	4,143 E	5,493 E	4,345 E	19,624 E
2020	4,789 A	2,495 E	4,374 E	3,572 E	16,348 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	-\$0.25 E	\$0.06 E	\$1.52 E	\$0.19 E	\$1.03 E
2020	\$0.22 A	-\$1.25 E	-\$0.17 E	-\$0.94 E	-\$1.31 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 05/26/2020. The reports text is as of 05/27/2020.

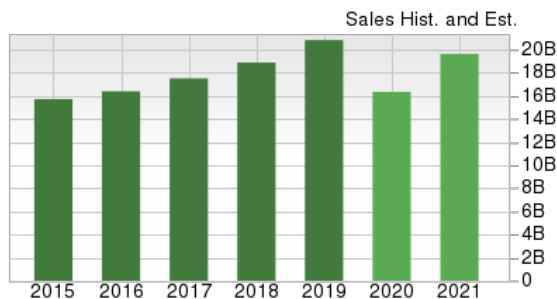
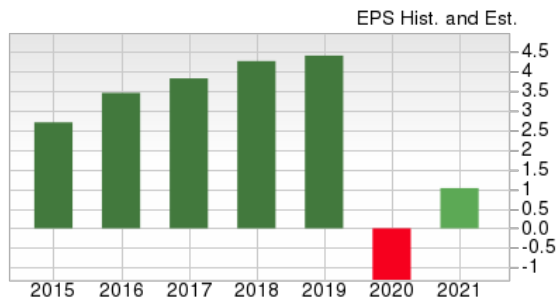
## Overview

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 s Carnival Cruise Line, Princess Cruises, Holland America Line, Seabourn, P&O Cruises (Australia), Costa Cruises, AIDA Cruises, P&O Cruises (UK) and Cunard. As of Nov 30, 2019, the company had a total of 17 cruise ships planned to be delivered through 2025.

Carnival has four reportable segments, namely, (1) North America 55% of total 2019 revenues) (2) Europe (30% of total 2019 revenues) (3) Australia & Asia (13% of total 2019 revenues) and (4) Other (2% of total 2019 revenues).

Carnival Cruise Line is one of the most recognizable brands in the cruise industry and carried over 13 million guests in 2019.



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## Reasons To Buy:

- ▲ **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.

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

- ▲ **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.

- ▲ **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 AIDAperla, 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.

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## Reasons To Sell:

- ▼ **Coronavirus to Hurt 2020 Results:** The cruise industry has been driven to a standstill by the coronavirus-induced crisis. Notably, with the Centers for Disease Control (CDC) extending the "No Sail Order" for cruise ships for approximately three months, the scenario seems to be worsening for the industry.

Carnival expects coronavirus-induced crisis to affect its operations and global bookings. The company also believes that this pandemic is likely to cause delay in ship deliveries as the shipyards have been impacted as well. Moreover, management stated that cumulative advanced bookings for the remainder of 2020 and first-half 2021 are meaningfully lower than the prior year on a comparable basis, reflecting the negative effect of COVID-19. Cancellations are impacting the booking trends, which in turn will also impact 2020 financial results.

The coronavirus pandemic is likely to affect operations and global bookings and consequently results in 2020. The company has cancelled all voyages due to the outbreak.

- ▼ **Earnings Decline Sharply in Q1:** Carnival reported first-quarter fiscal 2020 results, wherein earnings not only missed the Zacks Consensus Estimate but also declined sharply. It reported adjusted earnings of 22 cents per share, lagging the Zacks Consensus Estimate of 23 cents by 4.3%. The bottom line also declined 55.1% from 49 cents reported a year ago. The first quarter was negatively impacted by 23 cents per share due to coronavirus, which includes canceled voyages and other voyage disruptions. Other previously disclosed voyage disruptions, noted during the December 2019 earnings conference call, also impacted the quarterly results by 12 cents per share.
  - ▼ **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 anticipates voyage disruptions due to bad weather, 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.
  - ▼ **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.
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## Last Earnings Report

### Carnival Q1 Earnings Miss Estimates, Revenues Beat

Carnival reported first-quarter fiscal 2020 (ended Feb 29, 2020) results with earnings missing the Zacks Consensus Estimate while revenues beat.

In the quarter under review, it reported adjusted earnings of 22 cents per share, lagging the Zacks Consensus Estimate of 23 cents by 4.3%. The bottom line also declined 55.1% from 49 cents reported a year ago.

The first quarter was negatively impacted by 23 cents per share due to coronavirus, which includes canceled voyages and other voyage disruptions. Other previously disclosed voyage disruptions, noted during the December 2019 earnings conference call, also impacted the quarterly results by 12 cents per share.

Revenues of \$4.8 billion outpaced the consensus mark of \$4.7 million by 2.1% and also inched up 2.1% year over year.

### Fiscal 2020 Guidance

Carnival expects the COVID-19 impact to affect its operations and global bookings. The company also believes that this adversity on the shipyards where its ships are under construction will cause a delay in ship deliveries.

Moreover, management at the company stated that cumulative advanced bookings for the remainder of 2020 as well as the first half of 2021 are meaningfully lower than the prior year on a comparable basis, reflecting the negative effect of COVID-19.

Given this unrelenting uncertainty, the company is currently unable to provide an earnings forecast. However, it expects a net loss on both U.S. GAAP and adjusted basis for the fiscal year ending Nov 30, 2020.

Quarter Ending **02/2020**

Report Date	<b>Apr 03, 2020</b>
Sales Surprise	<b>0.45%</b>
EPS Surprise	<b>-21.43%</b>
Quarterly EPS	<b>0.22</b>
Annual EPS (TTM)	<b>4.13</b>

## Recent News

### Carnival's Princess Cruises Extends Operations Suspension – Apr 14, 2020

Carnival's Princess Cruises has cancelled all voyages through June 30, 2020, after the United States Centers for Disease Control (CDC) extended the "No Sail Order" for cruise ships for approximately three months.

### Carnival Extends Halt in Operations Due to Coronavirus Fear - Mar 30, 2020

The coronavirus outbreak, which has taken the shape of a global pandemic, compelled Carnival to extend the halt of global cruise operations — Holland America Line, Seabourn and Cunard. Recently, the company was required to undertake quarantine of two ships of Princess Cruises line due to the novel coronavirus outbreak.

With continued port closures and travel restrictions surrounding global health concerns, the company's cruise brands have suspended their operations for an additional 30 days, leading to cancellation of departures starting from May 14.

## Valuation

Carnival shares are down 68% year-to-date and 68.2% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 46.9%, and Zacks Consumer Discretionary sector is down by 14.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 46.6% and 6.7%, respectively.

The S&P 500 index is down 7% in the year-to-date period, but up 6.6% in the past year.

The stock is currently trading at 3.94X trailing 12-month earnings, which compares to 13.9X for the Zacks sub-industry, 23.02X for the Zacks sector and 19.28X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.17X and as low as 1.93X, with a 5-year median of 15.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 4.11X trailing 12-month earnings.

The table below shows summary valuation data for CCL.

Valuation Multiples - CCL					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	3.94	13.9	23.02	19.28
	5-Year High	23.17	29.48	32.62	22.23
	5-Year Low	1.93	13.9	19.76	15.96
	5-Year Median	15.41	21.68	25.52	19.04
P/B TTM	Current	0.35	0.72	2.73	4.09
	5-Year High	1.61	1.71	5.05	4.56
	5-Year Low	0.17	0.43	2.17	2.83
	5-Year Median	1.26	1.38	4.22	3.65
EV/EBITDA TTM	Current	3.76	6.28	9.85	11.07
	5-Year High	9.94	11.38	17.65	12.86
	5-Year Low	2.94	4.74	8.28	8.26
	5-Year Median	7.98	8.88	12.25	10.79

As of 05/26/2020

## Industry Analysis Zacks Industry Rank: Bottom 49% (128 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Lindblad Expeditions Holdings Inc. (LIND)	Neutral	4
Malibu Boats, Inc. (MBUU)	Neutral	3
MGM Resorts International (MGM)	Neutral	4
Vail Resorts, Inc. (MTN)	Neutral	3
Norwegian Cruise Line Holdings Ltd. (NCLH)	Neutral	3
Royal Caribbean Cruises Ltd. (RCL)	Neutral	3
Red Rock Resorts, Inc. (RRR)	Neutral	4
SeaWorld Entertainment, Inc. (SEAS)	Neutral	3

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	CCL	X Industry	S&P 500	MBUU	NCLH	RCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	F	F
Market Cap	8.59 B	638.16 M	21.18 B	968.75 M	4.11 B	10.38 B
# of Analysts	8	3.5	14	4	5	8
Dividend Yield	12.28%	0.00%	2.03%	0.00%	0.00%	6.30%
Value Score	A	-	-	B	D	C
Cash/Price	0.18	0.22	0.06	0.14	0.38	0.43
EV/EBITDA	3.13	6.45	12.37	8.95	6.11	5.34
PEG Ratio	NA	1.37	2.88	NA	NA	NA
Price/Book (P/B)	0.35	0.95	2.90	3.85	0.79	1.01
Price/Cash Flow (P/CF)	1.65	5.13	11.55	10.18	1.95	3.14
P/E (F1)	NA	18.64	21.24	16.54	NA	NA
Price/Sales (P/S)	0.41	0.73	2.24	1.33	0.65	0.98
Earnings Yield	-8.05%	-7.84%	4.57%	6.04%	-38.37%	-14.41%
Debt/Equity	0.40	0.65	0.76	0.76	1.93	1.26
Cash Flow (\$/share)	9.87	2.40	6.96	4.63	8.22	15.81
Growth Score	D	-	-	A	F	F
Hist. EPS Growth (3-5 yrs)	13.33%	15.05%	10.87%	37.06%	16.97%	18.88%
Proj. EPS Growth (F1/F0)	-129.77%	-174.85%	-10.31%	-24.14%	-220.83%	-174.82%
Curr. Cash Flow Growth	3.07%	3.70%	5.46%	40.74%	4.56%	11.91%
Hist. Cash Flow Growth (3-5 yrs)	10.47%	9.86%	8.55%	32.76%	18.35%	15.91%
Current Ratio	0.27	0.93	1.29	2.83	0.57	0.51
Debt/Capital	28.62%	56.77%	44.54%	43.31%	65.84%	56.77%
Net Margin	8.94%	1.85%	10.59%	10.25%	-16.95%	1.75%
Return on Equity	11.52%	4.25%	16.29%	36.85%	12.15%	12.34%
Sales/Assets	0.46	0.54	0.55	1.46	0.39	0.34
Proj. Sales Growth (F1/F0)	-21.50%	-32.85%	-2.34%	-7.45%	-70.55%	-45.20%
Momentum Score	D	-	-	C	F	F
Daily Price Chg	12.59%	3.26%	2.82%	0.36%	15.32%	14.88%
1 Week Price Chg	13.15%	10.18%	4.99%	12.95%	27.29%	15.19%
4 Week Price Chg	12.59%	6.50%	3.55%	35.20%	22.46%	19.16%
12 Week Price Chg	-48.85%	-25.77%	-4.95%	11.99%	-52.32%	-36.62%
52 Week Price Chg	-68.23%	-56.05%	-3.04%	22.11%	-70.97%	-59.74%
20 Day Average Volume	54,619,316	287,066	2,429,758	319,650	67,459,944	19,378,928
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-53.21%
(F1) EPS Est 4 week change	0.00%	-32.57%	-2.27%	-4.20%	-114.16%	-304.39%
(F1) EPS Est 12 week change	-130.96%	-163.53%	-16.39%	-28.69%	-241.33%	-172.98%
(Q1) EPS Est Mthly Chg	0.00%	-35.12%	-4.03%	-86.18%	-54.77%	-64.44%

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## 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.

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### 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	D
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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