

Carnival Corporation(CCL)

\$13.75 (As of 07/27/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 06/26/20)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **5-Strong Sell**
Zacks Style Scores: VGM:C
Value: B | Growth: F | Momentum: B

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 are down for the remainder of 2020. This pandemic is likely to cause delay in ship deliveries as the shipyards have been impacted. Recently, the company reported second-quarter fiscal 2020 results, wherein both top and bottom lines missed the Zacks Consensus Estimate and declined sharply year over year. The company is unable to definitively predict when its cruise operations, which have been halted for more than two months, will return to normal operations. Due to this, the company is unable to provide a guidance. Of late, earnings estimates for 2020 and 2021 have witnessed sharp downward revisions.

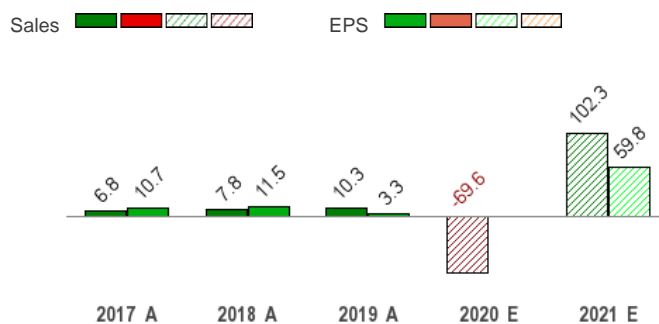
Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$51.94 - \$7.80**
20 Day Average Volume (sh) **33,482,784**
Market Cap **\$8.3 B**
YTD Price Change **-73.0%**
Beta **1.96**
Dividend / Div Yld **\$1.50 / 10.9%**
Industry [Leisure and Recreation Services](#)
Zacks Industry Rank **Bottom 7% (236 out of 253)**

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise **-80.3%**
Last Sales Surprise **-43.1%**
EPS F1 Est- 4 week change **-17.1%**
Expected Report Date **09/24/2020**
Earnings ESP **0.0%**

P/E TTM **80.9**
P/E F1 **NA**
PEG F1 **NA**
P/S TTM **0.5**

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,148 E	3,207 E	3,969 E	3,151 E	12,828 E
2020	4,789 A	740 A	95 E	741 E	6,341 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	-\$1.72 E	-\$0.63 E	\$0.16 E	-\$0.76 E	-\$2.91 E
2020	\$0.22 A	-\$3.30 A	-\$2.14 E	-\$2.00 E	-\$7.23 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 07/27/2020. The reports text is as of 07/28/2020.

Overview

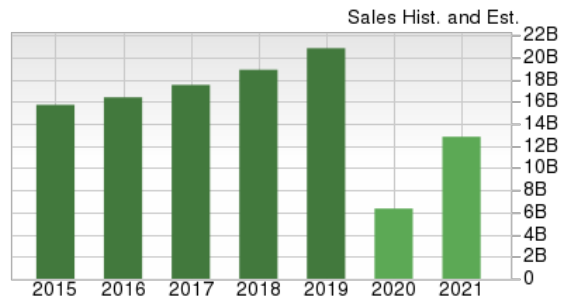
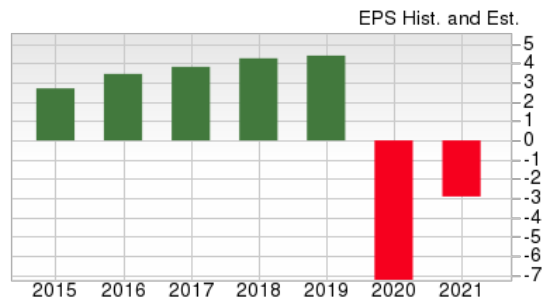
Founded in 1972 and headquartered in Miami, FL, Carnival Corporation operates as a cruise and vacation company. As a single economic entity, Carnival Corporation & Carnival plc forms the largest cruise operator in the world. Carnival is the world's leading leisure travel firm and carries nearly half 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.

Carnival recently extended the suspension of operations of cruises in North America through Sep 30, 2020 due to the coronavirus pandemic. The company also believes that the pandemic is likely to cause delay in ship deliveries as the shipyards have been impacted as well. The company is unable to definitively predict when its cruise operations, which have been halted for more than two months, will return to normal operations. Notably, management has been unable to provide a guidance owing to the same.



Reasons To Sell:

- ▼ **Coronavirus to Hurt 2020 Results:** The cruise industry has been driven to a standstill by the coronavirus-induced crisis. Carnival coronavirus-induced crisis is hurting 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. The company is unable to definitively predict when its cruise operations, which have been halted for more than two months, will return to normal operations. Due to this, the company is unable to provide a guidance.
- ▼ **Bookings Down Significantly:** As of May 31, 2020, cumulative advanced bookings for 2021 capacity currently available for sale are within historical ranges at prices that are down in the low to mid-single digits range, which includes the negative yield owing to FCCs and onboard credits applied, on a comparable basis. However, for 2021, booking volumes for the six weeks ending May 31, 2020, were down significantly compared with the prior year.
- ▼ **Results Decline Sharply in Q2:** Carnival reported second-quarter fiscal 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. In the quarter under review, the company reported loss per share of \$3.30, wider than the Zacks Consensus Estimate of a loss of \$1.83. In the prior-year quarter, the company had reported earnings per share of 66 cents. Revenues came in at \$0.7 billion, which missed the consensus mark of \$1.3 billion. The top line also declined sharply from the prior-year quarter figure of \$4.8 billion. Results in the quarter were impacted by the coronavirus-induced shutdowns.
- ▼ **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

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.

Risks

- **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.

- **Strategic Initiatives Improve Revenue Yields:** Carnival has been witnessing ticket price improvements for both its North American and EAA brands, with robust ticket price improvements in its core Caribbean deployment. The company is optimistic on its innovations including 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.
 - **Enough Liquidity to Tide over Pandemic:** Carnival has ample liquidity, which will help it survive in an extended zero revenue scenario for some time. The company exited the fiscal second quarter with liquidity of \$7.6 billion. The company has \$8.8 billion of committed export credit facilities, which are available to fund ship deliveries originally planned through 2023. Amid the coronavirus-induced shutdowns, the company's average cash burn rate for the second half of 2020 is anticipated to be nearly \$650 million. Moreover, the company has preliminary agreements for the disposal of six ships.
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Last Earnings Report

Carnival Posts Wider-than-Expected Q2 Loss

Carnival reported second-quarter fiscal 2019 results, wherein both earnings and revenues missed the Zacks Consensus Estimate.

In the second quarter, the company reported loss per share of \$3.30, wider than the Zacks Consensus Estimate of a loss of \$1.83. In the prior-year quarter, the company had reported earnings per share of 66 cents. Revenues came in at \$740 million, which missed the consensus mark of \$1,301 million. The top line also declined sharply from the prior-year quarter's \$4,838 million due to coronavirus-induced shutdowns.

Quarter Ending **05/2020**

Report Date	Jul 10, 2020
Sales Surprise	-43.14%
EPS Surprise	-80.33%
Quarterly EPS	-3.30
Annual EPS (TTM)	0.17

Segmental Revenues

Carnival generates revenues from the Passenger Tickets business, and the Onboard and Other as well as the Tour and Other segments. Revenues at the Passenger Tickets business segment totaled \$446 million compared with \$3,257 million in the year-ago quarter. Onboard and Other revenues (inclusive of Tour and Other revenues) totaled \$294 million compared with \$1580 million in the prior-year quarter.

Balance Sheet

Carnival exited the fiscal second quarter with cash and cash equivalents of \$6,881 million compared with \$518 million as of Nov 30, 2019. Trade and other receivables summed \$604 million compared with \$444 million as of Nov 30, 2019. Long-term debt amounted to approximately \$14,870 million.

Bookings for 2021 Improve

Following the pause in operations since mid-March due to the coronavirus pandemic, Carnival's AIDA Cruises recently announced resumption of sailing from August. Bookings for the same are also being taken.

The company intends to ramp up operations in a phased manner, keeping in mind the health and safety of its guests and crew members. Notably, its collaboration with WHO, German Robert Koch Institute (RKI) along with other governmental and health authorities is noteworthy.

Owing to the incentives and flexibility in terms of bookings, the company is witnessing solid demand in advance bookings for 2021. Notably, offers like onboard credits, reduced or refundable deposits and future cruise credits (FCC) bode well.

As of Jun 21, 2020, cumulative advanced bookings for 2021 remained within historical ranges, while prices ranged from low to mid-single digits, on a comparable basis.

Fleet Size Update

Coming to fleet size, Carnival expects capacity to get moderated by the phased re-entry of its ships, the removal of capacity from its fleet and delays in new ship deliveries.

Carnival's president and CEO Arnold Donald stated, "We have been transitioning the fleet into a prolonged pause and right sizing our shoreside operations. We have aggressively shed assets while actively deferring new ship deliveries."

Notably, 13 ships are expected to be unloaded in the near future, representing approximately a 9% reduction in current capacity. Also, the company expects five ships (out of nine) to be delivered before the end of fiscal 2021 (which were earlier scheduled for delivery in fiscal 2020 and 2021). Also, deliveries for fiscal 2022 and 2023 have been deferred. As a result of these initiatives, the company has reduced operating costs and capital expenditures by more than \$7 billion on an annualized basis. It also intends to save more than \$5 billion over the next 18 months.

Other Updates

Despite the virus triggering a catastrophe in terms of lives lost and financial impact, Carnival appears resilient enough to navigate through the uncertain times. Notably, the company has taken significant actions to preserve cash and secure additional financing to maximize its liquidity.

The company has reduced administrative expenses and non-newbuild capital expenditures by \$1.3 billion for 2020 and expects to cut newbuild capital expenditures by more than \$600 million for 2020 (net of export credit facilities).

It has also raised more than \$10 billion through a series of financial transactions which include senior secured term loan facility. The company has also negotiated Debt Holiday amendments, deferring certain principal repayments, otherwise due through March 2021. Additionally, the company stated that it has \$8.8 billion of committed export credit facilities that were initially assigned to fund ship deliveries planned through 2023.

Notably, with an expected average cash burn rate of \$650 million per month, the company stated that it has ample liquidity to survive an extended zero revenue scenario for some time.

Recent News

Carnival's Princess Cruises Extends Operations Suspension – Jun 3, 2020

Given that cruise ports have extended closures across the globe, Carnival's Princess Cruises have extended pause of global ship operations on select sailings in Australia, Canada and Taiwan.

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 72.9% year-to-date and 71% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 49.6%, and Zacks Consumer Discretionary sector is down by 7.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 48.6% and 3.8%, respectively.

The S&P 500 index is up 0.8% in the year-to-date period and 7.7% in the past year.

The stock is currently trading at 80.88X trailing 12-month earnings, which compares to 13.91X for the Zacks sub-industry, 25.16X for the Zacks sector and 20.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 146.5X and as low as 1.93X, with a 5-year median of 15.4X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$12 price target reflects 70.58X 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	80.88	13.91	25.16	20.75
	5-Year High	146.53	29.48	31.71	22.25
	5-Year Low	1.93	11.56	19.58	15.98
	5-Year Median	15.4	21.55	24.44	19.13
P/B TTM	Current	0.35	0.72	3.15	4.43
	5-Year High	1.61	1.71	5.03	4.56
	5-Year Low	0.17	0.43	2.22	2.83
	5-Year Median	1.25	1.38	4.21	3.71
EV/EBITDA TTM	Current	6.53	5.84	10.46	11.95
	5-Year High	9.85	11.36	17.79	12.85
	5-Year Low	2.75	4.72	8.33	8.25
	5-Year Median	7.8	8.74	12.23	10.88

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Malibu Boats, Inc. (MBUU)	Outperform	1
Lindblad Expeditions Holdings Inc. (LIND)	Neutral	4
Vail Resorts, Inc. (MTN)	Neutral	3
Norwegian Cruise Line Holdings Ltd. (NCLH)	Neutral	3
Royal Caribbean Cruises Ltd. (RCL)	Neutral	4
Red Rock Resorts, Inc. (RRR)	Neutral	3
SeaWorld Entertainment, Inc. (SEAS)	Neutral	2
MGM Resorts International (MGM)	Underperform	5

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	CCL	X Industry	S&P 500	MBUU	NCLH	RCL
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	1	3	4
VGM Score	C	-	-	B	F	F
Market Cap	8.26 B	625.68 M	22.74 B	1.27 B	3.43 B	10.32 B
# of Analysts	7	3.5	14	5	7	8
Dividend Yield	10.91%	0.00%	1.8%	0.00%	0.00%	6.33%
Value Score	B	-	-	B	C	C
Cash/Price	0.77	0.29	0.07	0.11	0.37	0.37
EV/EBITDA	2.99	6.45	13.03	11.59	5.73	5.32
PEG Ratio	NA	1.82	3.03	NA	NA	NA
Price/Book (P/B)	0.35	1.09	3.17	5.05	0.66	1.01
Price/Cash Flow (P/CF)	1.39	4.33	12.05	13.36	1.63	3.12
P/E (F1)	NA	72.31	21.90	17.36	NA	NA
Price/Sales (P/S)	0.49	0.68	2.38	1.74	0.54	0.98
Earnings Yield	-52.58%	-12.49%	4.30%	5.75%	-51.72%	-29.61%
Debt/Equity	0.71	0.94	0.76	0.76	1.93	1.26
Cash Flow (\$/share)	9.87	2.40	7.01	4.63	8.22	15.81
Growth Score	F	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	-7.41%	13.09%	10.85%	37.06%	16.97%	18.88%
Proj. EPS Growth (F1/F0)	-264.29%	-234.83%	-7.56%	19.20%	-235.87%	-253.08%
Curr. Cash Flow Growth	3.07%	3.70%	5.47%	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	0.69	0.96	1.31	2.83	0.57	0.51
Debt/Capital	41.64%	59.14%	44.41%	43.31%	65.84%	56.77%
Net Margin	-17.53%	-0.87%	10.45%	10.25%	-16.95%	1.75%
Return on Equity	0.06%	0.20%	15.13%	36.85%	12.15%	12.34%
Sales/Assets	0.36	0.53	0.54	1.46	0.39	0.34
Proj. Sales Growth (F1/F0)	-69.55%	-41.33%	-2.00%	11.05%	-73.13%	-73.54%
Momentum Score	B	-	-	C	D	D
Daily Price Chg	-7.09%	-0.10%	0.48%	4.92%	-6.95%	-3.01%
1 Week Price Chg	-4.33%	-2.68%	0.37%	13.27%	-5.83%	-4.35%
4 Week Price Chg	-18.06%	-1.36%	5.61%	22.78%	-19.20%	-1.99%
12 Week Price Chg	-4.11%	0.41%	13.36%	87.63%	-7.34%	19.17%
52 Week Price Chg	-70.96%	-57.35%	-3.30%	102.82%	-72.75%	-57.35%
20 Day Average Volume	33,482,784	261,188	1,917,592	216,623	42,099,124	12,572,243
(F1) EPS Est 1 week change	-0.02%	0.00%	0.00%	0.00%	0.00%	-0.74%
(F1) EPS Est 4 week change	-17.11%	0.00%	0.21%	3.04%	-0.36%	-7.10%
(F1) EPS Est 12 week change	-513.33%	-93.91%	-2.00%	17.84%	-63.00%	-727.41%
(Q1) EPS Est Mthly Chg	-13.13%	0.00%	0.00%	4.42%	2.17%	-3.68%

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	B
Growth Score	F
Momentum Score	B
VGM Score	C

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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