

## Norwegian Cruise Line(NCLH)

**\$16.40** (As of 04/30/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/08/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

### Summary

Norwegian Cruise's shares have underperformed the industry in the past year. Despite reporting better-than-expected earnings, the downtrend is likely to persist thanks to the coronavirus outbreak. Due to the coronavirus outbreak in China, the company has canceled, modified or redeployed 40 voyages. These are likely to hurt the company's earnings by 75 cents per share in 2020. Per management, 2020 results are likely to be materially impacted if apprehensions regarding the coronavirus continue to increase. Moreover, high costs, intense competition from other cruises and debt levels are potential concerns. Further, the company's exposure to negative currency translation is adding to woes. Earnings estimates for 2020 have declined in the past 30 days, which underscores analyst concern regarding the performance of the company.

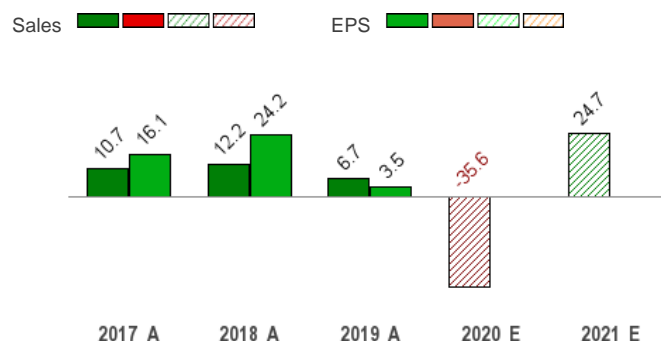
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$59.78 - \$7.03
20 Day Average Volume (sh)	30,851,232
Market Cap	\$3.5 B
YTD Price Change	-71.9%
Beta	2.55
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Leisure and Recreation Services</a>
Zacks Industry Rank	Bottom 49% (130 out of 253)

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



Last EPS Surprise	4.3%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-242.5%
Expected Report Date	05/14/2020
Earnings ESP	-30.8%
P/E TTM	3.2
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,210 E	1,427 E	1,650 E	1,304 E	5,188 E
2020	1,278 E	810 E	1,067 E	1,005 E	4,161 E
2019	1,404 A	1,664 A	1,914 A	1,481 A	6,462 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.19 E	\$0.35 E	\$1.16 E	\$0.21 E	\$0.59 E
2020	-\$0.27 E	-\$1.30 E	-\$0.46 E	-\$0.71 E	-\$3.40 E
2019	\$0.83 A	\$1.30 A	\$2.23 A	\$0.73 A	\$5.09 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 04/30/2020. The reports text is as of 05/01/2020.

## Overview

Norwegian Cruise Line Holdings Ltd., a Bermuda Limited company, is a leading cruise line operator. It owns and operates three brands — Oceania Cruises, Regent Seven Seas Cruises and Norwegian Cruise Line. The company, founded in 1966, is headquartered in Miami, FL.

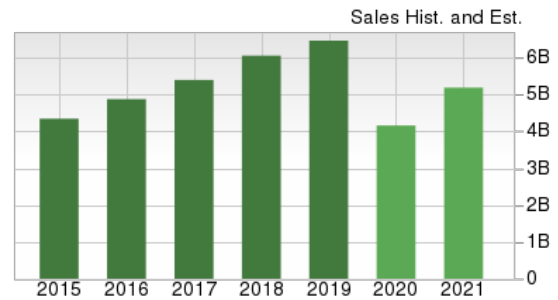
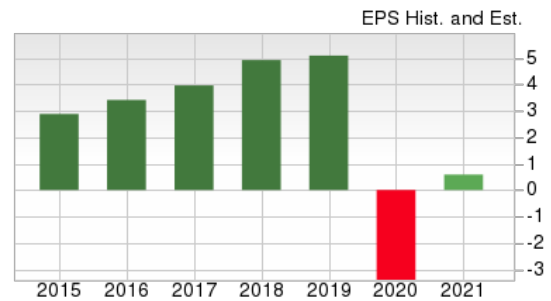
In 2014, the company acquired Prestige Cruises International, thereby expanding its operations significantly. Through this move, the company acquired the Oceania Cruises and Regent Seven Seas Cruises brands.

As of Dec 31, 2019, the three brands operate a total of 27 ships with 58,400 berths in Alaska, the Bahamas, Bermuda, the Caribbean, Europe, Hawaii, Mexico, New England, Central and South America, North Africa, Scandinavia among others.

The company is constantly looking to expand its fleet size. To this end, the company launched Norwegian Bliss in April 2018. Moreover, it introduced Norwegian Joy (cruise ship designed for Chinese travelers) in 2017. The ship, which can accommodate more than 3,500 passengers, started sailing from Shanghai in June 2017. It has plans to introduce 11 more ships through 2027. The company will receive the Norwegian Encore in fall 2019. The company has Allura Class Ships on order for delivery in the winter of 2022 and spring of 2025. With the project Leonardo, Norwegian Cruise will have an additional six ships with expected delivery dates from 2022 through 2027. This addition is likely to bring total berth count to roughly 82,000.

In a bid to facilitate travel for cruise passengers, the brands strive to provide an enhanced level of onboard service. To this end, they offer a wide range of features, amenities and activities like a variety of accommodations and multiple dining venues.

Revenues from passenger tickets account for bulk of the top line (70% in 2019) at Norwegian Cruise Line. Balance (30%) comes from onboard and other sources.



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## Reasons To Buy:

- ▲ **Fleet Size Expansion Encourages:** Norwegian Cruise is constantly looking to expand fleet size, which is currently at 26, following the launch of Norwegian Bliss in April 2018. It has plans to introduce 11 more ships through 2027. Most of them are on order for Norwegian Cruise Line, while the rest are for Oceania Cruises and Regent Seven Seas Cruises. Moreover, it introduced Norwegian Joy (cruise ship designed for Chinese travelers) in 2017. The ship, which can accommodate more than 3,500 passengers, started sailing from Shanghai in June 2017. It has plans to introduce 11 more ships through 2027. The Company will take delivery of Norwegian Encore, in fall 2019. The company has Allura Class Ships on order for delivery in the winter of 2022 and spring of 2025. With the project Leonardo, Norwegian Cruise will have an additional six ships with expected delivery dates from 2022 through 2027. This addition is likely to take the total berth count to roughly 82,000.
- Strong demand and modest capacity growth bode well for Norwegian Cruise. Higher yield and fleet-expansion efforts are enabling the company to gain traction.
- ▲ **Overall Booking & Capacity Growth Shaping Up Well:** Higher demand for cruises has led Norwegian Cruise to expect a record book position in 2019. The company has particularly worked in improving book revenues. It has changed its payment policies and deposit structure, which is driving revenues. Also, air travel services booked through Norwegian's Air program is significantly boosting demand. In the third quarter of 2019, revenues increased 3% year over year on increase in net yield owing to repositioning of Norwegian Joy to North America and robust growth in organic pricing across all core markets. Strong onboard spending also had positive bearings on its quarterly revenues.
- Coming to supply, the company has been able to successfully absorb new capacity that are coming online. Also, expansion of fleet enables the company to capture greater demand. Meanwhile, capacity growth is primarily generated from Norwegian Encore.
- The company's focus on the lucrative Chinese market is highly encouraging. To this end, the company announced a partnership with Alibaba Group in May 2017. The company introduced Norwegian Joy (cruise ship designed for Chinese travelers) in 2017. The ship, which can accommodate more than 3,500 passengers, started sailing from Shanghai in June 2017. In fact, by 2020, China's cruise market is projected to grow to 4.5 million passengers, up from 1 million in 2015, per data from the Chinese Ministry of Transport. By 2030, China is expected to become the world's second largest cruise market after the United States.
- During the third quarter 2019, the company's performance in Alaska was boosted by the addition of the Norwegian Joy. Along with sister ship Norwegian Bliss, Norwegian Joy enabled the company to capture the growing and profitable region in Alaska. With the help of strategic initiatives around itinerary optimization, particularly in Alaska and Europe, capacity in the third quarter 2019 increased by 17% and 13%, respectively. Also the conversion of Cuba sailings to Bahamas-only sailings resulted in a 110 basis point drag on net yield.
- ▲ **High Onboard Spend & Net Yield Growth:** Norwegian Cruise is highly benefitting from higher onboard spend. The company's onboard revenue performance has continued to exceed expectations. This provided benefits to customers that come under the Norwegian brand's Free at Sea go-to-market strategy. Also, pre-booking offshore excursions highly aided the onboard spend. In the third quarter, onboard and other revenues rose 3.1% from the year-ago quarter's number. Gross yield (total revenue per Capacity Day) grew 4.8% in the quarter on a year-over-year basis. The company is also seeing high net yields, courtesy of higher onboard spend. On a constant-currency basis, net yield rose 3.9% in the third quarter. The metric moved up 3.3% on a reported basis. For 2019, net yield is expected to be 3%.
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## Reasons To Sell:

- ▼ **Coronavirus Outbreak to Hurt results:** Due to the coronavirus outbreak in China, the company has canceled, modified or redeployed 40 voyages, which include 24 voyages on Norwegian Cruise Line, 10 on Oceania Cruises and six on Regent Seven Seas Cruises. The company stated that it will not have any vessels deployed in Asia through the end of third-quarter 2020. The aforementioned factor is expected to impact 2020 adjusted earnings by 75 cents per share. Per management, 2020 results are likely to be materially impacted if apprehensions regarding the coronavirus continue to increase.
- ▼ **Increasing Costs Hurt:** Norwegian Cruise is bearing the brunt of high expenses for quite some time. Fuel costs and net cruise costs are rising persistently. Moreover, by strengthening the international fourth quarter 2019, total cruise operating expenses increased 8.6% in the quarter under review from the year-ago quarter. The increase can be attributed to redeployment of Norwegian Joy and rise in direct costs owing to air promotions. Gross cruise costs per capacity day rose 5.6%. Adjusted Net cruise costs (excluding fuel) per Capacity Day increased 4% at cc and 3.4% on a reported basis. Fuel price per metric ton (net of hedges) was up 2.4% to \$508 in the quarter under review.
- ▼ **Debt Burden:** The company's heavy reliance on debt financing is a concern. As of Dec 31 2019, cash and cash equivalents totaled \$252.9 million. Long-term debt at the end of the fourth quarter totaled \$6.1 billion, higher than \$5.8 billion at the end of 2018. Due to high debt burden, the company might fail to finance upcoming projects. Moreover, any downturn in macroeconomic and credit market conditions would make it difficult for Norwegian Cruise to pay or refinance debt moving ahead.
- ▼ **Currency & Other Macro Economic Headwinds:** Norwegian Cruise is heavily investing in China, where a slowdown in the economy could limit discretionary spending. In fact, the rate of capacity growth in the Asia Pacific region is expected to slow considerably in the near term for the company and the industry. Further, in Europe, economic/political conditions are expected to be somewhat challenging after U.K.'s exit from the 28-member economic bloc.

High costs, debt burden and the coronavirus outbreak in China remain potential concerns.

Also, the company generates a significant amount of its revenues from customers outside the United States where the majority pay with local currency. Hence, the company is highly exposed to the impact of negative currency translation. Thus, if the U.S. dollar continues to strengthen versus the company's basket of currencies, it is likely to prove detrimental to the company's earnings growth. Moreover, an increase in fuel prices may further hamper the company's performance. Meanwhile, Trump administration's policy change on travel to Cuba is concerning. Travel ban to Cuba will impact the cruise industry.

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## Last Earnings Report

### Norwegian Cruise Q4 Earnings Top, Covid-19 Clouds View

Norwegian Cruise has reported better-than-expected fourth-quarter 2019 results. The company's earnings and revenues surpassed the Zacks Consensus Estimate for the fourth consecutive quarter.

#### Earnings & Revenue Discussion

Adjusted earnings of 73 cents per share surpassed the Zacks Consensus Estimate of 70 cents. However, the bottom line declined 14.1% from the year-ago quarter.

Revenues amounted to \$1,480.6 million in the fourth quarter, surpassing the consensus mark of \$1,431 million and improving 7.2% year over year. The top line was driven by an increase of 3.4% in passenger ticket revenues and rise of 15.8% in onboard and other revenues.

Strong onboard spending had a positive impact on the reported quarter's revenues as well. Moreover, an increase in capacity days with the addition of Norwegian Encore to the fleet drove the top line.

Gross yield (total revenues per Capacity Day) rose 4% in the quarter on a year-over-year basis. On a constant-currency (cc) basis, net yield rose 1.3% in the reported quarter.

#### Expenses & Operating Results

Total cruise operating expenses increased 8.6% in the quarter under review from the year-ago quarter. The increase can be attributed to redeployment of Norwegian Joy and rise in direct costs owing to air promotions.

Gross cruise costs per capacity day rose 5.6%. Adjusted Net cruise costs (excluding fuel) per Capacity Day increased 4% at cc and 3.4% on a reported basis. Fuel price per metric ton (net of hedges) was up 2.4% to \$508 in the quarter under review.

Net interest expenses were \$73.2 million in the fourth quarter, down from \$68.2 million in the year-ago quarter.

#### Balance Sheet

Cash and cash equivalents as of Dec 31, 2019, were \$252.9 million, up from \$163.9 million as of Dec 31, 2018. Long-term debt at the end of the fourth quarter totaled \$6.1 billion, higher than \$5.8 billion at the end of 2018.

#### Coronavirus to Hurt Q1 & 2020 Results

Due to the coronavirus outbreak in China, the company has canceled, modified or redeployed 40 voyages, which include 24 voyages on Norwegian Cruise Line, 10 on Oceania Cruises and six on Regent Seven Seas Cruises. The company stated that it will not have any vessels deployed in Asia through the end of third-quarter 2020.

The aforementioned factor is expected to impact 2020 adjusted earnings by 75 cents per share. Per management, 2020 results are likely to be materially impacted if apprehensions regarding the coronavirus continue to increase.

For first-quarter 2020, Norwegian Cruise expects adjusted earnings to be nearly 48 cents. Net yield is expected to increase 0.25% at cc. The company expects net cruise costs (excluding Fuel per Capacity Day) to be 4.5% at cc.

For 2020, the company expects adjusted earnings per share in the range of \$5.40 to \$5.60. The Zacks Consensus Estimate for 2020 earnings is at \$5.49, slightly below the mid-point of the company's guidance of \$5.5 per share.

Net yield is expected to be in the range of 2-3%. Meanwhile adjusted net cruise costs are anticipated to be nearly 1.25% at cc.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	3.23%
EPS Surprise	4.29%
Quarterly EPS	0.73
Annual EPS (TTM)	5.09

## Recent News

### Norwegian Cruise Line Provides Business Update – Apr 27, 2020

In a bid to contain the spread of Covid-19, Norwegian Cruise Line has announced a voluntary suspension of all cruise voyages from March 13 to June 30, 2020 for its three brands. However, all three brands have instituted programs for guests on canceled sailings as a result of the Company's voyage suspension which include offering value-add future cruise credits typically for 125% of the cruise fare paid in lieu of providing cash refunds.

## Valuation

Norwegian Cruise shares are down 71.9% year-to-date and 71.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 53.7% and 20.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 57% and 17.5%, respectively.

The S&P 500 index is down 11.4% in the year-to-date period and 2.6% in the past year.

The stock is currently trading at 3.22X trailing 12-month earnings, which compares to 9.09X for the Zacks sub-industry, 20.37X for the Zacks sector and 17.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.02X and as low as 1.53X, with a 5-year median of 13.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 3.53X trailing 12-month earnings.

The table below shows summary valuation data for NCLH.

Valuation Multiples - NCLH					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	3.22	9.09	20.37	17.8
	5-Year High	27.02	29.48	32.64	22.17
	5-Year Low	1.53	9.09	19.68	15.91
	5-Year Median	13.92	21.75	25.5	18.9
P/B TTM	Current	0.54	0.61	2.69	3.78
	5-Year High	3.83	1.71	5.04	4.55
	5-Year Low	0.25	0.43	2.18	2.84
	5-Year Median	2.21	1.38	4.23	3.64
EV/EBITDA TTM	Current	5.03	5.67	9.64	10.45
	5-Year High	18.79	11.38	17.6	12.87
	5-Year Low	4.11	4.74	8.27	8.27
	5-Year Median	11.08	8.88	12.24	10.78

As of 04/29/2020

## Industry Analysis Zacks Industry Rank: Bottom 49% (130 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Carnival Corporation (CCL)	Neutral	3
Cinemark Holdings Inc (CNK)	Neutral	3
Lindblad Expeditions Holdings Inc. (LIND)	Neutral	3
Royal Caribbean Cruises Ltd. (RCL)	Neutral	3
Marriot Vacations Worldwide Corporation (VAC)	Neutral	3
Wynn Resorts, Limited (WYNN)	Neutral	3
Las Vegas Sands Corp. (LVS)	Underperform	3
Vail Resorts, Inc. (MTN)	Underperform	4

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	NCLH	X Industry	S&P 500	CCL	LIND	RCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	B	D
Market Cap	3.52 B	671.03 M	20.82 B	8.81 B	322.67 M	10.05 B
# of Analysts	7	4	14	8	4	8
Dividend Yield	0.00%	0.00%	2.07%	11.98%	0.00%	6.49%
Value Score	B	-	-	A	B	C
Cash/Price	0.11	0.21	0.06	0.22	0.43	0.03
EV/EBITDA	5.09	6.65	12.12	3.17	6.76	5.19
PEG Ratio	NA	2.17	2.51	NA	NA	NA
Price/Book (P/B)	0.54	0.99	2.74	0.36	2.61	0.83
Price/Cash Flow (P/CF)	2.00	4.93	11.23	1.69	6.46	3.04
P/E (F1)	NA	48.19	19.26	NA	28.84	NA
Price/Sales (P/S)	0.54	0.67	2.16	0.42	0.94	0.92
Earnings Yield	-20.72%	-1.43%	5.03%	-7.85%	-2.31%	-3.68%
Debt/Equity	0.93	0.72	0.72	0.40	1.77	0.74
Cash Flow (\$/share)	8.22	2.40	7.01	9.87	1.01	15.81
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	21.52%	18.39%	10.88%	13.33%	177.00%	23.83%
Proj. EPS Growth (F1/F0)	-166.76%	-116.33%	-6.94%	-129.77%	-152.68%	-118.50%
Curr. Cash Flow Growth	4.56%	3.70%	5.92%	3.07%	35.06%	11.91%
Hist. Cash Flow Growth (3-5 yrs)	18.35%	9.86%	8.55%	10.47%	7.81%	15.91%
Current Ratio	0.20	0.91	1.23	0.27	0.80	0.15
Debt/Capital	48.17%	51.36%	43.90%	28.62%	65.57%	44.07%
Net Margin	14.40%	5.14%	11.15%	8.94%	3.99%	17.16%
Return on Equity	17.73%	4.85%	16.47%	11.52%	15.08%	17.06%
Sales/Assets	0.40	0.53	0.54	0.46	0.66	0.37
Proj. Sales Growth (F1/F0)	-35.62%	-21.44%	-1.52%	-21.50%	-31.62%	-32.94%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	25.36%	5.96%	2.91%	15.42%	7.27%	15.56%
1 Week Price Chg	-12.28%	-4.57%	-1.74%	-5.18%	-3.58%	-4.57%
4 Week Price Chg	71.83%	28.46%	21.33%	89.66%	75.88%	86.50%
12 Week Price Chg	-70.22%	-39.49%	-16.28%	-62.19%	-61.28%	-59.36%
52 Week Price Chg	-71.71%	-59.39%	-7.57%	-70.10%	-59.39%	-62.75%
20 Day Average Volume	30,851,232	273,549	2,658,107	90,902,704	514,186	25,092,788
(F1) EPS Est 1 week change	-59.80%	0.00%	0.00%	0.00%	-165.56%	-7.95%
(F1) EPS Est 4 week change	-242.50%	-39.02%	-6.32%	-170.43%	-128.64%	-138.06%
(F1) EPS Est 12 week change	-157.31%	-109.04%	-12.93%	-128.92%	-126.34%	-116.77%
(Q1) EPS Est Mthly Chg	-277.57%	-75.00%	-11.84%	-2,037.14%	-556.25%	-372.79%

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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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>C</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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