

Norwegian Cruise Line(NCLH)

\$28.59 (As of 03/05/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

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 current year 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 - \$26.78
20 Day Average Volume (sh)	4,850,354
Market Cap	\$6.1 B
YTD Price Change	-51.1%
Beta	1.87
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Top 31% (79 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.3%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-27.0%
Expected Report Date	05/14/2020
Earnings ESP	0.0%
P/E TTM	5.6
P/E F1	6.9
PEG F1	0.8
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,583 E	1,883 E	2,210 E	1,636 E	7,252 E
2020	1,452 E	1,723 E	2,063 E	1,558 E	6,796 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	\$0.59 E	\$1.33 E	\$2.63 E	\$0.92 E	\$5.19 E
2020	\$0.16 E	\$0.88 E	\$2.29 E	\$0.77 E	\$4.16 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 03/05/2020. The reports text is as of 03/06/2020.

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.

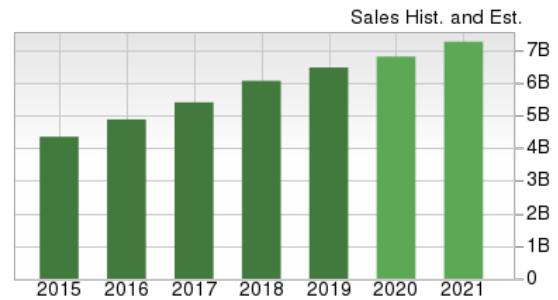
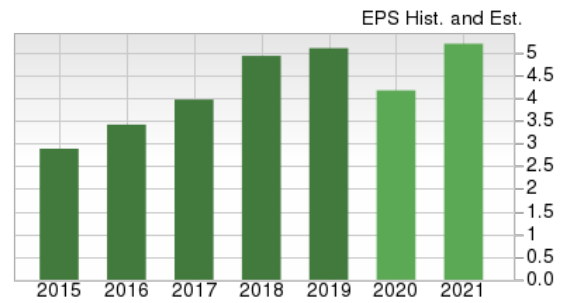
In 2014, the company acquired Prestige Cruises International, thereby expanding its operations significantly. Through this move, the company acquired the Oceania Cruises and Regent Seven Seas Cruises brands.

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.



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.
- ▼ **Valuation Looks Stretched:** As Norwegian Cruise significantly outperformed the industry in the last five years, its valuation n looks a bit stretched compared with its own range as well as the industry average. Looking at the company's EV/EBITDA ratio (Enterprise Value/ Earnings before Interest Tax Depreciation and Amortization), which is the best multiple for valuing cruise companies as they are highly capital-intensive, investors might not want to pay any further premium. The company currently has a trailing 12-month EV/EBITDA ratio of 7.25. The stock is relatively overvalued right now compared with its peers as the industry's average EV/EBTDA multiple currently stands at 7.17x.
- ▼ **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.

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.
- ▼ **Competition Ails:** Norwegian Cruise faces intense competition from other established cruise companies as well as alternative leisure providers. Royal Caribbean and Carnival account for 25% and 44% of global industry capacity, respectively. Meanwhile Norwegian Cruise only accounts for 9% of the global industry. Also, non-cruise based vacation providers and other tour companies also poses substantial threat to Norwegian Cruise's operations.

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

Risks

- **Impressive Earnings Trend:** Norwegian Cruise has impressed investors with solid earnings trend. The company has reported better-than-expected earnings in the last 11 quarters. In fact, it has a trailing four-quarters positive earnings surprise of 7%, on average. In the fourth quarter, its adjusted earnings of 73 cents per share surpassed the Zacks Consensus Estimate of 70 cents.
 - **Fleet Size Expansion Encourages:** Norwegian Cruise is constantly looking to expand fleet size, which is 27 as of Dec 31, 2019. It has plans to introduce 10 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. On Oct 30, 2019, the company took delivery of Norwegian Encore. 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.
 - **High Onboard Spend:** Norwegian Cruise is significantly gaining from higher onboard spend. The company's onboard revenue performance has continued to exceed expectations. This benefited customers that fall under the Norwegian brand's Free at Sea go-to-market strategy. In the fourth quarter, onboard and other revenues rose 15.8% from the year-ago quarter.
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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

Valuation

Norwegian Cruise shares are down 51.1% year-to-date and 47.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 34.1% and 13.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 35.3% and 2.7%, respectively.

The S&P 500 index is down 6.4% in the year-to-date period, but up 8.7% in the past year.

The stock is currently trading at 6.18X forward 12-month earnings, which compares to 13.24X for the Zacks sub-industry, 17.8X for the Zacks sector and 17.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.19X and as low as 6.18X, with a 5-year median of 11.25X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$24 price target reflects 5.19X forward 12-month earnings.

The table below shows summary valuation data for NCLH.

Valuation Multiples - NCLH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.18	13.24	17.8	17.3
	5-Year High	18.19	22.68	23.23	19.34
	5-Year Low	6.18	13.24	16.15	15.18
	5-Year Median	11.25	18.84	19.96	17.44
P/B TTM	Current	0.93	0.89	2.64	4.04
	5-Year High	3.83	1.71	5.04	4.54
	5-Year Low	0.93	0.89	2.64	2.85
	5-Year Median	2.24	1.38	4.25	3.63
EV/EBITDA TTM	Current	7.25	7.17	11.14	10.93
	5-Year High	19.74	11.38	17.59	12.88
	5-Year Low	7.25	7.09	10.77	8.49
	5-Year Median	11.25	8.94	12.32	10.79

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Top 31% (79 out of 255)



Top Peers

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

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	NCLH Underperform	X Industry	S&P 500	CCL Underperform	LIND Neutral	RCL Neutral
VGM Score	B	-	-	B	B	B
Market Cap	6.10 B	783.60 M	21.47 B	14.71 B	540.94 M	13.75 B
# of Analysts	6	4	13	9	3	9
Dividend Yield	0.00%	0.00%	2.04%	7.18%	0.00%	4.74%
Value Score	B	-	-	A	B	B
Cash/Price	0.03	0.11	0.05	0.03	0.18	0.01
EV/EBITDA	6.50	8.28	12.81	4.40	10.18	6.21
PEG Ratio	0.79	1.30	1.88	0.82	NA	0.79
Price/Book (P/B)	0.93	1.15	2.95	0.58	4.38	1.13
Price/Cash Flow (P/CF)	3.48	6.02	11.75	2.82	10.82	4.16
P/E (F1)	7.25	12.39	17.19	7.12	22.51	7.19
Price/Sales (P/S)	0.94	0.94	2.32	0.71	1.58	1.26
Earnings Yield	14.55%	7.05%	5.81%	14.03%	4.41%	13.91%
Debt/Equity	0.93	0.74	0.70	0.38	1.77	0.74
Cash Flow (\$/share)	8.22	2.20	7.01	9.87	1.01	15.81
Growth Score	C	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	21.52%	17.66%	10.85%	15.63%	177.00%	23.83%
Proj. EPS Growth (F1/F0)	-18.24%	4.69%	6.27%	-11.09%	72.62%	-4.07%
Curr. Cash Flow Growth	4.56%	3.07%	6.07%	3.07%	35.06%	11.91%
Hist. Cash Flow Growth (3-5 yrs)	18.35%	10.47%	8.52%	10.47%	7.81%	15.91%
Current Ratio	0.20	0.91	1.23	0.23	0.80	0.15
Debt/Capital	48.17%	55.33%	42.57%	27.61%	65.57%	44.07%
Net Margin	14.40%	5.88%	11.69%	14.36%	3.99%	17.16%
Return on Equity	17.73%	5.11%	16.66%	12.29%	15.08%	17.06%
Sales/Assets	0.40	0.54	0.54	0.47	0.66	0.37
Proj. Sales Growth (F1/F0)	5.16%	2.95%	3.90%	2.82%	16.96%	4.37%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	-13.36%	-4.59%	-3.79%	-14.14%	-6.37%	-17.11%
1 Week Price Chg	-20.67%	-14.57%	-12.06%	-19.74%	-20.08%	-24.22%
4 Week Price Chg	-48.11%	-21.15%	-10.92%	-36.34%	-33.50%	-43.62%
12 Week Price Chg	-49.07%	-23.35%	-8.10%	-40.58%	-30.79%	-47.37%
52 Week Price Chg	-47.70%	-37.18%	4.09%	-49.68%	-28.37%	-43.15%
20 Day Average Volume	4,850,354	121,644	2,483,920	13,355,778	150,643	6,106,793
(F1) EPS Est 1 week change	-5.94%	0.00%	0.00%	-7.54%	-13.30%	-10.32%
(F1) EPS Est 4 week change	-27.03%	0.00%	-0.06%	-13.64%	-13.69%	-20.52%
(F1) EPS Est 12 week change	-27.25%	-7.11%	-0.42%	-10.93%	-7.05%	-22.30%
(Q1) EPS Est Mthly Chg	-78.95%	-7.26%	-0.29%	-36.62%	-46.30%	-47.44%

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	C
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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