

Norwegian Cruise Line(NCLH)

\$15.13 (As of 08/10/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: C

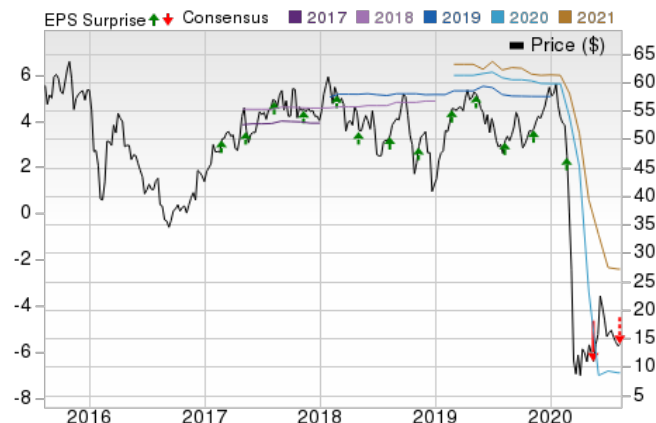
Growth: F

Momentum: F

Summary

Norwegian Cruise's shares have underperformed the industry so far this year. The company reported second-quarter 2020 results, wherein the bottom line missed the Zacks Consensus Estimate but the top line surpassed the same. Moreover, both earnings and revenues declined sharply year over year owing to the coronavirus-induced shutdowns. Due to the same, the company has suspended its voyages through Oct 31. This is likely to hurt the company's performance in the coming quarters. Moreover, costs are likely to rise in the near term due to the pandemic. Notably, earnings estimates for 2020 and 2021 have declined in the past 30 days, depicting analysts' concern regarding the stock's growth potential. Nonetheless, the company stated that it has sufficient liquidity to survive the current crisis for the next 12 months.

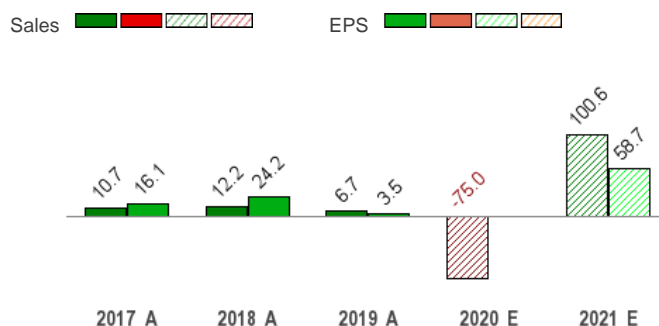
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.78 - \$7.03
20 Day Average Volume (sh)	42,104,740
Market Cap	\$3.9 B
YTD Price Change	-74.1%
Beta	2.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 4% (243 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-26.9%
Last Sales Surprise	401.5%
EPS F1 Est- 4 week change	-9.1%
Expected Report Date	11/05/2020
Earnings ESP	-4.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	876 E	804 E	1,237 E	1,013 E	3,242 E
2020	1,247 A	17 A	172 E	430 E	1,616 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	-\$1.39 E	-\$0.71 E	\$0.37 E	-\$0.38 E	-\$3.06 E
2020	-\$0.99 A	-\$2.78 A	-\$2.03 E	-\$1.88 E	-\$7.41 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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.

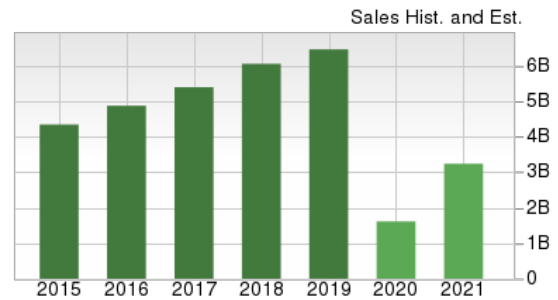
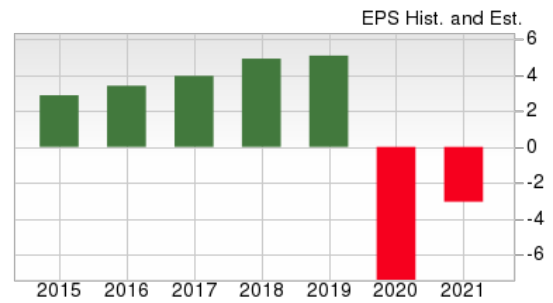
In 2014, the company acquired Prestige Cruises International, thereby expanding its operations significantly. Through this move, the company acquired the Oceania Cruises and Regent Seven Seas Cruises brands.

As of Jun 30, 2020, the three brands operate a total of 28 ships with 59,150 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 9 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 (81.7% in second-quarter 2020) at Norwegian Cruise Line. Balance (18.3%) comes from onboard and other sources.



Reasons To Sell:

- ▼ **Coronavirus Outbreak to Hurt Results:** The cruise industry has been brought to a standstill by the coronavirus-induced crisis. Notably, the Centers for Disease Control (CDC) extension of the "No Sail Order" for cruise ships for approximately three months has aggravated the scenario. Notably, the company has cancelled its voyages through Oct 31, 2020. Also, chances of further voyage suspension due to the pandemic cannot be ruled out. Markedly, the coronavirus-induced crisis is likely to affect its operations and global bookings in the near term.
- ▼ **Cash Burn Due to the Pandemic a Major Concern:** Norwegian Cruise is bearing the brunt of high expenses for quite some time now. Costs associated with the suspension of cruise voyages along with continued payment of protected commissions and crew salaries are adding to the downside. Currently, the company is experiencing a cash burn of approximately \$160 million a month, on average. This includes \$7 million of interest expenses associated with capital market transactions. However, cash refunds for cancelled sailings and cash inflows from new and existing bookings have been excluded from the same.
- ▼ **Q2 Results Decline Sharply:** Norwegian Cruise reported second-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Moreover, both the top and the bottom line declined sharply year over year owing to coronavirus-induced shutdowns. The company has already withdrawn its 2020 guidance on account of the temporary suspension of sailings globally. The company stated the pandemic has impacted its financial position and believes that if suspension is further extended, its liquidity and financial position will get affected significantly.
- ▼ **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.

High costs and the coronavirus pandemic remain potential concerns. The company is witnessing significant cash burn due to the coronavirus pandemic.

Risks

- **Sail Panel to Counter Current Crisis:** The cruise industry has been brought to a standstill by coronavirus. However, the pandemic has compelled companies to forget rivalries and come together to deal with the situation. Case in point, Royal Caribbean Cruises and Norwegian Cruise have teamed up to develop safety standards. Former Utah Governor Mike Leavitt and former FDA Commissioner Scott Gottlieb are serving as co-chairs of a newly-formed group of experts called the "Healthy Sail Panel." The expert panel, which has been working for approximately a month, will provide their initial recommendations by the end of August.
- **Fleet Size Expansion Encourages:** Norwegian Cruise is constantly looking to expand fleet size, which is currently at 28. It has plans to introduce nine 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.

For the Regent brand, it has one Explorer Class Ship to be delivered in 2023. For the Oceania Cruises brand, the company has two Allura Class Ships to be delivered in 2023 and 2025. With the project Leonardo, Norwegian Cruise will have an additional six ships with expected delivery dates from 2022 through 2027.

- **Booking Environment:** The industry is witnessing dismal demand for cruise on account of the coronavirus-induced shutdowns. However, the company stated that demand for cruise beginning fourth-quarter 2020 and 2021 are on track, with overall booked position and pricing for 2021 within historical ranges. The company continues to take future bookings for 2020, 2021 and 2022.

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. Also, air travel services booked through Norwegian's Air program is driving demand significantly. 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.

- **China A Major Market for Cruise Industry:** The company's focus on the lucrative Chinese market holds promise. 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. By 2030, China is expected to become the world's second largest cruise market after the United States.
 - **Sufficient Liquidity to Tide Over Coronavirus Pandemic:** Cash and cash equivalents as of Jun 30, 2020, were \$2.3 billion, up from \$252.9 million as of Dec 31, 2019. In an effort to boost liquidity, the company launched a series of capital markets transactions. As a result of high demand, oversubscription and the full exercise of options to purchase additional ordinary shares and exchangeable notes, the total amount of gross proceeds rose to roughly \$1.5 billion. Following these transactions, the company's total pro-forma liquidity was approximately \$2.8 billion as of Jun 30, 2020. After costs reductions and cash conservation measure, the company's cash burn is expected to be \$160 million per month. Although total debt at the end of Jun 30, 2020, was \$10.3 billion, it is confident that with the amount of liquidity it holds, it can survive in a zero-revenue scenario for 12 months.
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Last Earnings Report

Norwegian Cruise Q2 Earnings Miss Estimates, Decline Y/Y

Norwegian Cruise reported second-quarter 2020 results, wherein the bottom line missed the Zacks Consensus Estimate but the top line surpassed the same. Moreover, both earnings and revenues declined sharply year over year owing to the coronavirus-induced shutdowns.

Earnings & Revenue Discussion

The company reported adjusted loss per share of \$2.78, wider than the Zacks Consensus Estimate of a loss of \$2.19. Notably, the company had reported earnings per share of \$1.30 in the prior-year quarter.

Revenues of \$16.9 million beat the consensus mark of \$3 million. However, the figure declined 99% year over year. The downside can be attributed to 98.8% decline in passenger ticket revenues and decrease of 99.4% in onboard and other revenues.

Expenses & Operating Results

Total cruise operating expenses decreased 68.5% in the quarter under review from the year-ago quarter. However, expenses were associated with suspension of cruise voyages, continued payment of protected commissions and crew costs, which include salaries, food and repatriation costs, and fuel.

Gross cruise costs per capacity day declined 0.2%. Adjusted Net cruise costs (excluding fuel) per Capacity Day were down 0.3% at cc. Fuel price per metric ton (net of hedges) was up 20.5% to \$594 in the quarter under review.

Net interest expenses were \$114.5 million in the first quarter, up from \$66 million in the year-ago quarter.

Balance Sheet

Cash and cash equivalents as of Jun 30, 2020, were \$2.3 billion, up from \$252.9 million as of Dec 31, 2019. Long-term debt at the end of the second quarter totaled \$10.3 billion, higher than \$6.1 billion at the end of 2019.

Due to the pandemic, the company's targeted monthly cash burn is on average, nearly \$160 million per month. The cash burn estimate is at the high end of previously estimated range due to additional interest expenses.

Outlook

The company has already withdrawn 2020 guidance on account of the temporary suspension of sailings globally. The company stated the pandemic has impacted its financial position and believes that if suspension is further extended its liquidity and financial position will be affected significantly.

The company expects to report net loss both on GAAP and adjusted basis for the third quarter and 2020. Since the beginning of the coronavirus outbreak, the company's booking remain below historical levels. However, overall cumulative booked position and pricing for 2021 are within historical ranges.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	401.45%
EPS Surprise	-26.94%
Quarterly EPS	-2.78
Annual EPS (TTM)	-0.81

Recent News

Royal Caribbean & Norwegian Cruise Line Tie Up for Safety Plan - Jul 6

The cruise industry has been driven to a standstill by the coronavirus-induced crisis. However, the ongoing pandemic has compelled companies to forget rivalries and come together to counter the scenario. Case in point, Royal Caribbean and Norwegian Cruise Line have teamed up to develop safety standards.

Former Utah Governor Mike Leavitt and former U.S. Food and Drug Administration Commissioner Scott Gottlieb, are serving as co-chairs of a newly formed group of experts called the "Healthy Sail Panel." The expert panel, which has been working for approximately a month, will provide their initial recommendations by the end of August.

Valuation

Norwegian Cruise shares are down 74.1% year-to-date and 69.6% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 48.6%, and Zacks Consumer Discretionary sector is down by 5.3% in the year-to-date period. Over the past year, the Zacks sub-industry were down by 44.2%, while sector was up by 5.2%.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 1.37X forward 12-month sales, which compares to 1.51X for the Zacks sub-industry, 2.37X for the Zacks sector and 3.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.95X and as low as 0.24X, with a 5-year median of 1.88X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$13 price target reflects 1.17X forward 12-month sales.

The table below shows summary valuation data for NCLH.

Valuation Multiples - NCLH					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.37	1.51	2.37	3.66
	5-Year High	2.95	2.15	2.95	3.66
	5-Year Low	0.24	0.69	1.68	2.53
	5-Year Median	1.88	1.66	2.5	3.05
P/B TTM	Current	0.89	0.74	3.24	4.67
	5-Year High	3.83	1.7	4.93	4.67
	5-Year Low	0.25	0.42	2.22	2.83
	5-Year Median	2.11	1.37	4.22	3.74
EV/EBITDA TTM	Current	15.43	5.92	11.04	12.62
	5-Year High	17.66	11.36	17.86	12.84
	5-Year Low	2.78	4.72	8.32	8.24
	5-Year Median	10.7	8.74	12.3	10.9

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Lindblad Expeditions Holdings Inc. (LIND)	Neutral	4
Las Vegas Sands Corp. (LVS)	Neutral	4
Vail Resorts, Inc. (MTN)	Neutral	3
Wynn Resorts, Limited (WYNN)	Neutral	3
Carnival Corporation (CCL)	Underperform	5
Cinemark Holdings Inc (CNK)	Underperform	4
Royal Caribbean Cruises Ltd. (RCL)	Underperform	5
Marriot Vacations Worldwide Corporation (VAC)	Underperform	5

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	NCLH	X Industry	S&P 500	CCL	LIND	RCL
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	5	4	5
VGM Score	F	-	-	D	C	F
Market Cap	3.88 B	738.04 M	23.56 B	9.27 B	425.56 M	12.00 B
# of Analysts	7	4	14	7	2	8
Dividend Yield	0.00%	0.00%	1.71%	0.00%	0.00%	4.08%
Value Score	C	-	-	B	D	F
Cash/Price	0.63	0.22	0.07	0.81	0.40	0.36
EV/EBITDA	6.35	6.92	13.39	3.18	9.85	7.29
PEG Ratio	NA	1.68	2.92	NA	NA	NA
Price/Book (P/B)	0.89	1.18	3.18	0.39	3.95	1.34
Price/Cash Flow (P/CF)	1.84	5.08	12.69	1.56	8.50	3.63
P/E (F1)	NA	40.16	22.16	NA	NA	NA
Price/Sales (P/S)	0.83	0.88	2.55	0.55	1.65	1.52
Earnings Yield	-48.98%	-15.64%	4.33%	-46.83%	-15.93%	-25.48%
Debt/Equity	2.31	0.92	0.77	0.71	3.38	2.04
Cash Flow (\$/share)	8.22	2.54	6.94	9.87	1.01	15.81
Growth Score	F	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	16.24%	12.11%	10.41%	-7.41%	104.96%	18.88%
Proj. EPS Growth (F1/F0)	-245.61%	-261.99%	-6.51%	-264.29%	-583.93%	-253.08%
Curr. Cash Flow Growth	4.56%	4.33%	5.26%	3.07%	35.06%	11.91%
Hist. Cash Flow Growth (3-5 yrs)	18.35%	10.16%	8.55%	10.47%	7.81%	15.91%
Current Ratio	1.06	1.02	1.34	0.69	0.96	0.99
Debt/Capital	69.78%	62.42%	44.59%	41.64%	77.93%	67.84%
Net Margin	-43.46%	-8.11%	10.13%	-17.53%	-0.87%	-24.36%
Return on Equity	-4.47%	-4.23%	14.59%	0.06%	-28.89%	-3.68%
Sales/Assets	0.28	0.40	0.51	0.36	0.58	0.25
Proj. Sales Growth (F1/F0)	-75.00%	-40.28%	-1.54%	-69.55%	-58.05%	-73.54%
Momentum Score	F	-	-	D	D	D
Daily Price Chg	8.15%	2.42%	0.91%	8.58%	6.48%	10.00%
1 Week Price Chg	2.57%	2.06%	2.30%	2.45%	10.62%	6.96%
4 Week Price Chg	-3.01%	3.92%	8.54%	1.05%	20.11%	15.68%
12 Week Price Chg	17.47%	8.06%	13.68%	4.89%	22.17%	31.14%
52 Week Price Chg	-69.64%	-47.07%	3.71%	-66.10%	-54.11%	-46.58%
20 Day Average Volume	42,104,740	270,508	2,015,804	33,626,240	272,268	10,634,207
(F1) EPS Est 1 week change	-8.75%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.15%	-2.76%	1.67%	-15.59%	0.00%	-4.24%
(F1) EPS Est 12 week change	-74.82%	-57.26%	2.27%	-513.33%	0.00%	-350.73%
(Q1) EPS Est Mthly Chg	-5.46%	-8.40%	0.67%	-10.22%	0.00%	-5.04%

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	C
Growth Score	F
Momentum Score	F
VGM Score	F

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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