

## Norwegian Cruise Line(NCLH)

**\$14.03** (As of 05/21/20)

Price Target (6-12 Months): **\$15.00**

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:F

Value: D

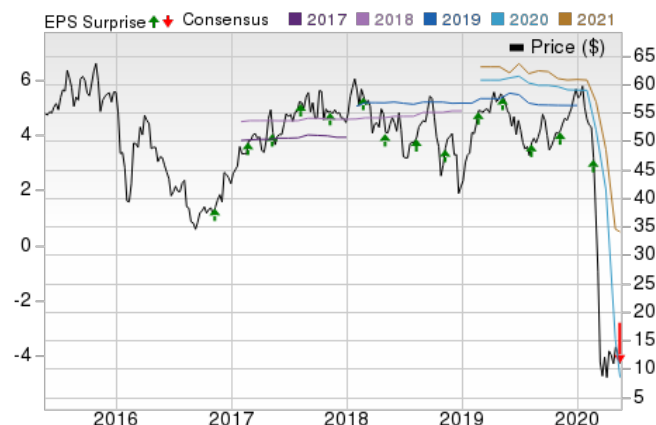
Growth: F

Momentum: F

### Summary

Norwegian Cruise's shares have underperformed the industry in the past year. The company reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Moreover, both the metrics also declined sharply year over year. Owing to the coronavirus outbreak in China, the company has suspended its voyages through Jun 30. 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. Earnings estimates for 2020 and 2021 have declined in the past 30 days. However, the company has sufficient liquidity to manage the current scenario for 18 months. The company announced that demand for cruise beginning fourth quarter 2020 and 2021 are on track, with overall booked position and pricing for 2021 within historical ranges.

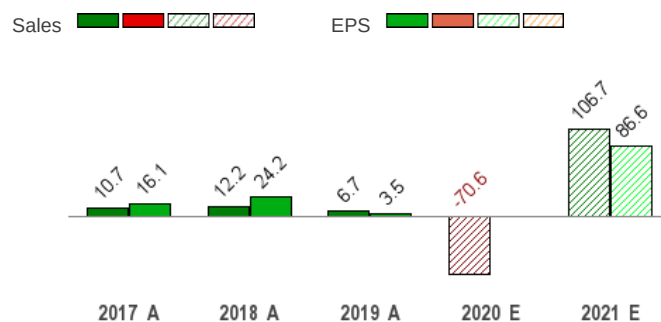
### Price, Consensus & Surprise



### Data Overview

|                            |                                                 |
|----------------------------|-------------------------------------------------|
| 52 Week High-Low           | \$59.78 - \$7.03                                |
| 20 Day Average Volume (sh) | 64,766,440                                      |
| Market Cap                 | \$3.6 B                                         |
| YTD Price Change           | -76.0%                                          |
| Beta                       | 2.78                                            |
| Dividend / Div Yld         | \$0.00 / 0.0%                                   |
| Industry                   | <a href="#">Leisure and Recreation Services</a> |
| Zacks Industry Rank        | Top 48% (121 out of 254)                        |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -90.4%     |
| Last Sales Surprise       | -2.5%      |
| EPS F1 Est- 4 week change | -114.2%    |
| Expected Report Date      | 08/13/2020 |
| Earnings ESP              | -28.1%     |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,081 E | 976 E   | 1,184 E | 957 E   | 3,933 E |
| 2020 | 1,247 A | 3 E     | 183 E   | 471 E   | 1,903 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 | -\$0.11 E | \$0.33 E  | \$1.10 E  | \$0.17 E  | -\$0.94 E |
| 2020 | -\$0.99 A | -\$1.75 E | -\$1.18 E | -\$1.32 E | -\$7.03 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 | 4.3 |
| P/E F1  | NA  |
| PEG F1  | NA  |
| P/S TTM | 0.6 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/21/2020. The reports text is as of 05/22/2020.

## 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.

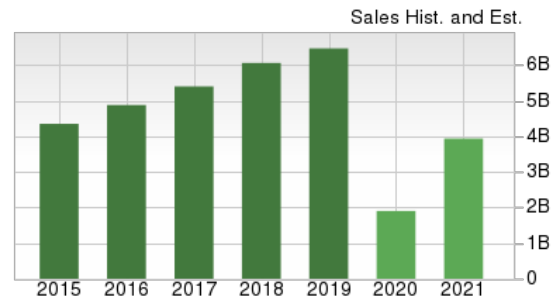
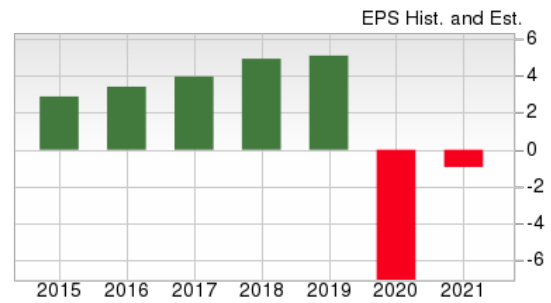
In 2014, the company acquired Prestige Cruises International, thereby expanding its operations significantly. Through this move, the company acquired the Oceania Cruises and Regent Seven Seas Cruises brands.

As of Mar 31, 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 (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 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. 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. 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.

▲ **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 Mar 31, 2020, were \$1.4 billion, up from \$252 million as of Dec 31, 2019. In an effort to raise nearly \$2 billion, the company launched a series of capital markets transactions on May 5, 2020. 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 \$2.4 billion. Following these transactions, the company's total pro-forma liquidity is approximately \$3.7 billion as of the first-quarter end. After costs reductions and cash conservation measure, the company's cash burn is expected to be in the range of \$120 million to \$160 million per month. Although, total debt at the end of Mar 31, 2020 was \$8.6 billion, it is confident that with the amount of liquidity it holds can survive in a zero revenue scenario for 18 months.

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## Reasons To Sell:

- ▼ **Coronavirus Outbreak to Hurt Future 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 only aggravated the scenario. The company has canceled its voyages through Jun 30, 2020. Coronavirus-induced crisis is likely to affect its operations and global bookings in the near term. Moreover, estimates for both current quarter and year have witnessed sharp downward revisions in the past 30 days.
- ▼ **Increasing Costs Hurt:** Norwegian Cruise is bearing the brunt of high expenses for quite some time. Fuel costs and net cruise costs are rising rapidly. In first-quarter 2020, total cruise operating expenses increased 20.3% in the quarter under review from the year-ago quarter. The increase can be attributed to costs associated with the suspension of cruise voyages and rise in fuel expenses. Addition of Norwegian Encore and Seven Seas Splendor to the fleet also pushed expenses higher. Moreover, the company is witnessing significant cash burn due to the coronavirus pandemic.
- ▼ **Q1 Results Decline Sharply:** Norwegian Cruise reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Moreover, both the top and bottom lines declined sharply year over year owing to the coronavirus-induced shutdowns. 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.
- ▼ **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.

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

## Last Earnings Report

### Norwegian Cruise Q1 Earnings Miss Estimates

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

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.

Quarter Ending **03/2020**

| Report Date      | May 14, 2020 |
|------------------|--------------|
| Sales Surprise   | -2.45%       |
| EPS Surprise     | -90.38%      |
| Quarterly EPS    | -0.99        |
| Annual EPS (TTM) | 3.27         |

### Earnings & Revenue Discussion

The company reported adjusted loss per share of 99 cents, wider than the Zacks Consensus Estimate of loss of 52 cents. In the prior-year quarter, the company had reported earnings per share of 83 cents.

Revenues of \$1,246.9 million missed the consensus mark of \$1,278 million and declined 11.2% year over year. The downside can be attributed to 13.6% decline in passenger ticket revenues and decrease of 5.6% in onboard and other revenues.

Gross yield (total revenues per Capacity Day) rose 1.6% in the quarter on a year-over-year basis due to rise in onboard spending. While net yield decreased 12.6% in the reported quarter on a constant-currency (cc) basis, it declined 12.3% on a reported basis.

### Expenses & Operating Results

Total cruise operating expenses increased 20.3% in the quarter under review from the year-ago quarter. The increase can be attributed to costs associated with the suspension of cruise voyages and rise in fuel expenses. Addition of Norwegian Encore and Seven Seas Splendor to the fleet also pushed expenses higher.

Gross cruise costs per capacity day surged 34.5%. Adjusted Net cruise costs (excluding fuel) per Capacity Day increased 26.1% at cc and 25.7% 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 \$614 million in the first quarter, up from \$461 million in the year-ago quarter.

### Balance Sheet

Cash and cash equivalents as of Mar 31, 2020, were \$1.4 billion, up from \$252 million as of Dec 31, 2019. Long-term debt at the end of the first quarter totaled \$8.4 billion, higher than \$6.1 billion at the end of 2019.

In an effort to raise nearly \$2 billion, the company launched a series of capital markets transactions on May 5, 2020. 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 \$2.4 billion. Following these transactions, the company's total pro-forma liquidity is approximately \$3.7 billion.

## 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 76% year-to-date and 74.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 50.5% and 16.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 50.6% and 8.3%, respectively.

The S&P 500 index is down by 8.3% in the year-to-date period, but up by 4.4% in the past year.

The stock is currently trading at 0.66X forward 12-month sales, which compares to 1.07X for the Zacks sub-industry, 2.08X for the Zacks sector and 3.33X for the S&P 500 index.

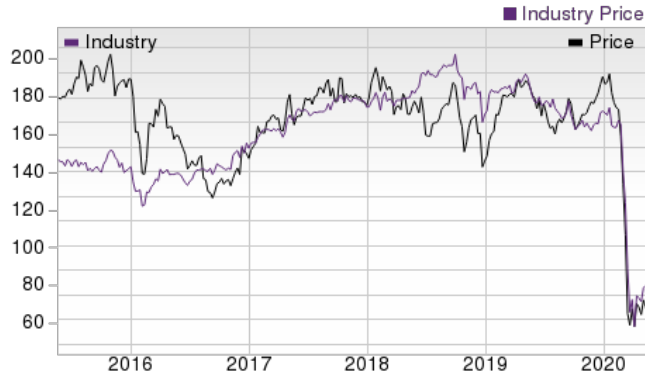
Over the past five years, the stock has traded as high as 3.02X and as low as 0.24X, with a 5-year median of 1.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$15 price target reflects 0.70X forward 12-month sales.

The table below shows summary valuation data for NCLH.

| Valuation Multiples - NCLH |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 0.66  | 1.07         | 2.08   | 3.33    |
|                            | 5-Year High   | 3.02  | 2.18         | 3.2    | 3.44    |
|                            | 5-Year Low    | 0.24  | 0.71         | 1.67   | 2.53    |
|                            | 5-Year Median | 1.91  | 1.68         | 2.53   | 3.01    |
| P/B TTM                    | Current       | 0.69  | 0.68         | 2.56   | 4.03    |
|                            | 5-Year High   | 3.83  | 1.71         | 5.05   | 4.56    |
|                            | 5-Year Low    | 0.25  | 0.43         | 2.06   | 2.83    |
|                            | 5-Year Median | 2.19  | 1.38         | 4.22   | 3.65    |
| EV/EBITDA TTM              | Current       | 3.15  | 5.66         | 9.75   | 10.09   |
|                            | 5-Year High   | 18.67 | 11.38        | 17.62  | 12.86   |
|                            | 5-Year Low    | 2.78  | 4.74         | 8.26   | 8.26    |
|                            | 5-Year Median | 10.94 | 8.86         | 12.32  | 10.79   |

As of 05/21/2020

## Industry Analysis Zacks Industry Rank: Top 48% (121 out of 254)



## Top Peers

| Company (Ticker)                              | Rec          | Rank |
|-----------------------------------------------|--------------|------|
| Carnival Corporation (CCL)                    | Neutral      | 3    |
| Cinemark Holdings Inc (CNK)                   | Neutral      | 3    |
| Lindblad Expeditions Holdings Inc. (LIND)     | Neutral      | 4    |
| Las Vegas Sands Corp. (LVS)                   | Neutral      | 3    |
| Vail Resorts, Inc. (MTN)                      | Neutral      | 3    |
| Royal Caribbean Cruises Ltd. (RCL)            | Neutral      | 3    |
| Wynn Resorts, Limited (WYNN)                  | Neutral      | 3    |
| 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)                              | Neutral    | -          | -         | Neutral        | Neutral    | Neutral    |
| Zacks Rank (Short Term)                                       | 3          | -          | -         | 3              | 4          | 3          |
| VGM Score                                                     | F          | -          | -         | B              | D          | D          |
| Market Cap                                                    | 3.60 B     | 639.78 M   | 20.19 B   | 7.70 B         | 341.80 M   | 9.07 B     |
| # of Analysts                                                 | 5          | 3.5        | 14        | 8              | 2          | 8          |
| Dividend Yield                                                | 0.00%      | 0.00%      | 2.11%     | 13.70%         | 0.00%      | 7.20%      |
| Value Score                                                   | D          | -          | -         | A              | D          | C          |
| Cash/Price                                                    | 0.58       | 0.20       | 0.07      | 0.20           | 0.55       | 0.03       |
| EV/EBITDA                                                     | 5.83       | 6.42       | 12.15     | 2.97           | 8.54       | 5.98       |
| PEG Ratio                                                     | NA         | 1.29       | 2.71      | NA             | NA         | NA         |
| Price/Book (P/B)                                              | 0.69       | 0.90       | 2.74      | 0.32           | 3.17       | 0.89       |
| Price/Cash Flow (P/CF)                                        | 1.71       | 4.65       | 10.98     | 1.48           | 6.82       | 2.74       |
| P/E (F1)                                                      | NA         | 39.40      | 20.17     | NA             | NA         | NA         |
| Price/Sales (P/S)                                             | 0.57       | 0.69       | 2.07      | 0.37           | 1.02       | 0.86       |
| Earnings Yield                                                | -50.11%    | -8.85%     | 4.73%     | -8.97%         | -19.83%    | -10.75%    |
| Debt/Equity                                                   | 1.93       | 0.65       | 0.76      | 0.40           | 3.38       | 1.26       |
| Cash Flow (\$/share)                                          | 8.22       | 2.40       | 6.96      | 9.87           | 1.01       | 15.81      |
| Growth Score                                                  | F          | -          | -         | D              | B          | B          |
| Hist. EPS Growth (3-5 yrs)                                    | 16.97%     | 16.78%     | 10.87%    | 13.33%         | 104.96%    | 23.83%     |
| Proj. EPS Growth (F1/F0)                                      | -238.15%   | -171.83%   | -10.31%   | -129.77%       | -583.93%   | -148.83%   |
| Curr. Cash Flow Growth                                        | 4.56%      | 3.70%      | 5.46%     | 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                                                 | 0.57       | 0.93       | 1.29      | 0.27           | 0.96       | 0.51       |
| Debt/Capital                                                  | 65.84%     | 56.77%     | 44.54%    | 28.62%         | 77.93%     | 56.77%     |
| Net Margin                                                    | -16.95%    | 1.85%      | 10.54%    | 8.94%          | -0.87%     | 1.75%      |
| Return on Equity                                              | 12.15%     | 4.25%      | 16.27%    | 11.52%         | 4.97%      | 12.34%     |
| Sales/Assets                                                  | 0.39       | 0.54       | 0.54      | 0.46           | 0.58       | 0.34       |
| Proj. Sales Growth (F1/F0)                                    | -70.55%    | -32.85%    | -2.49%    | -21.50%        | -58.05%    | -39.95%    |
| Momentum Score                                                | F          | -          | -         | C              | F          | F          |
| Daily Price Chg                                               | 9.78%      | 0.00%      | -0.76%    | 3.18%          | -0.15%     | 6.43%      |
| 1 Week Price Chg                                              | -12.15%    | -7.09%     | -4.56%    | -10.06%        | -9.82%     | -6.19%     |
| 4 Week Price Chg                                              | 22.32%     | 5.03%      | 5.52%     | 19.97%         | 35.31%     | 17.54%     |
| 12 Week Price Chg                                             | -59.61%    | -31.47%    | -8.54%    | -54.16%        | -44.68%    | -43.70%    |
| 52 Week Price Chg                                             | -74.74%    | -58.40%    | -6.30%    | -71.72%        | -58.40%    | -65.16%    |
| 20 Day Average Volume                                         | 64,766,440 | 307,663    | 2,645,192 | 59,412,392     | 351,989    | 20,116,940 |
| (F1) EPS Est 1 week change                                    | -36.67%    | 0.00%      | 0.00%     | 0.00%          | 0.00%      | -27.72%    |
| (F1) EPS Est 4 week change                                    | -114.16%   | -27.98%    | -3.80%    | 0.00%          | -373.40%   | -697.28%   |
| (F1) EPS Est 12 week change                                   | -232.46%   | -154.26%   | -16.57%   | -129.87%       | -329.46%   | -146.34%   |
| (Q1) EPS Est Mthly Chg                                        | -54.77%    | -41.82%    | -7.64%    | 0.00%          | -1,150.00% | -199.32%   |

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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    | D |
| 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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