

Norwegian Cruise Line(NCLH)

\$54.16 (As of 01/27/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

Norwegian Cruise's shares have outperformed its industry in the past year. The performance can be primarily attributed to higher fleet expansion, increased booking and capacity. Moreover, Norwegian Cruise is highly benefitting from higher onboard spend. Notably, strong demand and modest capacity growth bode well for Norwegian Cruise. Also, the company is on track with strategic actions to improve profitability and de-risk its business profile by focusing more on fastest-growing markets. However, high costs, intense competition from other cruises and debt levels are potential concerns. Also, the company's exposure to negative currency translation is adding to woes. Earnings estimates for current year have declined in the past 60 days, which reflects on analysts' concern regarding the performance of the company.

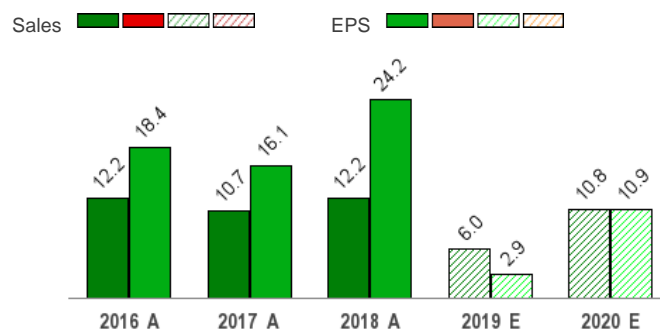
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.78 - \$45.64
20 Day Average Volume (sh)	1,451,878
Market Cap	\$11.5 B
YTD Price Change	-7.3%
Beta	1.69
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 18% (208 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.7%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/20/2020
Earnings ESP	0.4%
P/E TTM	10.4
P/E F1	9.7
PEG F1	1.1
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,555 E	1,856 E	2,164 E	1,537 E	7,112 E
2019	1,404 A	1,664 A	1,914 A	1,435 E	6,417 E
2018	1,293 A	1,522 A	1,858 A	1,381 A	6,055 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.67 E	\$1.43 E	\$2.70 E	\$0.82 E	\$5.61 E
2019	\$0.83 A	\$1.30 A	\$2.23 A	\$0.70 E	\$5.06 E
2018	\$0.60 A	\$1.21 A	\$2.27 A	\$0.85 A	\$4.92 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 01/27/2020. The reports text is as of 01/28/2020.

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.

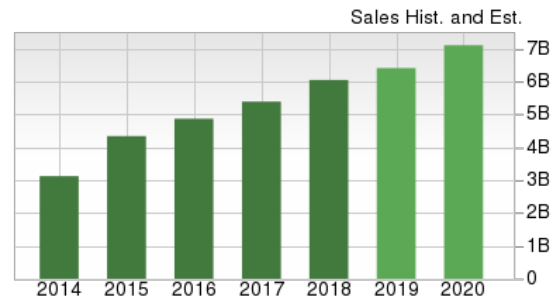
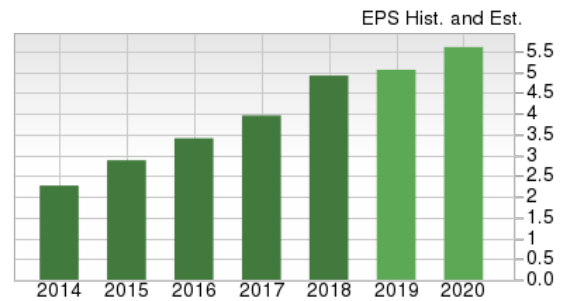
In 2014, the company acquired Prestige Cruises International, thereby expanding its operations significantly. Through this move, the company acquired the Oceania Cruises and Regent Seven Seas Cruises brands.

As of December 2018, the three brands operate a total of 26 ships with 54,400 berths in Alaska, the Bahamas, Bermuda, the Caribbean, Europe, Hawaii, Mexico, New England, Central and South America, North Africa, Scandinavia among others. The ships operate on a selection of diverse itineraries worldwide that include more than 450 destinations.

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 (70.3% in 2018) at Norwegian Cruise Line. Balance comes from onboard and other sources. In fact, total revenues increased 12.2% year over year in 2018 to \$6.06 billion. The company's fiscal year coincides with the calendar year. The company, founded in 1966, is headquartered in Miami, FL.



Reasons To Buy:

▲ **Share Price Rise on Impressive Earnings Trend:** Shares of Norwegian Cruise have outperformed the industry in the past year. The appreciation in price can be attributed to the company's better-than-expected earnings in the last 11 quarters. In fact, its earnings surpassed the Zacks Consensus Estimate in the trailing four quarters, the average being 7.9%. In the third quarter, its adjusted earnings of \$2.23 per share surpassed the Zacks Consensus Estimate of \$2.15 by 3.7%.

Strong demand and modest capacity growth bode well for Norwegian Cruise. Higher yield and fleet-expansion efforts are enabling the company to gain traction.

▲ **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.

▲ **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%.

Reasons To Sell:

- ▼ **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 distribution system, the company may improve yields but at the cost of higher expenses. In the third quarter, total cruise operating expenses rose 6.7% year over year on the back of continuing effects from the redeployment of Norwegian Joy during the second quarter of 2019 as well as rise in direct costs due to air promotions. Gross cruise costs per capacity day grew 8.9%. Adjusted Net cruise costs (excluding fuel) per Capacity Day increased 11% on a constant-currency basis and 10.2% on a reported basis.
- ▼ **Debt Burden:** The company's heavy reliance on debt financing is a concern. As of Sep 30, 2019, cash and cash equivalents totaled \$407.2 million. Long-term debt at the end of the third quarter totaled \$5.7 billion. 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 8.87. The stock is relatively overvalued right now compared with its peers as the industry's average EV/EBTDA multiple currently stands at 8.92x.
- ▼ **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 have a huge impact on cruise industry at the beginning of summer vacation season as demand for sailings in the region is very high. It will impact Norwegian Cruise's earnings by 35-45 cents in 2019.
- ▼ **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.
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High costs and debt burden remain potential concerns for Norwegian Cruise

Last Earnings Report

Norwegian Cruise Q3 Earnings & Revenues Beat Estimates

Norwegian Cruise has reported better-than-expected results in the third quarter of 2019. The company's earnings and revenues surpassed the Zacks Consensus Estimate for the third straight quarter. The quarterly results were aided by strong demand and a record booking trend.

Earnings & Revenue Discussion

Adjusted earnings of \$2.23 per share surpassed the Zacks Consensus Estimate of \$2.15. However, the bottom line declined 1.8% from the year-ago quarter's reported figure.

Revenues amounted to \$1,913.9 million in the third quarter, surpassing the consensus mark of \$1,902 million and increasing 3% year over year. Revenues were driven by an increase of 2.9% in passenger ticket revenues as well as 3.1% rise in onboard and other revenues.

Strong onboard spending had a positive impact on the quarter's revenues as well. Moreover, an increase in net yield, driven by the repositioning of Norwegian Joy to North America, boosted revenues.

Gross yield (total revenues per Capacity Day) rose 4.8% in the quarter on a year-over-year basis. On a constant-currency (cc) basis, net yield rose 3.9% in the third quarter of 2019.

Expenses & Operating Results

Total cruise operating expenses rose 6.7% in the quarter under review from the year-ago quarter's level. The increase can be attributed to redeployment of Norwegian Joy as well as rise direct costs owing to air promotions.

Gross cruise costs per capacity day rose 8.9%. Adjusted Net cruise costs (excluding fuel) per Capacity Day grew 11% at cc and 10.2% on a reported basis. Fuel price per metric ton (net of hedges) was down 1.2% to \$504 in the quarter under review.

Net interest expenses were \$60.2 million in the third quarter, down from \$69.5 million in the year-ago quarter.

Balance Sheet

Cash and cash equivalents as of Sep 30, 2019, were \$407.3 million, up from \$163.9 million as of Dec 31, 2018. Long-term debt at the end of the third quarter totaled \$5.7 billion, lower than \$5.8 billion at the end of 2018.

Q4 Guidance

For the fourth quarter of 2019, Norwegian Cruise expects adjusted earnings to be approximately 69 cents.

Net yield is expected to be flat at cc. The company expects net cruise costs (excluding Fuel per Capacity Day) to be roughly 2.25% at cc.

2019 Outlook

For 2019, Norwegian Cruise expects adjusted earnings per share of approximately \$5.05 compared with previous guidance of \$5.00-\$5.10. The Zacks Consensus Estimate for 2019 earnings is at \$5.04.

Net yield is expected to be 3% compared with Norwegian Cruise's prior guidance of 2.6%. Meanwhile adjusted net cruise costs are anticipated to be nearly 5.75% at cc, higher than previous expectation of 4.5%.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	0.63%
EPS Surprise	3.72%
Quarterly EPS	2.23
Annual EPS (TTM)	5.21

Valuation

Norwegian Cruise's shares are up 11.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry is down by 0.3% but sector is up by 17.3%.

The S&P 500 index is up 24.1% in the past year.

The stock is currently trading at 8.87x trailing 12-month EV/EBITDA, which compares to 8.66x for the Zacks sub-industry, 12.6x for the Zacks sector and 12.25x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.55x and as low as 7.58x, with a 5-year median of 11.17x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 10.11x forward 12-month Price to Earnings value.

The table below shows summary valuation data for NCLH.

Valuation Multiples - NCLH					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.87	8.66	12.6	12.25
	5-Year High	21.55	11.38	17.76	12.86
	5-Year Low	7.58	7.06	11.07	8.5
	5-Year Median	11.17	8.92	12.41	10.68
P/E F 12M	Current	9.61	16.73	20.05	18.94
	5-Year High	18.19	22.68	23.35	19.34
	5-Year Low	7.71	15.64	16.16	15.18
	5-Year Median	11.53	18.92	20.07	17.45
P/B TTM	Current	1.84	1.3	3.5	4.5
	5-Year High	3.83	1.71	5.04	4.55
	5-Year Low	1.41	0.97	3.13	2.85
	5-Year Median	2.26	1.38	4.28	3.62

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 255)



Top Peers

Marriot Vacations Worldwide Corporation (VAC)	Outperform
Carnival Corporation (CCL)	Neutral
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
Wynn Resorts, Limited (WYNN)	Neutral

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	NCLH Neutral	X Industry	S&P 500	CCL Neutral	LIND Neutral	RCL Neutral
VGM Score	B	-	-	A	C	B
Market Cap	11.52 B	925.33 M	23.86 B	23.86 B	841.93 M	24.50 B
# of Analysts	6	4	13	9	3	9
Dividend Yield	0.00%	0.00%	1.81%	4.42%	0.00%	2.67%
Value Score	A	-	-	A	C	A
Cash/Price	0.03	0.10	0.04	0.02	0.13	0.01
EV/EBITDA	9.29	9.54	13.94	6.09	19.58	10.44
PEG Ratio	1.08	1.44	2.00	1.15	NA	1.13
Price/Book (P/B)	1.86	1.79	3.25	0.94	6.58	2.05
Price/Cash Flow (P/CF)	7.18	8.10	13.46	4.59	21.04	8.29
P/E (F1)	9.85	16.85	18.67	9.95	30.30	11.07
Price/Sales (P/S)	1.81	1.26	2.62	1.15	2.49	2.28
Earnings Yield	10.36%	5.38%	5.35%	10.05%	3.30%	9.03%
Debt/Equity	0.90	0.77	0.72	0.38	1.73	0.79
Cash Flow (\$/share)	7.54	1.90	6.92	9.87	0.81	14.11
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	22.42%	15.63%	10.68%	15.63%	NA	25.65%
Proj. EPS Growth (F1/F0)	10.84%	10.72%	7.51%	3.36%	95.35%	10.72%
Curr. Cash Flow Growth	16.99%	10.60%	13.40%	3.07%	39.26%	12.46%
Hist. Cash Flow Growth (3-5 yrs)	26.71%	10.36%	8.78%	10.47%	5.23%	18.07%
Current Ratio	0.25	0.93	1.22	0.23	0.89	0.17
Debt/Capital	47.49%	56.37%	42.92%	27.61%	64.11%	45.51%
Net Margin	15.14%	5.93%	11.39%	14.36%	3.11%	17.85%
Return on Equity	18.67%	7.28%	17.19%	12.29%	12.77%	17.67%
Sales/Assets	0.40	0.53	0.54	0.47	0.67	0.37
Proj. Sales Growth (F1/F0)	11.03%	4.38%	4.09%	5.19%	14.60%	8.26%
Momentum Score	D	-	-	A	F	D
Daily Price Chg	-3.01%	-0.71%	-1.40%	-4.73%	-2.84%	-7.59%
1 Week Price Chg	-6.39%	-2.09%	-1.09%	-8.44%	-1.52%	-6.32%
4 Week Price Chg	-7.56%	-0.77%	-0.25%	-11.27%	3.70%	-12.33%
12 Week Price Chg	3.58%	-0.44%	3.64%	2.40%	6.00%	3.20%
52 Week Price Chg	11.97%	-8.53%	18.08%	-19.73%	35.83%	4.19%
20 Day Average Volume	1,451,878	108,972	1,615,215	4,908,639	129,028	1,459,435
(F1) EPS Est 1 week change	-0.15%	0.00%	0.00%	0.00%	0.00%	-0.15%
(F1) EPS Est 4 week change	-0.13%	0.00%	0.00%	0.09%	0.00%	-0.65%
(F1) EPS Est 12 week change	-2.27%	-6.18%	-0.17%	3.23%	-8.20%	-1.93%
(Q1) EPS Est Mthly Chg	-0.07%	0.00%	0.00%	0.00%	0.00%	-4.06%

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	A
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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