

Royal Caribbean(RCL)

\$57.31 (As of 08/10/20)

Price Target (6-12 Months): **\$49.00**

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: F

Growth: D

Momentum: D

Summary

Shares of Royal Caribbean have underperformed the industry in the past year. The dismal performance can primarily be attributed to the coronavirus outbreak that has compelled the company to cancel cruises. Recently, it reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues surpassed the same. However, both the metrics declined sharply year over year. The company has also withdrawn 2020 guidance. Bookings for 2020 have declined significantly. Notably, earnings estimates for 2020 and 2021 have declined over the past 30 days, reflecting analysts' concern regarding the stock growth potential. However, the company has enough liquidity to tide over the coronavirus pandemic. The company announced bookings for 2021 is within the historical range. Pricing for 2021 bookings is nearly flat.

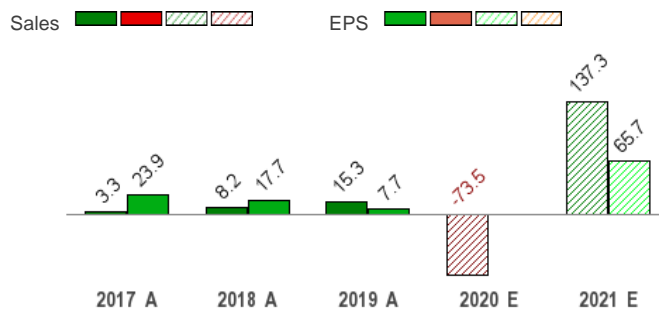
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.32 - \$19.25
20 Day Average Volume (sh)	10,634,207
Market Cap	\$12.0 B
YTD Price Change	-57.1%
Beta	2.42
Dividend / Div Yld	\$2.34 / 4.1%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 4% (243 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-30.2%
Last Sales Surprise	237.8%
EPS F1 Est- 4 week change	-4.2%
Expected Report Date	11/04/2020
Earnings ESP	-4.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	784 E	1,494 E	2,105 E	1,791 E	6,878 E
2020	2,033 A	176 A	262 E	748 E	2,898 E
2019	2,440 A	2,807 A	3,187 A	2,517 A	10,951 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$3.19 E	-\$0.92 E	\$1.21 E	-\$0.20 E	-\$5.01 E
2020	-\$1.48 A	-\$6.13 A	-\$4.27 E	-\$3.68 E	-\$14.60 E
2019	\$1.31 A	\$2.54 A	\$4.27 A	\$1.42 A	\$9.54 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.5

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.

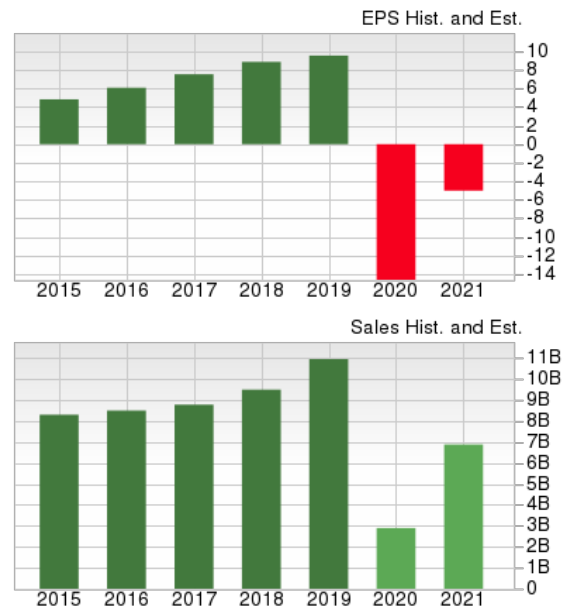
Overview

Based in Miami and incorporated in 1985, Royal Caribbean Cruises is a cruise company. It owns and operates three global brands — Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises. Additionally, it has 50% investment in a joint venture with TUI AG, which operates the brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur along with a 36% interest in the Chinese brand SkySea Cruises.

The company's cruise brands primarily serve the contemporary, premium and deluxe segments of the cruise vacation industry, which also includes the budget and luxury segments. These brands operate 60 ships, with an additional 16 on order as of Dec 31, 2018. The ships operate on a selection of diverse itineraries worldwide that include roughly 540 destinations on all seven continents.

The company reports revenues under the following segments — Passenger ticket revenues (71.7% of total revenues in 2019), and Onboard and other revenues (28.3%).

Owing to the unprecedented impact of the coronavirus pandemic, Royal Caribbean and Cruises Investment Holding recently filed for the reorganization of their Spanish Joint Venture - Pullmantur Cruceros. With sailings cancelled through Nov 15 due to the global crisis, filings were made with the respective authorities under the terms of Spanish insolvency laws. However, Royal Caribbean stated that its assets related to the JV had already been included in the non-cash asset impairment charges while reporting their first quarter 2020 results on May 3.



Reasons To Sell:

- ▼ **Coronavirus to Hurt 2020 Results:** The leisure industry is currently grappling with the coronavirus pandemic and Royal Caribbean isn't immune to the trend. Travel warnings and cruise cancellations are starting to take a toll on the company. In fact, the outbreak has persuaded management to suspend 2020 guidance. The coronavirus outbreak has compelled the company to cancel cruises. Notably, the company has suspended all voyages since mid-March. Due to the pandemic, bookings for 2020 have declined significantly. It expects to report net loss on both a GAAP and adjusted basis for the third quarter and 2020 fiscal year.
- ▼ **Q2 Results Decline Sharply:** The company reported second-quarter 2020 results, wherein both earnings and revenues declined sharply year over year. The company reported adjusted loss per share of \$6.13, wider than the Zacks Consensus Estimate of a loss of \$4.71. In the prior-year quarter, the company had reported adjusted earnings per share of \$2.54 per share. Total revenues were \$175.6 million, which surpassed the consensus mark of \$52 million. However, the figure declined 93.7% from the year-ago quarter.
- ▼ **Travel Ban to Cuba a Concern:** 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. Notably, the company anticipates itinerary changes owing to Cuba to impact yields during first-half 2020. It also expects to witness the most significant impact during the first quarter, when three of its brands including Silversea and Azamara — its high-yielding brands — are scheduled to visit the island.
- ▼ **Increasing Costs Hurt:** The company is shifting its deployment toward Asia, Australia and certain areas of Europe to curtail capacity in areas with geopolitical risks. The changes related to international distribution system and a shift in deployment for strategic purposes will likely improve yields. However, it will also increase costs. Moreover, higher-than-anticipated load factors, timing and investment in revenue-generating activities are further adding to the company's costs. In 2018 and 2019, net cruise costs, excluding fuel, were up 4.1% and 11.4% in constant currency, respectively. Moreover, costs in the coming quarter are likely to increase due the suspension of operations.
- ▼ **Currency & Other Macro Economic Headwinds:** Royal Caribbean 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 both the company and the industry. The company's business in Latin America is also suffering due to the economic slowdown. Moreover, Australia and Southeast Asia are experiencing lower pricing, due to a significant increase in industry capacity. Further, in Europe, economic/political conditions are expected to be somewhat challenging after U.K.'s exit from the 28-member economic bloc.

Also, Royal Caribbean generates just under 50% of its revenues from customers outside the United States where a 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.

The coronavirus pandemic, increased cost of operations and a cyclical industry are primary concerns.

Risks

- **Healthy Sail Panel to Counter Current Crisis:** 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 Cruises and Norwegian Cruise 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.
 - **Overall Bookings and Capacity Growth:** Since 2017, Royal Caribbean has been consistently witnessing strong demand from its key markets of operations. In 2018 and 2019, demand for the company's all brands and itineraries increased sharply. The company commenced 2020 on a strong note. However, demand started declining in mid-February. Due to the coronavirus pandemic, the company had to cancel sailings. The company stated that bookings still remain constrained but it is now better than it was in mid-April, driven by improved trends for fourth-quarter 2020 and 2021 sales. It also announced bookings for 2021 is within the historical range. Current bookings give an indication that there is demand for cruising. Rebooking activities from guests with future cruise credits are likely to benefit 2021 performance. The company announced that it has received more than 60% of new bookings since mid-May. Pricing for 2021 bookings is nearly flat.
 - **Technological & Other Innovation:** Royal Caribbean continues to make use of digital tools for marketing, product development and to enhance the consumer experience. These include revamped websites, new vacation packaging capabilities, support for mobile apps and increased bandwidth onboard to help its guests remain well-connected while at sea. With busier customers preferring more digital devices that help to save time, introduction of superior Internet bandwidth, online check-in accompanied with radio-frequency identification technology should continue to increase occupancy. Meanwhile, Royal Caribbean introduces new technological capabilities under its Project Excalibur. The company rolled out a smartphone app to increase convenience and better serve guests. In fact, the app is so broadly deployed that more than 60% of Royal Caribbean's current guests can avail it. In addition to industry-wide trends, there are several unique factors that are boosting the company's numbers. Streaming WiFi and customized destination experiences, as well as other ship upgrades, are also paying off.
 - **Strong Liquidity Position:** As of Jun 30, 2020, the company had cash and cash equivalents of approximately \$4.1 billion, compared with \$3.9 billion at the end of Mar 31, 2020. On May 19, 2020, the company completed its \$3.3 billion senior secured notes offering. Further, the company announced that during suspension of its operations, its estimated cash burn is likely in the range of \$250 million to \$290 million per month. This includes ongoing ship operating expenses, administrative expenses, debt service, hedging costs and anticipated necessary CapEx. Although the company's long-term debt at the end of second-quarter 2020 stands at \$17.7 billion, its anticipated debt maturities for the remainder of 2020 and 2021 are \$0.3 billion and \$1.3 billion, respectively. At the end of second-quarter 2020, the company had debt-to-capital ratio of 0.7, this gives an indication that its debt level is manageable.
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Last Earnings Report

Royal Caribbean Q2 Earnings Lag Estimates, Revenues Top

Royal Caribbean reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues surpassed the same. While the top line beat the consensus mark after missing in the preceding three quarters, the bottom line missed the same for the second straight quarter. Moreover, both the metrics declined sharply year over year due to the coronavirus pandemic.

The company reported adjusted loss per share of \$6.13, wider than the Zacks Consensus Estimate of a loss of \$4.71. In the prior-year quarter, the company had reported adjusted earnings per share of \$2.54 per share.

Total revenues were \$175.6 million, beating the consensus mark of \$52 million. However, the figure declined 93.7% from the year-ago quarter. Due to the pandemic, the company suspended its global cruise operation beginning Mar 13, 2020, which resulted in the cancellation of all of the company's second-quarter sailings.

During suspension of operations, the company anticipates cash burn in the range of nearly \$250 million to \$290 million per month.

Quarterly Highlights

Passenger ticket revenues decreased 94.7% to \$107 million, while onboard and other revenues declined 91.3% to \$68.6 million.

Total cruise operating expenses were \$680.4 million, compared with \$1,544.5 million at the end of second-quarter 2020.

Other Financial Information

As of Jun 30, 2020, the company had cash and cash equivalents of approximately \$4.1 billion.

The company announced that as of Jun 30, 2020, the anticipated debt maturities for the remainder of 2020 and 2021 are \$0.3 billion and \$1.3 billion, respectively.

Capital expenditure for remainder of 2020 and 2021 are anticipated to \$0.6 billion and \$1.8 billion, respectively.

Guidance

Due to the pandemic, the company has withdrawn guidance. The company is unable to estimate the financial losses owing to the coronavirus as the magnitude and duration of the same remains uncertain.

The company announced interest expenses for the remainder of the year (Jul 1, 2020 through Dec 31, 2020) in the range of \$505-\$515 million.

The pandemic have significantly impacted the bookings for remainder of 2020. However, bookings for 2021 is trending well and is within historical ranges.

Quarter Ending 06/2020

Report Date	Aug 10, 2020
Sales Surprise	237.83%
EPS Surprise	-30.15%
Quarterly EPS	-6.13
Annual EPS (TTM)	-1.92

Recent News

Royal Caribbean & Norwegian Cruise Line Tie Up for Safety Plan - Jul 6, 2020

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

Royal Caribbean's shares are down 57.1% year-to-date and 46.6% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 46.1%, and Zacks Consumer Discretionary sector is down by 4.6% in the year-to-date period. Over the past year, the Zacks sub-industry were down by 41.5% while sector was up by 6%.

The S&P 500 index is up by 3.8% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 2.25X forward 12-month sales, which compares to 1.6X for the Zacks sub-industry, 2.39X 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 3.35X and as low as 0.4X, with a 5-year median of 2.22X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$49 price target reflects 1.92X forward 12-month sales.

The table below shows summary valuation data for RCL.

Valuation Multiples - RCL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.25	1.6	2.39	3.66
	5-Year High	3.35	2.15	2.95	3.66
	5-Year Low	0.4	0.69	1.68	2.53
	5-Year Median	2.22	1.66	2.5	3.05
P/B TTM	Current	1.17	0.77	3.26	4.67
	5-Year High	2.97	1.7	4.93	4.67
	5-Year Low	0.38	0.42	2.22	2.83
	5-Year Median	2.18	1.37	4.21	3.74
EV/EBITDA TTM	Current	8.27	6.08	11.04	12.62
	5-Year High	16.45	11.3	17.86	12.84
	5-Year Low	4.23	4.69	8.32	8.24
	5-Year Median	11.29	8.7	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
Camping World Holdings Inc. (CWH)	Outperform	2
AMC Entertainment Holdings, Inc. (AMC)	Neutral	5
H.I.S. Co., Ltd. (HISJF)	Neutral	4
Lindblad Expeditions Holdings Inc. (LIND)	Neutral	4
Carnival Corporation (CCL)	Underperform	5
Cinemark Holdings Inc (CNK)	Underperform	4
Live Nation Entertainment, Inc. (LYV)	Underperform	5
Norwegian Cruise Line Holdings Ltd. (NCLH)	Underperform	5

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	RCL	X Industry	S&P 500	CCL	LYV	NCLH
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	5	5	5
VGM Score	F	-	-	D	F	F
Market Cap	12.00 B	738.04 M	23.56 B	9.27 B	11.04 B	3.88 B
# of Analysts	8	4	14	7	3	7
Dividend Yield	4.08%	0.00%	1.71%	0.00%	0.00%	0.00%
Value Score	F	-	-	B	F	C
Cash/Price	0.36	0.22	0.07	0.81	0.32	0.63
EV/EBITDA	7.29	6.92	13.39	3.18	15.69	6.35
PEG Ratio	NA	1.68	2.92	NA	NA	NA
Price/Book (P/B)	1.34	1.18	3.18	0.39	16.15	0.89
Price/Cash Flow (P/CF)	3.63	5.08	12.69	1.56	19.98	1.84
P/E (F1)	NA	40.16	22.16	NA	NA	NA
Price/Sales (P/S)	1.52	0.88	2.55	0.55	1.36	0.83
Earnings Yield	-25.48%	-15.64%	4.33%	-46.83%	-11.57%	-48.98%
Debt/Equity	2.04	0.92	0.77	0.71	9.13	2.31
Cash Flow (\$/share)	15.81	2.54	6.94	9.87	2.54	8.22
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	18.88%	12.11%	10.41%	-7.41%	NA	16.24%
Proj. EPS Growth (F1/F0)	-253.08%	-261.99%	-6.51%	-264.29%	-29,316.50%	-245.61%
Curr. Cash Flow Growth	11.91%	4.33%	5.26%	3.07%	-0.65%	4.56%
Hist. Cash Flow Growth (3-5 yrs)	15.91%	10.16%	8.55%	10.47%	0.08%	18.35%
Current Ratio	0.99	1.02	1.34	0.69	1.27	1.06
Debt/Capital	67.84%	62.42%	44.59%	41.64%	90.59%	69.78%
Net Margin	-24.36%	-8.11%	10.13%	-17.53%	-9.36%	-43.46%
Return on Equity	-3.68%	-4.23%	14.59%	0.06%	-61.92%	-4.47%
Sales/Assets	0.25	0.40	0.51	0.36	0.73	0.28
Proj. Sales Growth (F1/F0)	-73.54%	-40.28%	-1.54%	-69.55%	-65.43%	-75.00%
Momentum Score	D	-	-	D	C	F
Daily Price Chg	10.00%	2.42%	0.91%	8.58%	6.61%	8.15%
1 Week Price Chg	6.96%	2.06%	2.30%	2.45%	1.79%	2.57%
4 Week Price Chg	15.68%	3.92%	8.54%	1.05%	11.26%	-3.01%
12 Week Price Chg	31.14%	8.06%	13.68%	4.89%	10.08%	17.47%
52 Week Price Chg	-46.58%	-47.07%	3.71%	-66.10%	-28.08%	-69.64%
20 Day Average Volume	10,634,207	270,508	2,015,804	33,626,240	2,344,607	42,104,740
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.28%	-8.75%
(F1) EPS Est 4 week change	-4.24%	-2.76%	1.67%	-15.59%	-1.28%	-9.15%
(F1) EPS Est 12 week change	-350.73%	-57.26%	2.27%	-513.33%	-21.42%	-74.82%
(Q1) EPS Est Mthly Chg	-5.04%	-8.40%	0.67%	-10.22%	-8.40%	-5.46%

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	F
Growth Score	D
Momentum Score	D
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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