

Royal Caribbean(RCL)

\$22.33 (As of 03/18/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Shares of Royal Caribbean have underperformed the industry in the past year. The dismal performance is primarily attributed to the coronavirus outbreak that has compelled the company to cancel cruises. Due to the outbreak the company has also withdrawn its 2020 guidance. Travel warnings and cruise cancellations have started taking a toll on the company. While the cruise business from China and Asia fell significantly, bookings for the broader business outside Asia have also softened. Moreover, Increased cost of operations, cyclical industry and slowdown in the economy are hurting the company's revenues and profits. Meanwhile, Trump administration's policy change on travel to Cuba is concerning. Notably, the company anticipates itinerary changes owing to Cuba to impact yields during first-half 2020.

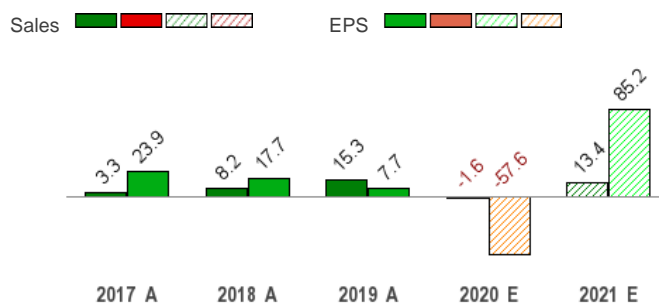
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.32 - \$19.25
20 Day Average Volume (sh)	15,524,766
Market Cap	\$4.7 B
YTD Price Change	-83.3%
Beta	1.72
Dividend / Div Yld	\$3.12 / 14.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 39% (154 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.7%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-49.5%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	2.3
P/E F1	5.5
PEG F1	0.5
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,732 E	3,112 E	3,654 E	2,979 E	12,224 E
2020	2,367 E	2,688 E	3,038 E	2,410 E	10,778 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	\$0.82 E	\$2.59 E	\$4.78 E	\$1.97 E	\$7.48 E
2020	-\$0.06 E	\$1.65 E	\$3.24 E	\$0.45 E	\$4.04 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.

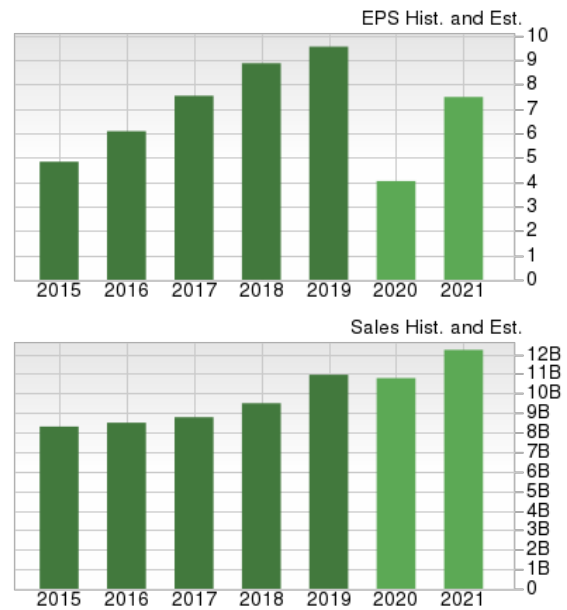
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/18/2020. The reports text is as of 03/19/2020.

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%).



Reasons To Sell:

▼ **Coronavirus to Hurt 2020 Results:** The leisure industry is currently grappling with the coronavirus outbreak in China 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 trim 2020 guidance. The coronavirus outbreak has compelled the company to cancel 18 cruises in Southeast Asia. The company has also modified several itineraries.

Increased cost of operations and a cyclical industry are potential headwinds to the company's revenues and profits.

The coronavirus outbreak, which has taken the shape of a global pandemic, has forced Royal Caribbean to withdraw the first quarter and 2020 guidance. Travel warnings and cruise cancellations have started taking a toll on the company. While the cruise business from China and Asia fell significantly, bookings for the broader business outside Asia have also softened. Moreover, due to the outbreak of the COVID-19 virus, the company increased its revolving credit capacity by \$550 million, boosting its liquidity position. The company is looking to improve liquidity by at least another \$1.7 billion in 2020 by decreasing capital expenditures and operating expenses, and taking other actions.

▼ **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. The company anticipates net cruise costs to increase in the range of 0.75% to 2.25% in both constant currency and on reported basis.

▼ **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.

Risks

- **Overall Bookings and Capacity Growth Shaping Up Well:** Since 2017, Royal Caribbean has been consistently witnessing strong demand from its key markets of operations. In 2018, demand for the company's all brands and itineraries increased sharply. This trend is likely to continue in 2020. Also, early bookings for 2020 have already started, which makes management optimistic about the demand. During the quarter, booking rates were higher than the prior-year period. It also stated that bookings from North America and Australia have shown upward trends. Meanwhile, bookings from Europe and the U.K. continue to rise.

On the supply front, the company has been committed to increasing capacity to match the rising demand. Based on current ship orders and predicted capital expenditure, Royal Caribbean anticipates capacity growth for 2020 to be 4.8%. Itineraries in North America account will account for 60% of the total capacity in 2020. The Asia Pacific region is expected to make up 17% of 2020 capacity. Moreover, Australia and Alaska sailings are likely to account for 7% and 5%, of 2020 capacity, respectively. The company stated that European sailing will account for 17% of capacity in 2020.

- **Profitability Initiatives:** Royal Caribbean has been undertaking profitability improvement initiatives, which are aimed at generating long-term cost savings since 2014. Under its Double-Double program, the company intends to bring the return on invested capital (ROIC) to double-digit percentages, improve revenue yields, control costs and moderate capacity growth.

Meanwhile, recently the company introduced the 20> 25 by 2025 program. With the help of this program, it expects to achieve \$20.00 adjusted earnings per share, reduce carbon footprint by 25%, deliver strong returns on invested capital, and continue to improve on record guest satisfaction and employee engagement metrics.

- **Net Revenues Yield Growth Continues:** The company continues to report robust net revenues yield growth. In 2019, net yield increased 8% in constant currency. The company expects net revenue yield growth of 2.25% to 4.25% 2020. This will mark the company's 11th consecutive year of yield growth. New hardware, robust demand for the company's core products, and sustained improvement in onboard revenue areas is likely to drive yield growth in 2020. Moreover, introduction of four new ships in 2020 is likely to be a significant contributor to the company's net yield growth.

- **Steady Control on Fuel Price Volatility:** Meanwhile, like other cruise companies, Royal Caribbean is also vulnerable to fuel prices. However, it has been successful in dealing with the volatility in fuel prices owing to its environmental efforts. The company is deploying all its ships with advanced emissions purification (AEP) systems, providing additional operational and deployment flexibility to the ships. Also, the company has deployed more efficient hardware, including propulsion and cooling systems, which improve the fuel efficiency of its fleet and thereby reduce fuel costs. This has increased energy efficiency. Moreover, the company recently announced a new class of ships, dubbed icon-class, which will be powered by liquefied natural gas (LNG) and will also utilize the latest fuel cell technology. Notably, the ships join the fleet of Royal Caribbean International and are expected to considerably reduce greenhouse gas emissions. Further, the company uses fuel swaps to mitigate the volatility in fuel prices.

- **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.
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Last Earnings Report

Royal Caribbean's Q4 Earnings Beat Estimates, Revenues Miss

Royal Caribbean reported fourth-quarter 2019 results, wherein earnings beat the Zacks Consensus Estimate after missing the same in the third quarter.

Adjusted earnings of \$1.42 per share topped the Zacks Consensus Estimate of \$1.41 by 0.7%. However, the figure declined 7.2% year over year, owing to negative impact of the cancellation of sailings to Cuba and disruption generated by Hurricane Dorian.

Total revenues were \$2,517.4 million, missing the consensus mark of \$2,532 million by 0.9% but improving 7.9% from the year-ago quarter. This year-over-year upside can be attributed to higher passenger ticket, and onboard and other revenues.

Quarterly Highlights

Passenger ticket revenues improved 8% to \$1,784.5 million, and onboard and other revenues increased 7.7% from the prior-year quarter to \$733 million.

On a constant-currency basis, net yields rose 6.8% year over year, which was within the company's guidance.

Net cruise costs (NCC), excluding fuel per APCD, increased 15.9% on a constant-currency basis. Higher marine costs and employee-related expenses led to the increase.

Total cruise operating expenses of \$1,481.5 million increased 18.9% on a year-over-year basis. The company's operating expenses increased at the Payroll and related, Onboard and other, Commissions, transportation and other, and Food segments. However, fuel expenses declined during the quarter under review.

2019 Highlights

Adjusted earnings came in at \$9.54 per share, reflecting an increase of 7.7% from the 2018 level. Revenues advanced 15.3% from a year ago to \$11 billion. This upside was achieved despite a series of disruptions that include the dry-dock incident in the Grand Bahama shipyard, cancellation of cruises to Cuba and an unusual hurricane season, all of which negatively impacted the company's results for the year.

Net Yields were up 8% on a constant-currency basis.

20> 25 by 2025 Program

The company introduced the 20> 25 by 2025 program. With the help of this program, it expects to achieve \$20.00 adjusted earnings per share; reduce carbon footprint by 25%; deliver strong returns on invested capital; and continue to improve on record guest satisfaction and employee engagement metrics.

Q1 Guidance

For first-quarter 2020, Royal Caribbean expects adjusted earnings per share within 80-85 cents. The Zacks Consensus Estimate for first-quarter earnings is currently pegged at \$1.11 per share.

Constant-currency net yields are projected to decrease 0.5% from the year-ago quarter. NCC, excluding fuel, is likely to improve 3% on a constant-currency basis.

Although demand for core products and onboard experiences remains strong, the company stated that the unprecedented bushfires in Australia, and recent activities in Hong Kong and the Middle East will have a negative impact on the first quarter. Moreover, the first quarter is negatively impacted by other structural elements such as the discontinuation of Cuba sailings that equals a revenue headwind of approximately 120 basis points and a tough year-over-year comparable.

2020 Guidance

Royal Caribbean projects adjusted earnings within \$10.40-\$10.70 per share. The company has cancelled eight cruises out of China ending Mar 4 and also modified certain itineraries in the region, which are estimated to have an overall impact of 25 cents per share.

The Zacks Consensus Estimate for 2020 earnings is pegged at \$10.50 per share. The company expects net yields to increase 2.25-4.25% on a constant-currency basis.

NCC, excluding fuel, is expected to be up 1.75-2.25% on a constant-currency basis.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	-0.89%
EPS Surprise	0.71%
Quarterly EPS	1.42
Annual EPS (TTM)	9.54

Recent News

Royal Caribbean Trims 2020 View Due to Coronavirus Outbreak - Feb 13, 2020

The coronavirus outbreak has compelled the company to cancel 18 cruises in Southeast Asia. The company has also modified several itineraries. Per management, the company anticipates 2020 earnings to be impacted by nearly 65 cents due to the cancellation of cruises. Further, the company added that if it has to cancel remaining cruise sailings in Asia through the end of April, it would hurt earnings by another 55 cents. Although coronavirus has primarily impacted Asia, the company has witnessed softer bookings for border business.

Valuation

Royal Caribbean's shares are down 83.3% year-to-date and 80.8% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 62.4%, and Zacks Consumer Discretionary sector is down by 32.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector were down by 64.2% and 24.3%, respectively.

The S&P 500 index is down 21.5% in the year-to-date period, and 11.5% in the past year.

The stock is currently trading at 2.51X forward 12-month earnings, which compares to 8.58X for the Zacks sub-industry, 14.21X for the Zacks sector and 14.78X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.17X and as low as 2.51X, with a 5-year median of 12.44X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$19 price target reflects 2.13X forward 12-month earnings.

The table below shows summary valuation data for RCL.

Valuation Multiples - RCL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	2.51	8.58	14.21	14.78
	5-Year High	17.17	22.68	23.23	19.34
	5-Year Low	2.51	8.58	14.21	14.78
	5-Year Median	12.44	18.79	19.88	17.42
P/B TTM	Current	0.38	0.5	2.22	3.4
	5-Year High	2.97	1.71	5.04	4.55
	5-Year Low	0.38	0.5	2.16	2.85
	5-Year Median	2.2	1.38	4.25	3.63
EV/EBITDA TTM	Current	4.23	5.61	8.67	9.35
	5-Year High	16.45	11.38	17.59	12.88
	5-Year Low	4.23	5.61	8.5	8.31
	5-Year Median	11.43	8.92	12.28	10.79

As of 03/18/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 253)



Top Peers

Camping World Holdings Inc. (CWH)	Outperform
AMC Entertainment Holdings, Inc. (AMC)	Neutral
Cinemark Holdings Inc (CNK)	Neutral
H.I.S. Co., Ltd. (HISJF)	Neutral
Lindblad Expeditions Holdings Inc. (LIND)	Neutral
Live Nation Entertainment, Inc. (LYV)	Neutral
Carnival Corporation (CCL)	Underperform
Norwegian Cruise Line Holdings Ltd. (NCLH)	Underperform

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	RCL Underperform	X Industry	S&P 500	CCL Underperform	LYV Neutral	NCLH Underperform
VGM Score	B	-	-	B	B	B
Market Cap	4.67 B	341.48 M	16.02 B	4.91 B	6.33 B	1.66 B
# of Analysts	6	4	13	7	5	6
Dividend Yield	13.97%	0.00%	2.66%	21.50%	0.00%	0.00%
Value Score	B	-	-	A	B	A
Cash/Price	0.04	0.16	0.06	0.06	0.27	0.11
EV/EBITDA	3.71	5.34	10.21	2.59	9.54	4.07
PEG Ratio	0.48	0.57	1.46	0.30	NA	0.52
Price/Book (P/B)	0.38	0.64	2.18	0.19	4.31	0.25
Price/Cash Flow (P/CF)	1.41	2.36	8.79	0.94	11.60	0.95
P/E (F1)	5.53	5.08	12.92	2.58	57.62	3.85
Price/Sales (P/S)	0.43	0.43	1.74	0.24	0.55	0.26
Earnings Yield	18.09%	16.41%	7.70%	38.71%	1.73%	26.00%
Debt/Equity	0.74	0.74	0.70	0.38	3.17	0.93
Cash Flow (\$/share)	15.81	2.40	7.01	9.87	2.54	8.22
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	23.83%	17.66%	10.85%	15.63%	NA	21.52%
Proj. EPS Growth (F1/F0)	-57.65%	3.03%	5.12%	-18.18%	2,660.00%	-60.35%
Curr. Cash Flow Growth	11.91%	4.33%	6.03%	3.07%	-0.65%	4.56%
Hist. Cash Flow Growth (3-5 yrs)	15.91%	8.97%	8.55%	10.47%	0.08%	18.35%
Current Ratio	0.15	0.91	1.23	0.23	1.02	0.20
Debt/Capital	44.07%	55.33%	42.57%	27.61%	77.68%	48.17%
Net Margin	17.16%	5.14%	11.57%	14.36%	0.27%	14.40%
Return on Equity	17.06%	5.43%	16.74%	12.29%	2.20%	17.73%
Sales/Assets	0.37	0.53	0.54	0.47	1.11	0.40
Proj. Sales Growth (F1/F0)	-1.58%	0.00%	3.22%	-3.55%	7.67%	-3.66%
Momentum Score	F	-	-	D	A	F
Daily Price Chg	-19.27%	-10.52%	-6.77%	-26.83%	-13.03%	-22.53%
1 Week Price Chg	-50.27%	-18.43%	-11.01%	-35.25%	-19.15%	-59.04%
4 Week Price Chg	-79.89%	-63.34%	-34.65%	-78.54%	-61.23%	-85.06%
12 Week Price Chg	-83.21%	-62.95%	-32.08%	-81.74%	-58.22%	-86.69%
52 Week Price Chg	-80.75%	-70.80%	-23.52%	-83.55%	-53.29%	-86.09%
20 Day Average Volume	15,524,766	281,465	3,834,688	31,486,612	7,437,138	15,283,517
(F1) EPS Est 1 week change	-37.88%	0.00%	-0.06%	-0.66%	0.00%	-42.14%
(F1) EPS Est 4 week change	-49.53%	-13.69%	-0.74%	-17.91%	13.78%	-59.10%
(F1) EPS Est 12 week change	-53.72%	-18.29%	-1.38%	-18.29%	11.30%	-59.83%
(Q1) EPS Est Mthly Chg	-111.15%	-13.64%	-0.85%	-45.79%	-37.69%	-98.57%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	F
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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