Royal Caribbean(RCL)

$129.68 (As of 01/21/20)

Price Target (6-12 Months): **$136.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: B | Momentum: B	**3-Hold** VGM:A

Summary

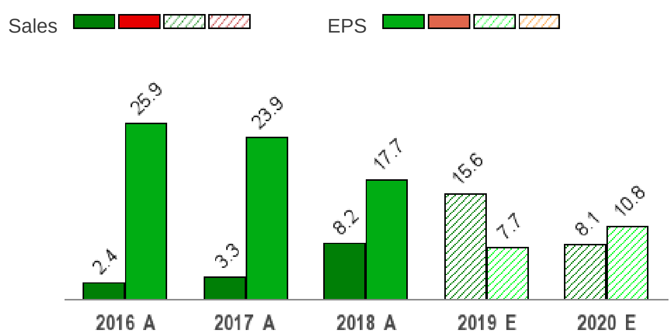
Shares of Royal Caribbean have outperformed the industry so far in the past year. The outperformance is mainly backed by solid earnings surprise history, with earnings surpassing analysts' expectations in six of the last seven quarters. Higher demand for cruises and solid booking trends bode well. The demand for all brands and itineraries picked up sharply over the past year. However, the company's trimmed guidance for fiscal 2019 is a concern. Full-year guidance takes into account the negative impact from itinerary disruptions and relief efforts owing to Hurricane Dorian. Also, higher costs, currency and other macroeconomic headwinds might hurt profitability in the near term. Earnings estimate for 2020 has also witnessed downward revision over the past 60 days, depicting analysts' concern over the stock's prospects.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$135.32 - $100.00
20 Day Average Volume (sh)	992,496
Market Cap	$27.2 B
YTD Price Change	-2.9%
Beta	1.45
Dividend / Div Yld	$3.12 / 2.4%
Industry	[Leisure and Recreation Services]
Zacks Industry Rank	Bottom 25% (192 out of 255)
Last EPS Surprise	-0.9%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	01/29/2020
Earnings ESP	0.6%
P/E TTM	13.4
P/E F1	12.3
PEG F1	1.1
P/S TTM	2.5

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	2,588 E	3,002 E	3,481 E	2,800 E	11,866 E
2019	2,440 A	2,807 A	3,187 A	2,539 E	10,973 E
2018	2,028 A	2,338 A	2,796 A	2,332 A	9,494 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.24 E	$2.84 E	$4.84 E	$1.76 E	$10.57 E
2019	$1.31 A	$2.54 A	$4.27 A	$1.41 E	$9.54 E
2018	$1.09 A	$2.27 A	$3.98 A	$1.53 A	$8.86 A

*Quarterly figures may not add up to annual.

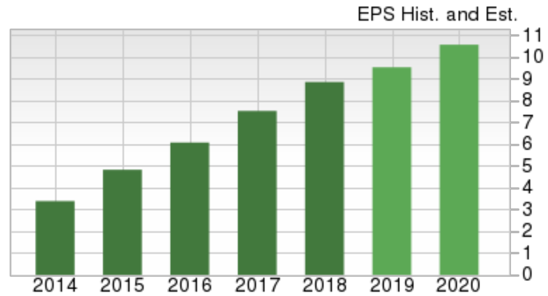
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

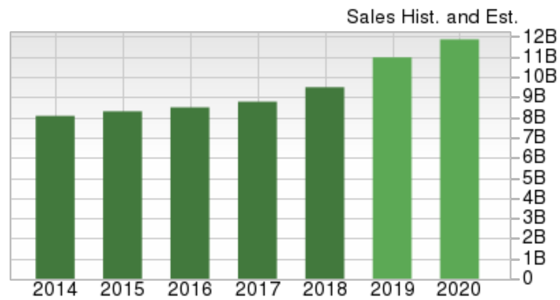
Overview

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 (71.5% of total revenues in 2018), and Onboard and other revenues (28.5%).





Reasons To Buy:

Increasing demand for cruises and solid booking trends, coupled with other cost-cutting initiatives put the company on growth trajectory.

- **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 2019. Accelerating demand is also likely to result in double-digit EPS growth in 2019. The company's booking strength offset the negative yield impact caused by Hurricane Dorian. Also, early bookings for 2020 have already started, which makes management optimist 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. Over the past three months, bookings from the U.K. have grown in double digits.

  On the supply front, the company is steadfast in increasing capacity to match the rising demand. Based on current ship orders and predicted capital expenditure, it believes its capacity growth for 2019, 2020, 2021, 2022 and 2023 to be 8.6%, 4.1%, 9.0%, 7.7% and 2.8%, respectively.

  Royal Caribbean foresees the major bulk of 2019 capacity to derive from the Caribbean, with Symphony of the Seas sailing year-round from Miami and a full year of sailings on two modernized ships — Mariner of the Seas and Navigator of the Seas. Overall capacity will also increase, owing to the addition of Silversea contributing just over 2% to growth. Europe itineraries will account for 17% of the total capacity in 2020. The Asia Pacific region is expected to account for 17% of 2020 capacity, with sailings in China, Australia and Southeast Asia. Moreover, Europe is likely to account for 10% of 2020 capacity, driven by an inaugural summer season for Celebrity Apex and Silver Moon. Bookings have been in line with the company's expectations (with Celebrity Edge receiving outsized pricing premiums).

- **China Likely to be Major Growth Driver:** China remains of utmost importance to the Royal Caribbean brand. 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. Also, by 2030, China is expected to become the world's second-largest cruise market after the U.S. Royal Caribbean. Thus, it is leaving no stone unturned to gain a leadership position in the eyes of the Chinese consumers and further bolstering its commitment to China by dedicating a lineup of its most technologically-advanced ships to the rapidly growing cruise market of the country.

- **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, the company further developed a multi-year period program named 20/20 Vision. The program is expected to serve as a guiding light for the organization over the next three years, as under this program, the company aims to improve its guest satisfaction and employee engagement while delivering its environmental commitments. These operational drivers are expected to aid in further improving its double-digit return profile and deliver double-digit earnings per share by the end of 2020.

- **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.

  The company expects 2019 results to benefit from modernization programs, Royal Amplified, Celebrity Revolution, and Silversea's Invictus. These dynamics will help in shaping yields and costs in 2019.

- **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 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.

Reasons To Sell:

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

- **Trims 2019 View:** Shares of Royal Caribbean took a hit after the company reported lower-than-expected third-quarter 2019 results. Notably, investors' sentiment was hurt by the company's soft 2019 guidance. It now expects 2019 earnings in the range of $9.50-$9.55 per share compared with $9.55-$9.65 projected earlier. The company's earnings guidance takes into account the negative impact of nearly 15 cents per share from itinerary disruptions and relief efforts owing to Hurricane Dorian.

- **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. Royal Caribbean estimates that the financial impact of this regulatory change is a reduction to earnings for 2019 in the range of 25 cents to 35 cents per share. 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, net cruise costs, excluding fuel, were up 4.1% in constant currency. Notably, during the third quarter, net cruise costs (NCC), excluding fuel per APCD, rose 11% on a constant-currency basis. In fact, NCC — excluding fuel — is expected to be up 11% on a constant-currency basis compared with prior guidance of 10-10.5%. Rise in fuel costs is also a concern.

- **Valuation Looks Stretched:** As Royal Caribbean significantly outperformed the industry in the last five years, its valuation 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 11.03. Right now, the stock is relatively overvalued than its peers, as the industry's average EV/EBTDA multiple currently stands at 8.93x.

- **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.

Last Earnings Report

Royal Caribbean Misses on Q3 Earnings, Trims '19 View

Quarter Ending	09/2019
Report Date	Oct 30, 2019
Sales Surprise	-0.99%
EPS Surprise	-0.93%
Quarterly EPS	4.27
Annual EPS (TTM)	9.65

Royal Caribbean Cruises reported third-quarter 2019 results, wherein both earnings and revenues missed the respective Zacks Consensus Estimate after beating the same in preceding three quarters. Notably, Hurricane Dorian impacted the company's performance in the quarter.

Adjusted earnings of $4.27 per share (include a 13 cents negative impact from Hurricane Dorian) lagged the Zacks Consensus Estimate of $4.31. However, the figure improved 7.3% year over year, owing to higher revenues.

Total revenues were $3,186.9 million, outpacing the consensus mark of $3,219 million and improved 14% from the year-ago quarter number. This upside can be attributed to higher passenger ticket, and onboard and other revenues.

Quarterly Highlights

Passenger ticket revenues improved 14.8% to $2,344.8 million, and onboard and other revenues increased 11.8% to $842.1 million.

On a constant-currency basis, net yields rose 6.4% year over year, which was marginally better than the company's guidance considering the fact the Hurricane Dorian reduced both revenues and yields.

Net cruise costs (NCC), excluding fuel per APCD, rose 11% on a constant-currency basis. Decrease in capacity and relief efforts owing to the hurricane negatively impacted the metric by 150 basis points.

Total cruise operating expenses of $1,623 million improved 15% on a year-over-year basis. The company witnessed rise in operating expenses at the Payroll and related, Onboard and other, Commissions, transportation and other, and other operating segments. However, fuel expenses also improved during the quarter under review.

Q4 Guidance

For fourth-quarter 2019, Royal Caribbean expects adjusted earnings per share to be $1.40. Constant-currency net yields are projected to increase 6.75%. NCC, excluding fuel, is likely to improve 14.5% on a constant-currency basis.

2019 View

Royal Caribbean projects earnings of $9.50-$9.55 per share for 2019 compared with $9.55-$9.65 mentioned earlier. The company's earnings guidance includes negative impact of nearly 15 cents per share from itinerary disruptions and relief efforts owing to Hurricane Dorian. The Zacks Consensus Estimate for current-year earnings stands at $9.63. The company expects net yields to increase 8% on a constant-currency basis.

NCC, excluding fuel, is expected to be up 11% on a constant-currency basis, compared with prior guidance of 10-10.5%.

Valuation

Royal Caribbean's shares are up 19.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 9.9% and sector is up by 22.8%.

The S&P 500 index is up 25.4% in the past year.

The stock is currently trading at 11.03x trailing 12-month EV/EBITDA, which compares to 9.15x for the Zacks sub-industry, 12.97x for the Zacks sector and 12.38x for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.25x and as low as 9.13x, with a 5-year median of 11.54x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $136 price target reflects 12.77x forward12-month Price to Earnings value.

Valuation Multiples - RCL

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	11.03	9.15	12.97	12.38
	5-Year High	16.25	11.38	17.76	12.86
	5-Year Low	9.13	7.06	11.07	8.5
	5-Year Median	11.54	8.93	12.42	10.67
P/E F 12M	Current	12.18	17.41	20.86	19.18
	5-Year High	17.61	22.68	23.35	19.34
	5-Year Low	9.12	15.64	16.16	15.17
	5-Year Median	12.6	18.92	20.11	17.44
P/B TTM	Current	2.27	1.4	3.63	4.55
	5-Year High	2.97	1.71	5.04	4.55
	5-Year Low	1.65	0.97	3.13	2.85
	5-Year Median	2.2	1.38	4.28	3.61

As of 01/21/2020

Industry Analysis **Zacks Industry Rank:** Bottom 25% (192 out of 255)

Top Peers

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

Industry Comparison Industry: Leisure And Recreation Services

Industry Peers

	RCL Neutral	X Industry	S&P 500	CCL Neutral	LYV Neutral	NCLH Neutral
VGM Score	A	-	-	B	D	B
Market Cap	27.18 B	957.72 M	24.43 B	26.72 B	16.01 B	12.33 B
# of Analysts	9	4	13	9	3	6
Dividend Yield	2.41%	0.00%	1.75%	3.95%	0.00%	0.00%
Value Score	A	-	-	A	D	A
Cash/Price	0.01	0.09	0.04	0.02	0.11	0.03
EV/EBITDA	11.27	9.85	14.00	6.62	23.78	9.74
PEG Ratio	1.08	1.57	2.06	1.29	NA	1.26
Price/Book (P/B)	2.27	1.87	3.39	1.05	10.51	1.99
Price/Cash Flow (P/CF)	9.19	8.60	13.69	5.14	28.69	7.68
P/E (F1)	12.27	18.42	19.00	11.15	162.85	10.33
Price/Sales (P/S)	2.52	1.35	2.68	1.28	1.42	1.94
Earnings Yield	8.15%	5.30%	5.26%	8.98%	0.61%	9.68%
Debt/Equity	0.79	0.77	0.72	0.38	2.49	0.90
Cash Flow ($/share)	14.11	1.90	6.94	9.87	2.61	7.54
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	25.65%	15.63%	10.60%	15.63%	NA	22.42%
Proj. EPS Growth (F1/F0)	10.88%	10.93%	7.57%	3.36%	666.67%	10.90%
Curr. Cash Flow Growth	12.46%	10.60%	14.00%	3.07%	18.24%	16.99%
Hist. Cash Flow Growth (3-5 yrs)	18.07%	10.36%	9.00%	10.47%	7.45%	26.71%
Current Ratio	0.17	0.93	1.23	0.23	0.97	0.25
Debt/Capital	45.51%	56.37%	42.99%	27.61%	73.42%	47.49%
Net Margin	17.85%	5.93%	11.15%	14.36%	0.61%	15.14%
Return on Equity	17.67%	7.28%	17.16%	12.29%	4.96%	18.67%
Sales/Assets	0.37	0.53	0.55	0.47	1.15	0.40
Proj. Sales Growth (F1/F0)	8.26%	4.38%	4.05%	5.19%	8.92%	11.08%
Momentum Score	B	-	-	B	F	D
Daily Price Chg	-3.98%	-0.85%	-0.27%	-2.33%	-0.83%	-2.85%
1 Week Price Chg	1.40%	0.95%	2.29%	6.24%	5.98%	2.92%
4 Week Price Chg	-2.47%	0.00%	2.13%	-0.49%	6.09%	-0.74%
12 Week Price Chg	14.49%	1.97%	6.99%	14.79%	7.01%	10.13%
52 Week Price Chg	19.38%	-9.92%	21.25%	-7.02%	41.69%	24.36%
20 Day Average Volume	992,496	110,672	1,415,064	4,003,404	1,061,948	1,091,212
(F1) EPS Est 1 week change	0.11%	0.00%	0.00%	0.00%	0.00%	-0.08%
(F1) EPS Est 4 week change	-0.50%	0.00%	0.00%	0.84%	0.00%	-0.08%
(F1) EPS Est 12 week change	-1.78%	-4.73%	-0.34%	3.23%	-26.01%	-2.29%
(Q1) EPS Est Mthly Chg	-0.52%	0.00%	0.00%	1.34%	0.00%	0.22%

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	B
Momentum Score	B
VGM Score	A

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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