



Norwegian Cruise Line Holdings (NCLH)

Updated November 15th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	14.4%	Volatility Percentile:	83.1%
Fair Value Price:	\$68	5 Year Growth Estimate:	8.0%	Momentum Percentile:	24.5%
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.4%	Growth Percentile:	71.4%
Dividend Yield:	0.0%	5 Year Price Target	\$100	Valuation Percentile:	89.1%
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Total Return Percentile:	82.9%

Overview & Current Events

Norwegian Cruise Line Holdings was founded in 1967 as a relaxed alternative to the more structured cruises that were offered on other carriers. The company's philosophy has proven popular with consumers and today, Norwegian operates 16 ships that generate more than \$6 billion in annual revenue. Norwegian's market capitalization, after going public back in 2013, has grown to \$11 billion today on \$6 billion in annual revenue.

Norwegian reported Q3 earnings on 11/8/18 and results were once again terrific. The third quarter resulted in another record period of revenue and earnings, and led management to boost guidance for Q4 and the full year. In addition, the team provided preliminary guidance for 2019 stating that bookings are running ahead of this year's records already, indicating that the strong fundamentals we are seeing in the cruise line industry are set to continue.

Total revenue was up 12.5% during the quarter as all three of Norwegian's brands continue to perform well. Strength came from Alaska and Europe cruises, particularly with premium-priced offerings, but Norwegian is seeing strong demand essentially across the board. Gross yield during the quarter, which is a measure of how much revenue is collected per available passenger day, was up 4.5% as Norwegian continues to see strong utilization. This has been the case all year in 2018 and we expect it will continue as favorable fundamentals are in place for the industry, and as management has made some very bullish comments.

Total operating expenses rose 10.8% in Q3, which is lower than the rate of revenue growth, indicating margin expansion. The increase was due to a boost in capacity days as Norwegian continues to build out its ability to accommodate more passengers. Apart from that, fuel prices increased year-over-year, net of hedges, and higher marketing, general and administrative expenses contributed as well. However, overall, Q3 showed that Norwegian's margins are well intact and continue to add another tailwind for earnings growth, even in an environment of rising fuel costs.

Management boosted its estimate of adjusted earnings-per-share to \$4.85 for this year and we've done the same thing.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	--	--	--	--	--	\$0.49	\$1.62	\$1.86	\$2.78	\$3.31	\$4.85	\$7.12
DPS	--	--	--	--	--	--	--	--	--	--	--	--
Shares	179	203	178	179	179	209	212	230	228	229	221	210

Norwegian's operating history as a public company is short as it only started trading in 2013. However, it has experienced tremendous earnings-per-share growth in that time as this year should produce over ten times the amount of earnings-per-share it did in its first year of public operations. We obviously do not expect that level of growth to continue but moving forward, we see several tailwinds helping it to reach 8% earnings-per-share growth.

It will achieve this growth primarily via higher capacity, but also with the opportunity for a small amount of margin growth, as well as its \$1 billion, three-year share repurchase plan. In addition, the industry as a whole continues to see record levels of bookings and Norwegian is certainly benefiting from that tailwind. Given all of this, we think high single digit earnings-per-share growth is a reasonable expectation for Norwegian moving forward.

The stock does not pay a dividend today and we do not expect that to change in the foreseeable future.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	--	--	--	--	--	63.5	21.8	29.4	15.7	15.9	10.2	14.0
Avg. Yld.	--	--	--	--	--	--	--	--	--	--	--	--

Norwegian's price-to-earnings ratio has been wildly different in the years since it came public but today, we see the stock as offering significant value. Shares are trading for just 10.2 times this year's estimate for earnings and we think it deserves to trade with the rest of the industry for 14 times earnings, given its strong growth outlook. Therefore, we are forecasting a significant 6.4% annual tailwind to total returns as the price-to-earnings multiple rises over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	--	--	--	33.9%	35.1%	35.5%	37.7%	38.9%	41.5%	43.2%	43.0%	43.0%
Debt/A	69%	65%	69%	67%	66%	60%	69%	69%	65%	59%	58%	55%
Int. Cov.	0.4	1.5	1.1	1.7	1.9	1.4	3.3	3.2	3.3	3.9	4.2	4.7
Payout	--	--	--	--	--	--	--	--	--	--	--	--
Std. Dev.	--	--	--	--	--	18%	30%	23%	42%	18%	22%	26%

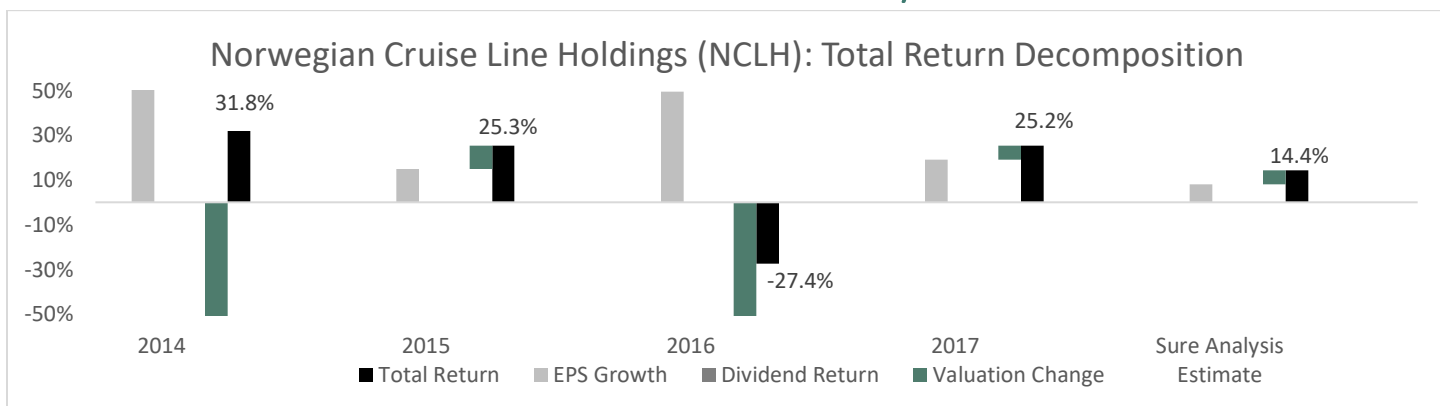
Norwegian's quality metrics are strong as it has improved margins over time, slightly deleveraged its balance sheet and has continued to boost its interest coverage. Its financial situation is strong and moving in the right direction, affording it the opportunity to not only launch more ships to build capacity, but also to buy back stock on a significant scale.

Norwegian's competitive advantage is in its "freestyle" cruises, which means guests are not put on a schedule for dining options and that there is no dress code on board. This is a differentiator going back to its very roots and consumers gravitate towards it for that reason. The next recession will be tough for Norwegian as the tourism industry as a whole will suffer, so that is something for investors to keep in mind.

Final Thoughts & Recommendation

We see robust 14.4% annual total returns going forward, consisting of 8.0% earnings-per-share growth and a 6.4% annual tailwind from valuation multiple expansion. Norwegian looks to be at a valuation trough despite its strong growth outlook, so we think it looks attractive at today's price. This stock does not pay a dividend, so it has no place in an income investor's portfolio. But for those seeking value and growth, we rate the stock a buy. Investors should keep in mind, however, that cruise lines are likely to perform poorly in the event of a protracted recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	2106	1855	2012	2219	2276	2570	3126	4345	4874	5396
Gross Profit	528	565	665	751	798	913	1179	1690	2024	2333
Gross Margin	25.1%	30.5%	33.0%	33.9%	35.0%	35.5%	37.7%	38.9%	41.5%	43.2%
SG&A Exp.	300	242	264	251	251	301	403	555	666	774
D&A Exp.	163	170	192	211	216	245	305	450	446	521
Operating Profit	66	171	231	316	357	396	503	702	925	1049
Op. Margin	3.1%	9.2%	11.5%	14.2%	15.7%	15.4%	16.1%	16.2%	19.0%	19.4%
Net Profit	-212	67	23	127	169	102	338	427	633	760
Net Margin	-10.1%	3.6%	1.1%	5.7%	7.4%	4.0%	10.8%	9.8%	13.0%	14.1%
Free Cash Flow	-187	-44	-547	172	95	-402	-329	-81	148	214
Income Tax	N/A	N/A	N/A	2	1	12	-2	7	7	11

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	5047	4811	5572	5562	5938	6651	11469	12265	12974	14095
Cash & Equivalents	186	50	55	59	46	56	85	116	128	176
Accounts Receivable	6	8	8	8	15	18	32	45	63	44
Inventories	29	29	33	36	40	44	57	58	66	82
Goodwill & Int. Ass.	603	603	603	603	611	611	2388	2314	2297	2261
Total Liabilities	3497	3107	3832	3718	3920	4020	7950	8484	8436	8345
Accounts Payable	70	28	64	80	79	87	102	45	38	53
Long-Term Debt	2657	2558	3204	3038	2985	3128	6080	6398	6399	6308
Shareholder's Equity	1550	1705	1741	1844	2010	2609	3519	3781	4538	5750
D/E Ratio	1.71	1.50	1.84	1.65	1.49	1.20	1.73	1.69	1.41	1.10

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-4.2%	1.4%	0.4%	2.3%	2.9%	1.6%	3.7%	3.6%	5.0%	5.6%
Return on Equity	-15.2%	4.1%	1.3%	7.1%	8.7%	4.4%	11.0%	11.7%	15.2%	14.8%
ROIC	-4.9%	1.6%	0.5%	2.6%	3.4%	1.9%	4.4%	4.3%	6.0%	6.6%
Shares Out.	179	203	178	179	179	209	212	230	228	229
Revenue/Share	11.77	9.12	11.27	12.40	12.71	12.28	14.74	18.89	21.39	23.52
FCF/Share	-1.04	-0.22	-3.07	0.96	0.53	-1.92	-1.55	-0.35	0.65	0.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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