



Norwegian Cruise Line Holdings (NCLH)

Updated February 26th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	12.2%	Market Cap:	\$8.4B
Fair Value Price:	\$48	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	N/A
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$70	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

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 nearly 30 ships that generate just under \$7 billion in annual revenue. Norwegian's market capitalization, after going public back in 2013, has grown to \$8.4 billion today.

Norwegian reported Q4 and full-year earnings on February 20th and results were very strong, beating top and bottom line expectations. The company posted its sixth consecutive year of record revenue and profits, a track record which is difficult to match.

Total revenue was up 6.7% for the year to \$6.5 billion as gross yield rose 4.6%, and net yield increased 3.6% on a constant currency basis. Cruise operating expense rose 8.5% in 2019 due primarily to the increase in capacity days. Gross cruise costs per capacity day were up 6.3%. Fuel per metric ton was priced at \$491 against \$483 in 2018, for total fuel expense of \$409.6 million. Earnings-per-share came to \$5.09 for the year as adjusted net income was \$1.1 billion.

Norwegian entered 2020 with a record booked position and higher pricing, but the coronavirus breakout has caused it to cancel its Asia voyages through at least the third quarter of 2020. This impact was included in the company's guidance, which was for earnings-per-share of \$5.40 to \$5.56, but we've removed a further 48 cents from the midpoint on concerns the coronavirus has spread more quickly in recent weeks. We see earnings as under severe pressure this year from the breakout, but rebounding fairly quickly in 2021 and beyond. The company has already canceled 40 Asia voyages and we see upside potential to that number, which has us cautious.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	\$0.49	\$1.62	\$1.86	\$2.78	\$3.31	\$4.92	\$5.09	\$5.00	\$7.35
DPS	---	---	---	---	---	---	---	---	---	---	---	---
Shares¹	178	179	179	209	212	230	228	229	221	215	209	190

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 can achieve this growth primarily via higher, premium capacity, but also with the opportunity for a small amount of margin growth, as well as its \$1 billion, 3-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. The stock does not pay a dividend today and we do not expect that to change in the foreseeable future. However, Norwegian continues to see stronger-than-expected growth in bookings and pricing, so we are bullish on revenue and margins over the intermediate-term.

¹ Share count in millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	63.5	21.8	29.4	15.7	15.9	10.7	10.3	7.9	9.5
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 moderate value. Shares are trading for just 7.9 times this year's estimate for earnings and we think it deserves to trade with the rest of the industry for 13 times earnings, particularly in light of its strong growth outlook. However, we note that the current environment for travel stocks doesn't support that sort of valuation, so we've moved fair value to 9.5. We are forecasting a meaningful 3.9% annual tailwind to total returns as the price-to-earnings multiple rises over time despite the fact that the stock has rallied in recent weeks.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	---	---	---

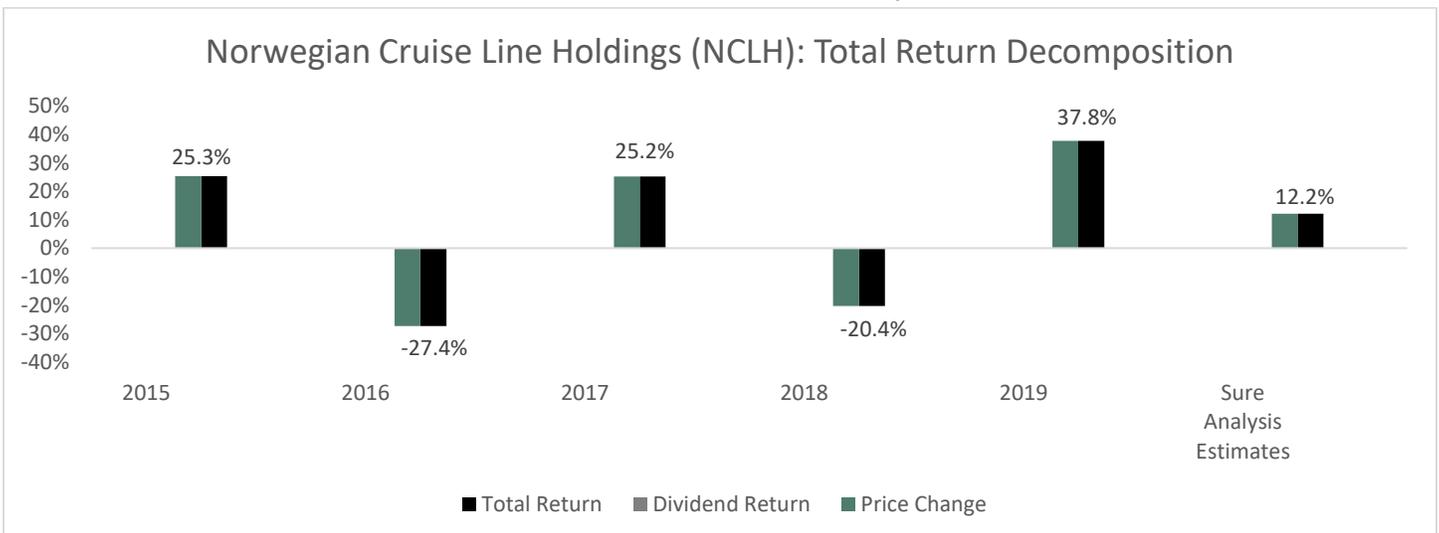
Norwegian doesn't pay a dividend and we do not see one on the horizon. The company is more concerned with continuing to build out and modernize its fleet while also buying back shares when the time is right.

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 12.2% annual total returns going forward, consisting of high-single-digit earnings-per-share growth and a mid-single-digit annual tailwind from valuation multiple expansion. Norwegian looks very attractively priced, even considering the impact of coronavirus. This stock does not pay a dividend, so it has no place in an income investor's portfolio. However, for those seeking value and growth, we rate the stock a buy. Investors should keep in mind 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2012	2219	2276	2570	3126	4345	4874	5396	6055	6462
Gross Profit	665	751	798	913	1179	1690	2024	2333	2678	2799
Gross Margin	33.0%	33.9%	35.0%	35.5%	37.7%	38.9%	41.5%	43.2%	44.2%	43.3%
SG&A Exp.	264	251	251	301	403	555	666	774	898	975
D&A Exp.	192	211	216	245	305	450	446	521	567	647
Operating Profit	231	316	357	396	503	702	925	1049	1219	1178
Operating Margin	11.5%	14.2%	15.7%	15.4%	16.1%	16.2%	19.0%	19.4%	20.1%	18.2%
Net Profit	23	127	169	102	338	427	633	760	955	930
Net Margin	1.1%	5.7%	7.4%	4.0%	10.8%	9.8%	13.0%	14.1%	15.8%	14.4%
Free Cash Flow	-547	172	95	-402	-329	-81	148	214	508	185
Income Tax	N/A	2	1	12	-2	7	7	11	14	-19

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5572	5562	5938	6651	11469	12265	12974	14095	15206	16685
Cash & Equivalents	55	59	46	56	85	116	128	176	164	253
Accounts Receivable	8	8	15	18	32	45	63	44	55	75
Inventories	33	36	40	44	57	58	66	82	90	95
Goodwill & Int. Ass.	603	603	611	611	2388	2314	2297	2261	2206	2217
Total Liabilities	3832	3718	3920	4020	7950	8484	8436	8345	9243	10169
Accounts Payable	64	80	79	87	102	45	38	53	160	101
Long-Term Debt	3204	3038	2985	3128	6080	6398	6399	6308	6492	6802
Shareholder's Equity	1741	1844	2010	2609	3519	3781	4538	5750	5963	6516
D/E Ratio	1.84	1.65	1.49	1.20	1.73	1.69	1.41	1.10	1.09	1.04

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.4%	2.3%	2.9%	1.6%	3.7%	3.6%	5.0%	5.6%	6.5%	5.8%
Return on Equity	1.3%	7.1%	8.7%	4.4%	11.0%	11.7%	15.2%	14.8%	16.3%	14.9%
ROIC	0.5%	2.6%	3.4%	1.9%	4.4%	4.3%	6.0%	6.6%	7.8%	7.2%
Shares Out.	178	179	179	209	212	230	228	229	221	215
Revenue/Share	11.27	10.91	11.35	12.28	14.74	18.89	21.39	23.52	26.98	29.85
FCF/Share	-3.07	0.85	0.47	-1.92	-1.55	-0.35	0.65	0.93	2.27	0.86

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

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