



Carnival Cruise Lines (CCL)

Updated July 5th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	-0.4%	Market Cap:	\$11.5 B
Fair Value Price:	\$12	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	N/A
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.7%	Dividend Payment Date:	N/A
Dividend Yield:	N/A	5 Year Price Target	\$15	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

Carnival Cruise Lines traces its history back to 1972 when it began operations as a small cruise ship operator. The company went public in 1987, using the additional capital to begin acquiring other cruise lines. Today, it has 11 different brands that generate about \$17 billion in annual revenue under normalized conditions. The shutdowns as a result of COVID-19 should see Carnival produce only about \$7 billion in revenue in 2020. The stock trades with a market capitalization of \$11.5 billion after a strong rebound from panic low levels.

Carnival reported second quarter earnings on June 18th and as expected, results were quite poor. The company hasn't sailed for months and it said it was pausing cruises until at least September 30th. That means that Q3 will likely see an enormous loss as well as the company has essentially no revenue.

Revenue for the second quarter was down -86% year-over-year to just \$0.7 billion. Total adjusted earnings-per-share came in at a loss of -\$3.30 thanks to the huge decline in revenue. With Carnival stating it cannot provide a date for which it can return to normal operations, its outlook has deteriorated further since our last update.

Carnival said it ended the quarter with \$7.6 billion of available liquidity, and it expects to further enhance its liquidity profile via refinancing scheduled debt maturities. We therefore don't see a lot of risk of Carnival surviving the crisis, but what sort of shape the company will be in after the crisis is the wildcard.

Moody's and S&P both cut Carnival's debt ratings to junk territory given the immense challenges the company is facing. We're now forecasting a loss of -\$6 per share this year before a gradual rebound in the coming years. We note, however, that the situation is very fluid and the outlook could deteriorate further.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.47	\$2.42	\$1.88	\$1.39	\$1.99	\$2.70	\$3.45	\$3.59	\$4.26	\$4.40	-\$6.00	\$1.82
DPS	\$0.40	\$1.00	\$1.00	\$1.00	\$1.00	\$1.10	\$1.35	\$1.60	\$1.95	\$2.00	---	\$1.00
Shares¹	790	787	778	775	776	772	752	725	699	688	685	675

We previously forecasted 4% annual earnings growth for Carnival, but the situation has obviously changed. We now believe Carnival will post a significant loss this year, followed by a sharp rebound in earnings next year. Bookings remain fairly strong for 2021, but pricing has weakened somewhat. Still, we see this demand as favorable for an industry that is battling for survival at the moment. We think Carnival has plenty of liquidity to ride out the storm and will therefore come out the other side. Management commentary from Q2 seems to support this view.

We have reduced our 2025 earnings-per-share estimate from more than \$5.00 to just \$1.82 on the reduced growth the industry is almost certain to see during the crisis. The dividend has been suspended and we now don't believe Carnival will be able to pay a dividend until 2021 at the earliest, or perhaps even into 2022. We do believe Carnival will pay a dividend again, and are forecasting a \$1 per share dividend for 2025 after earnings have rebounded. For fair value calculations, we're using next year's estimate for \$1.50 in earnings-per-share, instead of this year's negative earnings.

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	14.6	15.6	17.9	25.6	19.4	17.7	14.1	17.2	14.6	11.4	10.2	8.0
Avg. Yld.	1.1%	2.6%	3.0%	2.8%	2.6%	2.3%	2.8%	2.6%	3.1%	4.0%	---	6.8%

Carnival's price-to-earnings ratio has been reasonably stable in the past decade with the exception of a trough during the Great Recession, and a spike in 2013. We've cut our fair value estimate from 13 times earnings to just 8, which is an all-time low. We see investors as unwilling to pay normal multiples for cruise line stocks until there are some signs of returning to growth, which we think will take some time. The yield is now zero as it will be some time before another dividend payment is made.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12%	35%	53%	72%	51%	39%	38%	42%	47%	45%	---	55%

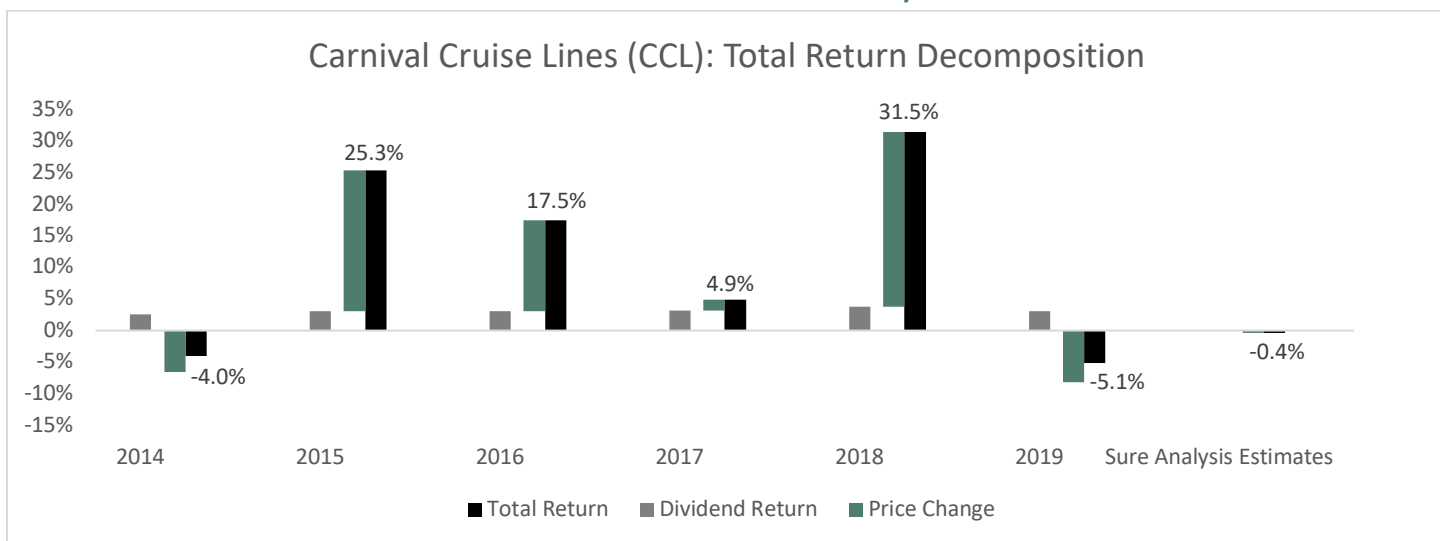
Carnival's payout should be safe on normalized earnings, which we think will begin to take shape in 2021 and into 2022. However, for now, there are no earnings and therefore, no dividend payments.

Cruise lines suffer during recessions, as Carnival did in 2009. This recession will be tough as well, so that is something for investors to keep in mind. In total, Carnival's earnings-per-share fell -24% from highs in 2007 to lows in 2009. And, *the company eliminated its dividend in 2009* due to the Great Recession. A dividend cut is now no longer a possibility; it is reality. Carnival's competitive advantage is in its immense size as well as its world-class collection of brands that service different consumers; none of its competitors can match this.

Final Thoughts & Recommendation

We see Carnival as surviving the crisis, but with a huge amount of debt and uncertain growth prospects. We think the dividend will return but at much lower levels than before as earnings have a very tough path forward; until there is some sort of clarity on when the company can resume its normal operations. However, with earnings estimates falling further and with no dividend, total returns are now projected at -0.4%. Given this, and the huge uncertainty surrounding the industry itself, Carnival earns a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	14469	15793	15382	15456	15884	15714	16389	17510	18881	20825
Gross Profit	5377	5494	5062	4811	5463	6267	7006	7009	7792	7916
Gross Margin	37.2%	34.8%	32.9%	31.1%	34.4%	39.9%	42.7%	40.0%	41.3%	38.0%
SG&A Exp.	1614	1717	1720	1879	2054	2067	2197	2265	2450	2480
D&A Exp.	1416	1522	1527	1590	1637	1626	1738	1846	2017	N/A
Operating Profit	2347	2255	1815	1342	1772	2574	3071	2898	3325	3276
Op. Margin	16.2%	14.3%	11.8%	8.7%	11.2%	16.4%	18.7%	16.6%	17.6%	15.7%
Net Profit	1978	1912	1298	1055	1216	1757	2779	2606	3152	2990
Net Margin	13.7%	12.1%	8.4%	6.8%	7.7%	11.2%	17.0%	14.9%	16.7%	14.4%
Free Cash Flow	239	1070	667	685	847	2251	2072	2378	1800	46
Income Tax	1	0	4	-6	9	42	49	60	54	71

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	37490	38637	39161	40104	39448	39237	38881	40778	42401	45058
Cash & Equivalents	429	450	465	462	331	1395	603	395	982	518
Acc. Receivable	248	263	270	405	332	303	298	312	358	444
Inventories	320	374	390	374	349	330	322	387	450	427
Goodwill & Int.	4640	4652	4488	4502	4397	4318	4185	4167	4101	4086
Total Liabilities	14459	14805	15232	15548	15244	15466	16284	16562	17958	19693
Accounts Payable	503	576	549	639	626	627	713	762	730	756
Long-Term Debt	9364	9353	8902	9560	9088	8787	9399	9195	10323	11502
Total Equity	23031	23832	23929	24556	24204	23771	22597	24216	24443	25365
D/E Ratio	0.41	0.39	0.37	0.39	0.38	0.37	0.42	0.38	0.42	0.45

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.3%	5.0%	3.3%	2.7%	3.1%	4.5%	7.1%	6.5%	7.6%	6.8%
Return on Equity	8.8%	8.2%	5.4%	4.4%	5.0%	7.3%	12.0%	11.1%	13.0%	12.0%
ROIC	6.1%	5.8%	3.9%	3.2%	3.6%	5.3%	8.6%	8.0%	9.2%	8.3%
Shares Out.	790	787	778	775	776	772	752	725	699	688
Revenue/Share	17.97	20.02	19.75	19.89	20.42	20.17	21.94	24.15	26.59	30.09
FCF/Share	0.30	1.36	0.86	0.88	1.09	2.89	2.77	3.28	2.54	0.07

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

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