

## Cruise Lines

# CCL and RCL place first newbuild orders since pre-pandemic

Industry Overview

## CCL, RCL place first newbuild orders since pre-pandemic

This week, Carnival (CCL) and Royal Caribbean (RCL) each announced their first newbuild orders since before the pandemic, with deliveries expected in 2027 and 2028, respectively. We expect these newbuilds to contribute an additional 160bps to industry capacity in 2028, with 2028 total capacity nearly 23% ahead of 2019 levels. Given these are the first ships ordered in more than 4 years, cruise industry capacity remains benign through the latter part of this decade with just low-single digit growth until these ships are delivered compared to 5.7% average annual growth from 2015-2019.

## CCL orders tenth Excel-class ship for 2027 delivery

On Tuesday, CCL announced the order of its tenth Excel-class ship across its brands, the fourth to enter the Carnival Cruise Lines fleet, and its first newbuild order placed in five years as lower capital expenditures have been key to CCL's de-levering priorities. This new liquefied natural gas (LNG)-powered newbuild's 6,400 maximum berths is the only newbuild the company has coming in 2026/2027 and is 200-225bps to CCL's 2023 total berth capacity. We expect CCL to begin to fill out its 2028/2029 deliveries over the course of this year.

## RCL orders seventh Oasis-class ship for 2028 delivery

Today, RCL announced the order of its seventh Oasis-class ship to enter the Royal Caribbean International fleet in 2028. While few details of the ship's specifications were disclosed in RCL's announcement, we estimate a berth capacity of 5,600, based on the average capacity of RCL's five Oasis-class ships currently in service and near the capacity of *Utopia of the Seas* (based on double occupancy), which is expected to enter service this spring. We forecast the newbuild's capacity is 420bps to RCL's current capacity and 360bps to our 2026 forecast.

## Financials not disclosed; recent deals serve as precedent

Neither cruise line disclosed financial details related to their respective orders in their announcement. From a financing perspective, RCL's recently announced credit agreement financing the 2025 delivery of *Celebrity Xcel* is the most recent precedent. The deal suggests financing terms of SOFR + 1.45%, in line with the typical favorable financing terms enjoyed by cruise lines, and a 12-year maturity. In their announcement, CCL reiterated its commitment to disciplined deployment of capital as de-levering remains the key priority.

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Equity  
United States  
Cruise Lines

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Timestamp: 15 February 2024 09:00PM EST

## Price objective basis & risk

### Carnival Corporation (CCL, \$15.22, C-1-9)

Our \$23 price objective is based on an EV/EBITDA multiple methodology. We apply a 10x multiple to our 2024E EBITDA estimates, which is in-line with the company's historical average. We believe this is appropriate given an improved fleet mix vs pre-pandemic, normalized earnings power next year, and the ability to de-lever after the pandemic.

Upside risks to our price objective are a faster-than-expected volume / cruise demand recovery, better pricing environment and lower competitive supply. Downside risks to our price objective are an economic slowdown, terrorism/geopolitical events, safety concerns, weaker-than-expected demand recovery.

### Carnival Plc (CUKPF, 1095.5p, C-1-9)

Our GBP 1800p price objective is based on EV/EBITDA multiple methodology. We apply 10x on our FY24E EBITDA. This is slightly below historical average, which we think is appropriate as we use our 2024 estimates (slightly above pre-pandemic levels) and leverage is elevated while reflecting macro risks.

Upside risks to our price objective are a faster-than-expected volume / cruise demand recovery, better pricing environment and lower competitive supply. Downside risks to our price objective are an economic slowdown, terrorism/geopolitical events, safety concerns, weaker-than-expected demand recovery.

### Royal Caribbean Group (RCL, \$117.81 C-2-9)

Our \$135 price objective is based on approximately 10.5x our 2024 EBITDA estimate, which is lower than its historical average of 10.6x. We believe a target multiple below the historical average is appropriate given macro uncertainty, but we see a more balanced risk-reward going forward.

Upside risks to our price objective are a better pricing environment, faster-than-expected recovery in the economy or in cruise demand, and lower competitive supply.

Downside risks to our price objective are an economic slowdown, terrorism/geopolitical events, safety concerns, or a deteriorating net yield environment.

## Analyst Certification

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Air Canada	ACDVF	ACDVF US	Andrew G. Didora, CFA
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	Carnival Corporation	CCL	CCL US	Andrew G. Didora, CFA
	Carnival Plc	CUKPF	CCL LN	Andrew G. Didora, CFA
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	United Airlines Holdings	UAL	UAL US	Andrew G. Didora, CFA
<b>NEUTRAL</b>				
	Frontier Airlines	ULCC	ULCC US	Andrew G. Didora, CFA
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	Royal Caribbean Group	RCL	RCL US	Andrew G. Didora, CFA
	Southwest	LUV	LUV US	Andrew G. Didora, CFA
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	American Airlines Group	AAL	AAL US	Andrew G. Didora, CFA
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	Spirit Airlines	SAVE	SAVE US	Andrew G. Didora, CFA
<b>RSTR</b>				
	Hawaiian Holdings	HA	HA US	Andrew G. Didora, CFA

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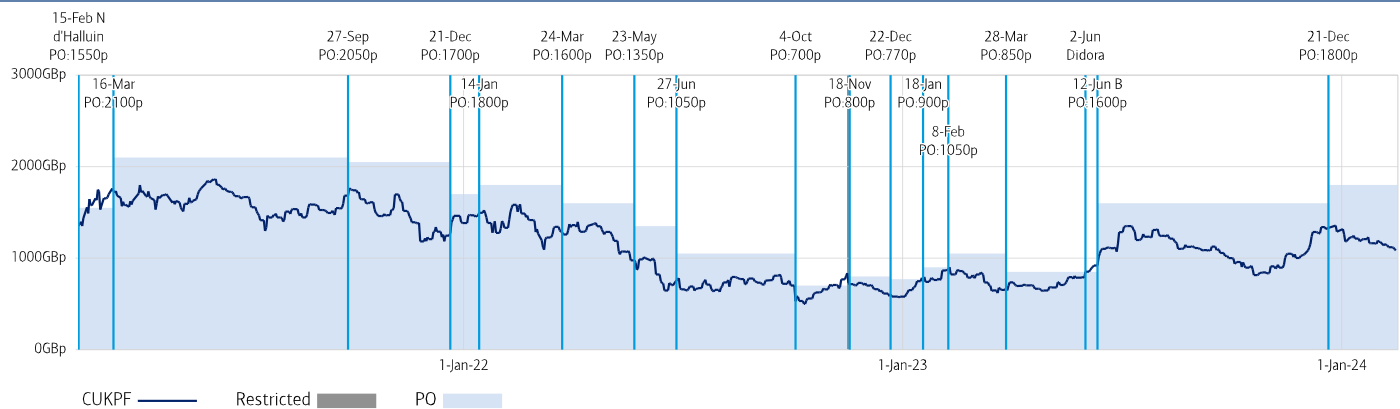
## Important Disclosures

## Carnival (CCL) Price Chart



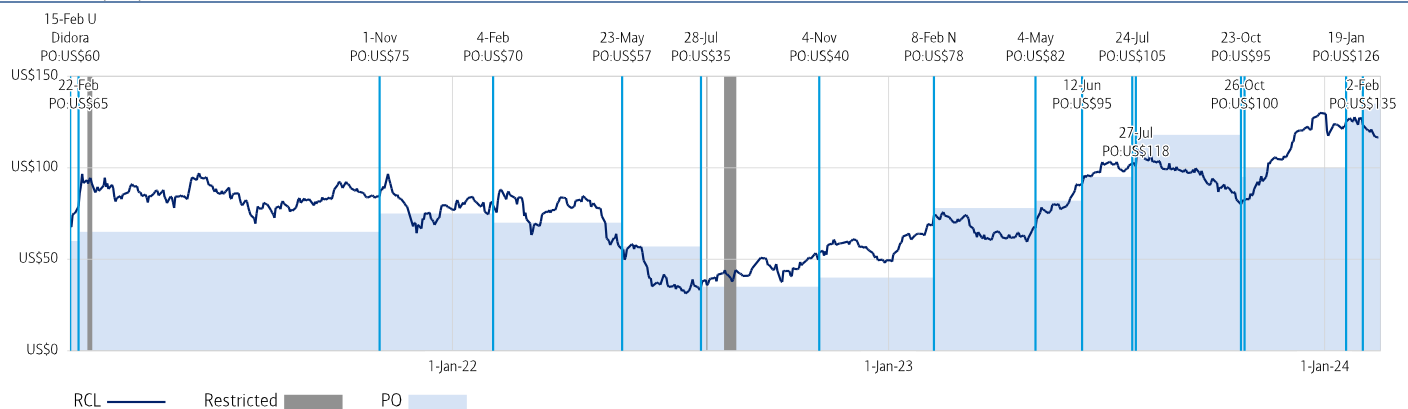
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Carnival (CUKPF) Price Chart**

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**Royal Caribbean (RCL) Price Chart**

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**Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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