

Norwegian Cruise Line Holdings

Modest changes to our estimates despite strong stock move; maintain Neutral

Reiterate Rating: NEUTRAL | PO: 20.00 USD | Price: 19.09 USD

Modest estimate changes despite strong stock move

Norwegian Cruise Line (NCLH) shares were strong at +19.8% on a solid 1Q24 EPS guide of \$0.12 that exceeded our/consensus estimates of \$(0.11)/\$(0.22) despite 4Q23 EPS of \$(0.18) missing our \$(0.07) estimate, Street forecasts of \$(0.13) and guidance of \$(0.15). We make only modest changes to our estimates as 2024 guidance largely met our expectations with our EBITDA forecasts moving higher by 2%. We raise our price objective to \$20 from \$18 while maintaining our Neutral rating on valuation and high balance sheet leverage.

Solid booked position; making progress on costs

NCLH guided to strong 1Q24 net yields of +15.8% as its booked position and pricing see all-time highs (similar to other cruise commentary). Cost management has been a key priority for NCLH, and we think 2024 net cruise costs ex-fuel guidance of +3.0% signifies progress on that initiative, especially when compared to cost-management leader RCL's +3.8% to +4.3% guide. We note that NCLH's cost guidance includes 325bps of costs as the number of drydock days normalize at this point in the recovery.

Deployment mix likely key driver of yield deceleration

Despite a strong 1Q24 yield outlook, NCLH's 2024 yield guidance of +5.5% implies a sharp deceleration in 2Q24, similar to RCL. While we expected to see a level of normalization in yields this year, capacity deployment mix likely further pressures NCLH's yields, most notably as Middle East itineraries, which contribute 4% of total 2024 capacity, are redeployed elsewhere. Further, European sailings contribute a meaningful portion of NCLH's 2Q/3Q capacity (34%/51%), and our [latest cruise pricing survey](#) (see note) shows weaker pricing for the region, especially when compared to Caribbean (7% weaker) and Alaska (10% weaker) sailings.

Reiterate Neutral on modest estimate changes; PO to \$20

We are raising our 1Q24 EPS estimate to \$0.12 from \$(0.11) primarily on stronger yields while our 2024E EPS increases to \$1.28 from \$1.15 as yield growth slows later in the year. Our 2024 EBITDA estimate is only tweaked to \$2,247M from \$2,195M. Our price objective moves higher to \$20 from \$18 on our updated estimates, still based on 10x our 2024E EBITDA less stock-based comp.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(4.64)	0.70	1.28	1.67	2.28
GAAP EPS	(5.41)	0.35	0.98	1.29	2.28
EPS Change (YoY)	42.5%	NM	82.9%	30.5%	36.5%
Consensus EPS (Bloomberg)			1.21	1.67	2.37
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	27.3x	14.9x	11.4x	8.4x
GAAP P/E	NM	54.5x	19.5x	14.8x	8.4x
EV / EBITDA*	NM	11.6x	9.6x	8.7x	7.2x
Free Cash Flow Yield*	-19.4%	-9.2%	11.8%	1.3%	16.0%

* For full definitions of *IQmethod*SM measures, see page 5.

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	18.00	20.00
2024E Rev (m)	9,166.8	9,214.2
2025E Rev (m)	10,021.6	10,012.4
2026E Rev (m)	NA	11,090.8
2024E EPS	1.15	1.28
2026E EPS	NA	2.28

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Stock Data

Price	19.09 USD
Price Objective	20.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-2-9
52-Week Range	12.15 USD - 22.75 USD
Mkt Val (mn) / Shares Out	8,124 USD / 425.5 (mn)
Free Float	98.9%
Average Daily Value (mn)	219.42 USD
BofA Ticker / Exchange	NCLH / NYS
Bloomberg / Reuters	NCLH US / NCLH.N
ROE (2024E)	106.0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter TM	High

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RCL: Royal Caribbean

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Timestamp: 28 February 2024 05:00AM EST

iQprofileSM Norwegian Cruise Line Holdings

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-9.2%	5.6%	7.3%	8.4%	10.4%
Return on Equity	-157.1%	173.9%	106.0%	53.9%	47.4%
Operating Margin	-32.0%	10.9%	13.1%	13.9%	16.7%
Free Cash Flow	(1,574)	(745)	959	105	1,297

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	6.2x	2.5x	2.4x	2.0x
Asset Replacement Ratio	2.2x	3.1x	0.7x	1.9x	1.2x
Tax Rate	0.3%	NM	2.0%	2.0%	2.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	332.7%
Interest Cover	-2.6x	1.3x	1.7x	2.0x	2.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,844	8,550	9,214	10,012	11,091
% Change	647.5%	76.5%	7.8%	8.7%	10.8%
Gross Profit	3,451	6,067	6,652	7,217	7,984
% Change	666.2%	75.8%	9.6%	8.5%	10.6%
EBITDA	(674)	1,861	2,247	2,465	2,976
% Change	60.9%	NM	20.7%	9.7%	20.7%
Net Interest & Other Income	(725)	(768)	(694)	(716)	(682)
Net Income (Adjusted)	(1,964)	321	665	815	1,254
% Change	33.4%	NM	107.2%	22.5%	53.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(2,270)	166	507	667	1,144
Depreciation & Amortization	810	883	905	977	1,036
Change in Working Capital	1,360	809	222	344	340
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	310	147	0	0	0
Capital Expenditure	(1,784)	(2,750)	(675)	(1,884)	(1,223)
Free Cash Flow	-1,574	-745	959	105	1,297
% Change	51.1%	52.7%	NM	-89.1%	NM
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,233	565	(1,244)	345	8

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	947	402	117	567	1,871
Trade Receivables	326	280	280	280	280
Other Current Assets	600	630	849	909	989
Property, Plant & Equipment	14,516	16,433	16,203	17,109	17,296
Other Non-Current Assets	2,168	1,747	1,747	1,747	1,747
Total Assets	18,558	19,493	19,196	20,612	22,184
Short-Term Debt	991	1,745	1,745	1,745	1,745
Other Current Liabilities	4,064	4,294	4,735	5,138	5,559
Long-Term Debt	12,630	12,314	10,923	10,818	10,825
Other Non-Current Liabilities	804	839	839	839	839
Total Liabilities	18,489	19,192	18,242	18,540	18,968
Total Equity	69	301	954	2,072	3,216
Total Equity & Liabilities	18,558	19,493	19,196	20,612	22,184

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Cruise Lines/Holiday Companies

Company Description

Norwegian Cruise Line Holdings is the world's third largest cruise company, and it owns and operates Norwegian Cruise Line, Oceania Cruises, and Regent Seven Seas Cruises. NCLH acquired Prestige Cruise Holdings, the parent company for Oceania and Regent Seven Seas Cruises, in 2014 to diversify into the premium and luxury segments of the market and expand its global footprint. Today, NCLH has 28 ships across all three brands with orders for 9 additional ships through 2027.

Investment Rationale

Cruise lines have taken on considerable amounts of debt in the past few years and we believe a long road ahead remains to de-lever and return to pre-pandemic balance sheets. However, we now see a more balanced risk-reward in the near term across the group given cruise lines are still exposed to macro risks and a potentially slowing consumer and estimates already reflect a return to peak EBITDA in 2023.

Stock Data

Average Daily Volume 11,494,118

Quarterly Earnings Estimates

	2023	2024
Q1	-0.30A	0.12E
Q2	0.30A	0.28E
Q3	0.76A	0.90E
Q4	-0.18A	-0.06E



Price objective basis & risk

Norwegian Cruise Line Holdings (NCLH)

Our \$20 price objective is based on approximately 10.0x multiple on our 2024 estimates. This is a trough multiple below NCLH's long-term average of 11.5x, which we think is appropriate given our 2024 EBITDA is above prior peak levels and NCLH has a balance sheet that would be levered nearly 6.0x at the end of 2024E compared to 3.4x at the end of 2019.

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, and a deteriorating net yield environment.

Analyst Certification

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US - Airlines and Cruise Coverage Cluster

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	Air Canada	ACDVF	ACDVF US	Andrew G. Didora, CFA
	Alaska Air Group	ALK	ALK US	Andrew G. Didora, CFA
	Carnival Corporation	CCL	CCL US	Andrew G. Didora, CFA
	Carnival Plc	CUKPF	CCL LN	Andrew G. Didora, CFA
	Delta Air Lines	DAL	DAL US	Andrew G. Didora, CFA
	United Airlines Holdings	UAL	UAL US	Andrew G. Didora, CFA
NEUTRAL				
	Frontier Airlines	ULCC	ULCC US	Andrew G. Didora, CFA
	Norwegian Cruise Line Holdings	NCLH	NCLH US	Andrew G. Didora, CFA
	Royal Caribbean Group	RCL	RCL US	Andrew G. Didora, CFA
	Southwest	LUV	LUV US	Andrew G. Didora, CFA
UNDERPERFORM				
	Allegiant Travel Company	ALGT	ALGT US	Andrew G. Didora, CFA
	American Airlines Group	AAL	AAL US	Andrew G. Didora, CFA
	JetBlue Airways	JBLU	JBLU US	Andrew G. Didora, CFA
	Spirit Airlines	SAVE	SAVE US	Andrew G. Didora, CFA
RSTR				
	Hawaiian Holdings	HA	HA US	Andrew G. Didora, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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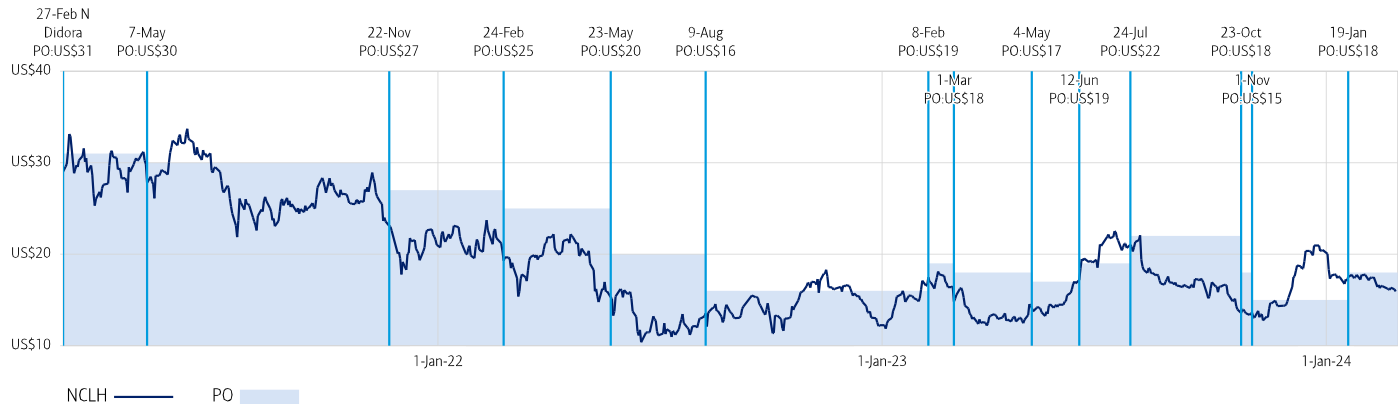
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Norwegian Cruise (NCLH) Price Chart



NCLH — PO

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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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