

Royal Caribbean Group

Solid 2024 outlook with Icon now in service

Reiterate Rating: NEUTRAL | PO: 135.00 USD | Price: 126.96 USD

Solid 2024 outlook with Icon now in service

Royal Caribbean (RCL) posted a solid 4Q23 with EPS of \$1.25 hitting our estimate and ahead of Visible Alpha consensus of \$1.13. RCL guided 1Q24 EPS of \$1.10-\$1.20, in line with our \$1.16 but nicely ahead of consensus at \$0.84 while 2024 EPS guidance of \$9.50-\$9.70 exceeded our/consensus at \$9.38/\$9.20. Demand commentary matched [CCL's recent optimism](#) (see our report) with RCL's trends robust as *Icon of the Seas* enters into service. While some investors were concerned about a 2H24 slowdown in yields, we factored this into our model as trends normalize against tough pandemic recovery comps. Reiterate Neutral.

Demand momentum continues; yields move higher

RCL sees demand momentum continuing with the current booked position ahead of 2023 at higher pricing despite guiding to capacity growth of 8.5% as new ships enter service. We raise our 2024 net yield estimate to +7% from +5%, toward the higher end of guidance, as we see *Icon's* significant contribution to new capacity as price-accretive and private island investments drive stronger spend. As we noted in [our recent report on the impacts to the cruise industry from the situation in the Red Sea](#), RCL's exposure is limited to a few repositioning itineraries transiting through the region, and the company does not expect any re-routings to adversely impact the earnings outlook.

Drydock days drive cost headwinds

Cost guidance ex-fuel of +3.8-4.3% was in-line with our expectations as the drydock days were well-known. Drydock days are a key driver of the cost outlook (315bps headwind) as the year's total is nearly double 2023, the majority of which falling in late 1Q24 and early 2Q24 before returning to more normal levels in 2H24. We change our cost cadence throughout 2024 and raise our 1Q24 cost forecast to +7.5%, to reflect the timing of the drydock days, while our 2024 is largely unchanged at +4.5%.

Reiterate Neutral on valuation; execution remains strong

RCL continues to execute well as industry demand remains strong despite some cost headwinds. We believe the investor concerns around 2H net yield deceleration should have been known but pre-pandemic cruise EV/EBITDA multiples were correlated with net yield growth. Our Neutral rating is based on valuation, but we do raise our price objective to \$135 from \$126 on our updated estimates.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(7.50)	6.69	9.76	11.66	13.37
GAAP EPS	(8.45)	6.08	9.51	11.53	13.37
EPS Change (YoY)	60.9%	NM	45.9%	19.5%	14.7%
Consensus EPS (Bloomberg)			9.16	10.77	12.62
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	19.0x	13.0x	10.9x	9.5x
GAAP P/E	NM	20.9x	13.4x	11.0x	9.5x
EV / EBITDA*	83.8x	12.4x	10.1x	9.2x	8.4x
Free Cash Flow Yield*	-6.8%	1.8%	2.8%	4.4%	9.7%

* For full definitions of *IQmethod™* measures, see page 4.

02 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	126.00	135.00
2024E Rev (m)	15,584.3	15,863.3
2025E Rev (m)	17,014.3	17,155.2
2026E Rev (m)	NA	18,728.9
2024E EPS	9.38	9.76
2025E EPS	11.26	11.66
2026E EPS	NA	13.37

Andrew G. Didora, CFA
Research Analyst
BofAS
+1 646 855 2924
andrew.didora@bofa.com

Samuel Clough
Research Analyst
BofAS
+1 646 855 5193
samuel.clough@bofa.com

Stock Data

Price	126.96 USD
Price Objective	135.00 USD
Date Established	2-Feb-2024
Investment Opinion	C-2-9
52-Week Range	59.37 USD - 133.77 USD
Mrkt Val (mn) / Shares Out (mn)	32,532 USD / 256.2
Free Float	86.5%
Average Daily Value (mn)	292.96 USD
BofA Ticker / Exchange	RCL / NYS
Bloomberg / Reuters	RCL US / RCLN
ROE (2024E)	45.0%
Net Dbt to Eqty (Dec-2023A)	427.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 02 February 2024 05:00AM EST

iQprofileSM Royal Caribbean Group

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-2.4%	9.6%	11.6%	11.7%	11.9%
Return on Equity	-48.1%	49.2%	45.0%	36.2%	29.9%
Operating Margin	-8.6%	20.7%	23.6%	24.4%	24.6%
Free Cash Flow	(2,228)	580	898	1,439	3,168

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	2.4x	1.5x	1.5x	1.6x
Asset Replacement Ratio	1.9x	2.7x	2.0x	2.1x	1.6x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	NM	427.7%	265.2%	172.5%	106.3%
Interest Cover	-0.6x	2.1x	2.8x	3.3x	3.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,841	13,900	15,863	17,155	18,729
% Change	477.0%	57.2%	14.1%	8.1%	9.2%
Gross Profit	6,887	11,089	12,844	13,891	15,166
% Change	470.3%	61.0%	15.8%	8.1%	9.2%
EBITDA	643	4,333	5,350	5,881	6,380
% Change	NM	574.2%	23.5%	9.9%	8.5%
Net Interest & Other Income	(1,392)	(1,173)	(1,076)	(965)	(870)
Net Income (Adjusted)	(1,913)	1,869	2,724	3,255	3,735
% Change	60.5%	NM	45.8%	19.5%	14.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(2,156)	1,698	2,655	3,221	3,735
Depreciation & Amortization	1,407	1,455	1,611	1,686	1,767
Change in Working Capital	973	1,189	(76)	83	488
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	258	135	8	8	8
Capital Expenditure	(2,710)	(3,897)	(3,300)	(3,560)	(2,830)
Free Cash Flow	-2,228	580	898	1,439	3,168
% Change	45.8%	NM	54.9%	60.2%	120.2%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,757	(2,199)	1,567	397	(1,123)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,935	497	2,962	4,798	6,843
Trade Receivables	531	405	405	405	405
Other Current Assets	739	890	890	890	890
Property, Plant & Equipment	27,546	30,114	31,803	33,677	34,739
Other Non-Current Assets	3,025	3,225	3,225	3,225	3,225
Total Assets	33,776	35,131	39,285	42,995	46,102
Short-Term Debt	2,088	1,720	1,720	1,720	1,720
Other Current Liabilities	6,486	7,681	7,605	7,688	8,176
Long-Term Debt	21,303	19,732	21,299	21,696	20,573
Other Non-Current Liabilities	1,031	1,099	1,099	1,099	1,099
Total Liabilities	30,908	30,232	31,723	32,204	31,568
Total Equity	2,869	4,899	7,562	10,791	14,534
Total Equity & Liabilities	33,776	35,131	39,285	42,995	46,102

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Cruise Lines/Holiday Companies

Company Description

Royal Caribbean Cruises, headquartered in Miami, FL, is the world's second-largest cruise company (behind Carnival Corporation). It owns and operates three cruise brands: Royal Caribbean International, Celebrity Cruises, and Silversea, and holds a 50% stake in TUI Cruises, that operates the German brands TUI Cruises and Hapag-Lloyd Cruises. Together, with its global brand and partner brands, RCL operates a total of 61 ships that call on approximately 1,000 destinations on all seven continents.

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 more balanced risk-reward in the near term across the group given cruise lines are still exposed to macro risks and potentially slowing consumer spending and estimates already reflect a return to peak EBITDA in 2023.

Stock Data

Average Daily Volume 2,307,475

Quarterly Earnings Estimates

	2023	2024
Q1	-0.23A	1.25E
Q2	1.74A	2.55E
Q3	3.85A	4.20E
Q4	1.25A	1.76E

Price objective basis & risk

Royal Caribbean Group (RCL)

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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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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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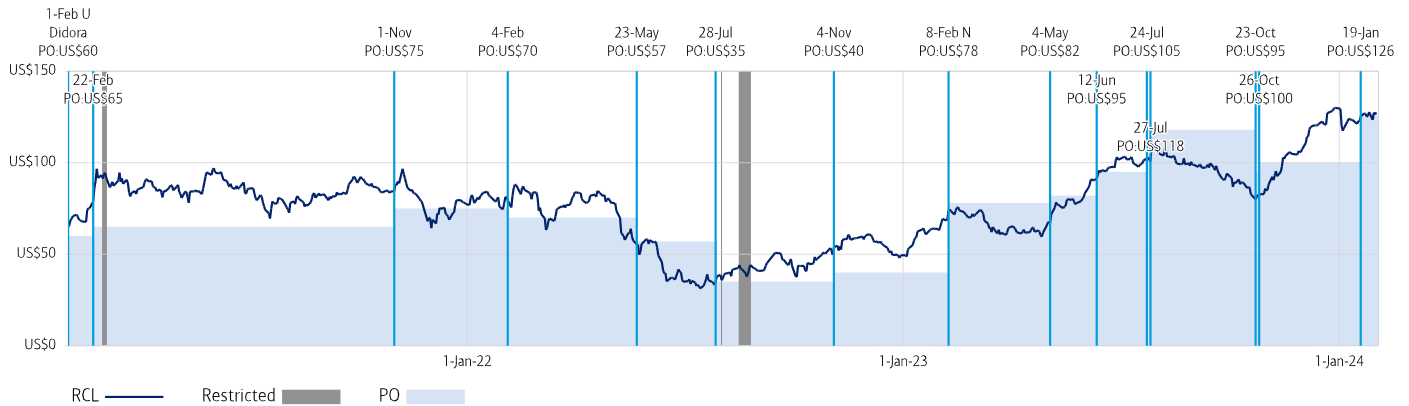
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Royal Caribbean (RCL) Price Chart



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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