

Cruise Lines

Red Sea tensions pose minimal impact to cruise industry right now

Industry Overview

CCL: Rerouting ships, but demand sees historic strength

This morning, CCL released an update on the situation in the Red Sea, announcing the rerouting of 12 ship itineraries across seven brands. These are either around the world sailings or seasonal geographical changes that will largely occur in April and May. CCL expects a \$0.07-\$0.08 negative impact to 2024 EPS (or 1.5-2.0% of EBITDA), with most of the impact expected in 2Q24. That said, CCL noted a strong start to its peak booking period, with both pricing and volumes ahead of 2023 levels. CCL further noted that 1H24 capacity is nearly fully booked, a positive update from the strong booked position that management noted on the 4Q23 earnings call. We have no changes to our estimates and maintain our Buy rating.

RCL: Minimal and manageable Red Sea exposure

Based on our discussions with RCL, the company's itineraries are minimally exposed to the Red Sea, with only a few sailings per year in the region. These crossings are primarily repositioning itineraries as ships transit to different regions of the world based on seasonality, allowing for easier routing adjustments. Based on light Red Sea exposure and continued strong demand for cruise, as telegraphed by CCL's demand update and the positive data from our recent industry surveys, our expectation of strong 4Q23 results is unchanged ahead of RCL's earnings announcement on Thursday ([see our recent note](#)). We maintain our Neutral rating.

NCLH: No exposure through 2024

Based on our conversation with management, NCLH has no exposure to the Red Sea across its brands. Schedules have been adjusted through the end of 2024, with Israeli port stops replaced by stops in Italy in exposed itineraries. All of these changes took place last fall. Accordingly, we do not expect any meaningfully negative financial impact to NCLH stemming from the situation in the Red Sea, and we will look for an update from management on future plans in the region on next month's 4Q23 earnings call. We maintain our Neutral rating.

30 January 2024

Equity
United States
Cruise Lines

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CCL: Carnival

NCLH: Norwegian Cruise Line
Holdings

RCL: Royal Caribbean

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Timestamp: 30 January 2024 11:12AM EST

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CCL	CCL US	Carnival	US\$ 16.50	C-1-9
CUKPF	CCL LN	Carnival	1190p	C-1-9
NCLH	NCLH US	Norwegian Cruise	US\$ 17.75	C-2-9
RCL	RCL US	Royal Caribbean	US\$ 126.09	C-2-9

Source: BofA Global Research

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Price objective basis & risk**Carnival Corporation (CCL)**

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)

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.

Norwegian Cruise Line Holdings (NCLH)

Our \$18 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.

Royal Caribbean Group (RCL)

Our \$126 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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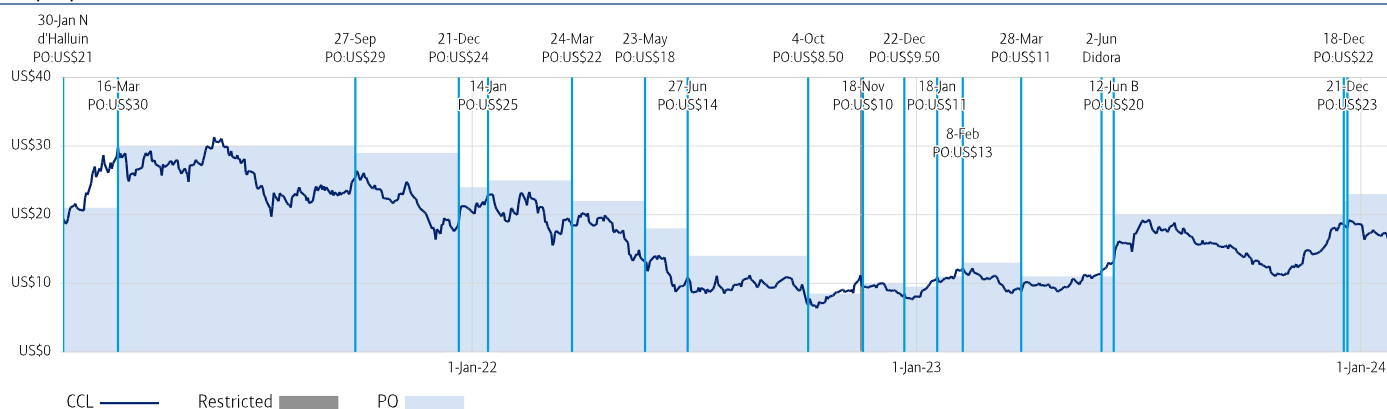
US - Airlines and Cruise Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Air Canada	YAC	AC CN	Andrew G. Didora, CFA
	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

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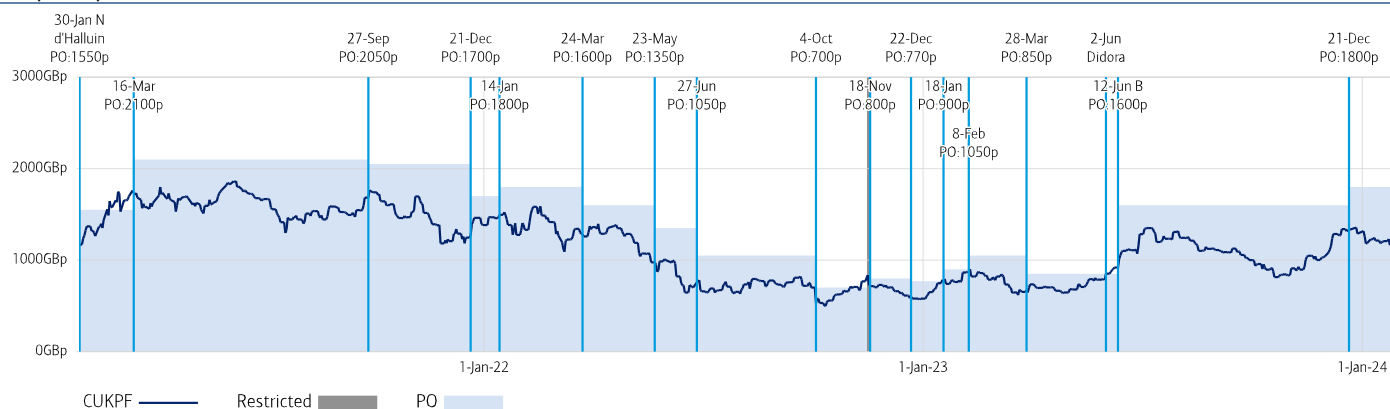
Important Disclosures

Carnival (CCL) Price Chart



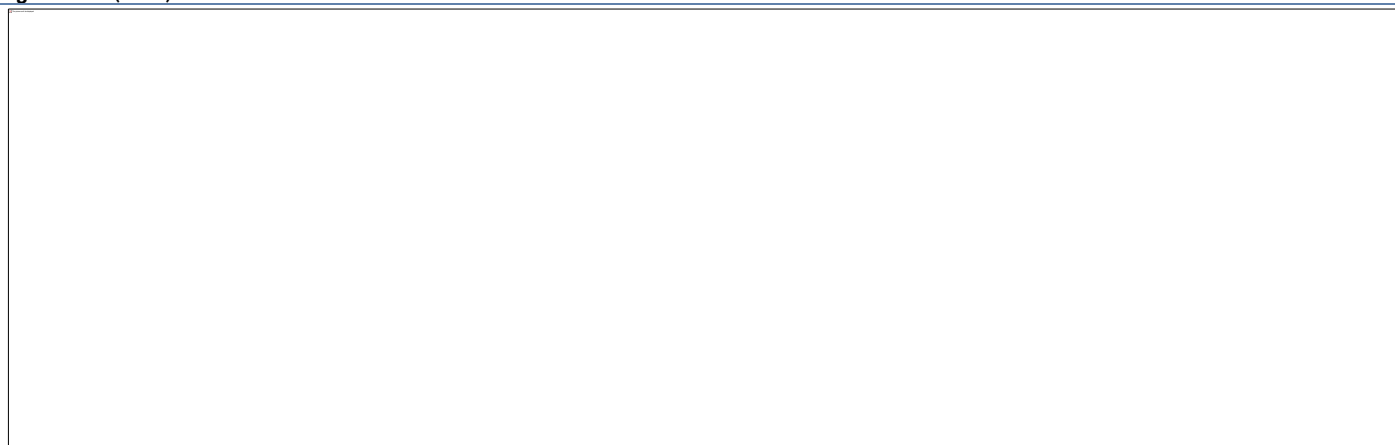
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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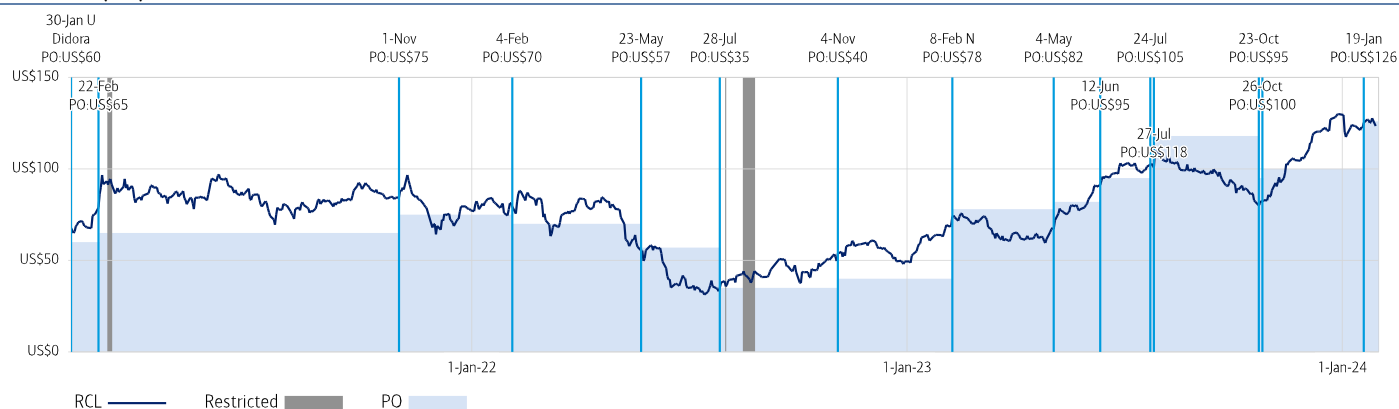
Carnival (CUKPF) Price Chart

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Norwegian Cruise (NCLH) Price Chart

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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

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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
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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