

Cruise Lines

Solid cruise spend, stable pricing survey should lead to positive earnings season

Price Objective Change

Solid cruise spend, stable pricing to lead to solid earnings

Our BAC aggregated credit and debit card data on cruise spend has been solid ([see our note here](#)) while our cruise pricing survey (in the back of this note), which is based on cruise prices pulled in early January, has been stable despite somewhat wide regional variances. Based on these trends and historical seasonality, we see 2-4% upside potential to 4Q23 revenues from RCL/NCLH and have raised our 1Q24 RCL revenue estimate by 5%. We expect continued positive commentary this earnings season with earnings skewed to the upside.

Icon of the Seas pricing is 2.5x other RCI ships

RCL recently took delivery of *Icon of the Seas*, the world's largest cruise ship which management described as RCL's best-selling product in the company's history on the 3Q23 earnings call. We now include *Icon of the Seas* itineraries in our pricing survey ahead of next week's maiden voyage, with sailings seeing an average price premium of 2.5x when compared to other Royal Caribbean International-branded ships we track in the Western Caribbean, reflecting the strength of demand for the product.

RCL: expect upside to 4Q23 and 1Q24 with *Icon* in service

We raise our 4Q23 net yield forecast to 19% above 2019 levels compared to our prior forecast of +15.6% and guidance of +15-15.5%. This results in EPS of \$1.25 compared to guidance of \$1.05-1.10. Given the launch of *Icon of the Seas* in January and the 4Q23 delivery of *Celebrity Ascent*, we raise our 1Q24 net yield estimate to +11% year-over-year from +7.5% and Visible Alpha consensus of +8.4%. For full year 2024, we forecast +8% capacity, +4.5% net yields, +4.2% net cruise costs ex-fuel, and EPS of \$9.38 (compared to guidance of over \$9).

NCLH: 2024 estimates seem reasonable

For 4Q23, we raise our net yield forecast to +10.5% vs 2019 compared to guidance of +7.25-8.25% on the strong trends noted above, resulting in 4Q23 EPS of \$(0.07) vs guidance for \$(0.15). Based on historical seasonality, we believe our 1Q24/2024 net yield estimates of +8.6%/+5.1% seem reasonable and have only slightly tweaked our 2024 forecasts that remain generally in-line with consensus.

Raising multiples and Price Objectives

Given the move lower in rates since early November, we are raising our target multiples on both RCL and NCLH. Given balance sheet leverage remains high for cruise companies (RCL/NCLH 4.7x/7.4x estimated at year end 2023), multiples have had a high correlation with interest rates (see chart inside). For RCL, we are raising our target multiple from 9.5x to 10.5x, in line with its historical average, and results in a new Price Objective of \$126 from our prior \$100. For NCLH, we are raising our target multiple to 10.0x from 9.5x, resulting in our new Price Objective of \$18 from our prior \$15. We believe NCLH should trade at a discount to RCL given higher leverage and slower post-pandemic earnings recovery (revs 23% above 2019 vs RCL 30% above). Buy-rated CCL remains our top pick in the cruise space given cheaper valuation and delevering potential.

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Equity
United States
Cruise Lines

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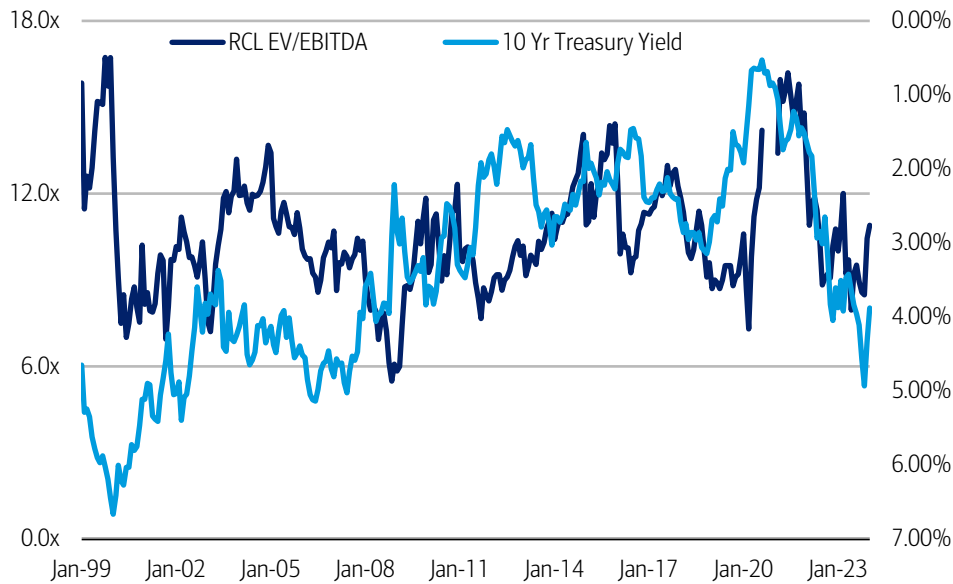
RCL: Royal Caribbean

NCLH: Norwegian Cruise

CCL: Carnival

Exhibit 1: RCL 1-year forward EV/EBITDA multiple vs 10 Yr Treasury

We have found that RCL's EV/EBITDA multiple is inversely correlated to the 10-year treasury yield



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Cruise pricing survey

Methodology

This pricing survey complements our research on [BAC aggregated credit and debit card cruise spending data](#) (see report) that we publish monthly. We track cruise prices in all major regions: Alaska, Asia, Australia, Caribbean, Europe and the Mediterranean, by types of itineraries (such as 5-day, 7-day, and 10-day sailings), types of state rooms (suite, balcony, oceanview, and inside) and departure cities. We believe our pricing checks provide useful insight into month-on-month changes in ticket prices.

Key survey trends in January

Icon driving Western Caribbean strength

Western Caribbean sailings saw the strongest sequential acceleration this month, driven primarily by the inclusion of Icon of the Seas in our survey. By contrast, Eastern Caribbean sailings saw the strongest deceleration, likely driven by shifting consumer preference toward the new product. If we excluded Icon of the Seas from the data, Western Caribbean sailings would have been up a more modest 8% sequentially.

Europe pricing remains weak

Pricing for European sailings fell sequentially for the fourth consecutive month in January. While mild in magnitude compared to other decelerating regions in our survey this month, we note that the region's trend of deceleration is the longest, having decelerated for six of the last eight months. The trend continues to align with the commentary we have heard from airlines of some softening in demand for Europe driven at least in part by geopolitical events.

Alaska momentum stalls as Australia remains volatile

Pricing for Alaska sailings decelerated this month after seeing broad accelerations in both the November and December surveys. By contrast, Australia pricing accelerated significantly this month, more than reversing last month's deceleration as the region remains the most volatile in the region as demand responds to the final relaxing of pandemic restrictions by a major cruise market.

Exhibit 2: Industry sequential price changes by region

Australia sailings saw the greatest strength this month, outside of Western Caribbean where strength was driven primarily by Icon of the Seas

Sequential Change:

	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
E. Caribbean						
Inside	10%	-23%	-7%	1%	15%	8%
Balcony	7%	-17%	-25%	62%	32%	-34%
Oceanview	8%	-6%	-6%	-2%	2%	0%
Suite	3%	4%	-7%	-8%	3%	-5%
Average	7%	-11%	-11%	13%	13%	-8%
W. Caribbean						
Inside	1%	6%	3%	-2%	-4%	1%
Balcony	-16%	21%	1%	-5%	4%	6%
Oceanview	3%	-8%	-1%	-2%	-11%	133%
Suite						
Average	-4%	6%	1%	-3%	-4%	47%*
Alaska						
Inside	-5%	3%	-5%	6%	5%	3%
Balcony	-1%	0%	-10%	15%	1%	-9%
Oceanview	-11%	-8%	-3%	7%	4%	-5%
Suite						
Average	-6%	-2%	-6%	9%	3%	-4%
Europe						
Inside	-4%	0%	6%	-14%	-5%	-1%
Balcony	0%	1%	4%	-4%	0%	-1%
Oceanview	-9%	11%	-27%	2%	-11%	-3%
Suite						
Average	-4%	4%	-6%	-5%	-5%	-1%
Mediterranean						
Inside	-2%	8%	5%	1%	0%	-2%
Balcony	11%	-4%	-2%	9%	2%	0%
Oceanview	-2%	2%	10%	3%	-2%	-6%
Suite	-10%	5%	-29%	51%	-3%	18%
Average	-1%	3%	-4%	16%	-1%	3%
Australia						
Inside	-10%	5%	-29%	51%	-3%	18%
Balcony						
Oceanview	55%	-44%	26%	-46%	-25%	32%
Suite	-1%	-3%	4%	-1%	3%	4%
Average	15%	-14%	0%	1%	-8%	18%
Asia						
Inside	3%	7%	5%	3%	6%	-6%
Balcony	-1%	-3%	4%	-1%	3%	4%
Oceanview						
Suite	-6%	-3%	8%	-7%	3%	-6%
Average	-1%	0%	6%	-2%	4%	-3%

*Our Western Caribbean survey now includes RCL's Icon of the Seas

Source: BofA Global Research, Cruiseline.com

BofA GLOBAL RESEARCH

Exhibit 3: CCL sequential price changes by region

Pricing for CCL's Australia sailings saw the greatest sequential increase this month

Carnival Corporation	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
E. Caribbean						
Inside						
Balcony						
Oceanview	8%	-6%	-6%	-2%	2%	0%
Suite						



Exhibit 3: CCL sequential price changes by region

Pricing for CCL's Australia sailings saw the greatest sequential increase this month

Carnival Corporation	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
Average	8%	-6%	-6%	-2%	2%	0%
W. Caribbean						
Inside	1%	6%	3%	-2%	-4%	1%
Balcony						
Oceanview						
Suite	4%	-5%	-2%	0%	1%	-1%
Average	3%	0%	1%	-1%	-1%	0%
Alaska						
Inside	-4%	0%	0%	4%	-2%	1%
Balcony	-2%	-1%	-3%	-2%	-1%	4%
Oceanview						
Suite						
Average	-3%	-1%	-2%	1%	-2%	2%
Europe						
Inside	4%	20%	-5%	3%	0%	1%
Balcony	4%	-2%	6%	5%	5%	-3%
Oceanview	4%	-2%	6%	5%	5%	-3%
Suite						
Average	4%	5%	2%	4%	3%	-1%
Mediterranean						
Inside						
Balcony						
Oceanview	-2%	2%	10%	3%	-2%	-6%
Suite	-15%	-23%	-4%			
Average	-9%	-11%	3%	3%	-2%	-6%
Australia						
Inside	-10%	5%	-29%	51%	-3%	18%
Balcony						
Oceanview						
Suite						
Average	-10%	5%	-29%	51%	-3%	18%
Asia						
Inside						
Balcony	-1%	-3%	4%	-1%	3%	4%
Oceanview						
Suite						
Average	-1%	-3%	4%	-1%	3%	4%

Source: BofA Global Research, cruiseline.com

BofA GLOBAL RESEARCH

Exhibit 4: RCL sequential price changes by region

Pricing for RCL's Western Caribbean sailings excluding Icon of the Seas would have been up +17% sequentially

Royal Caribbean	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
E. Caribbean						
Inside						
Balcony	7%	-17%	-25%	62%	32%	-34%
Oceanview						
Suite	3%	4%	-7%	-8%	3%	-5%
Average	5%	-7%	-16%	27%	18%	-20%
W. Caribbean						
Inside						
Balcony						
Oceanview	3%	-8%	-1%	-2%	-11%	133%
Suite						

Exhibit 4: RCL sequential price changes by region

Pricing for RCL's Western Caribbean sailings excluding Icon of the Seas would have been up +17% sequentially

Royal Caribbean	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
Average	3%	-8%	-1%	-2%	-11%	133%*
Alaska						
Inside						
Balcony	-1%	3%	-18%	36%	-1%	-19%
Oceanview	-11%	-8%	-3%	7%	4%	-5%
Suite						
Average	-6%	-3%	-10%	22%	1%	-12%
Europe						
Inside	-4%	5%	16%	-28%	-10%	-3%
Balcony	-17%	19%	-17%	1%	-13%	-3%
Oceanview	-9%	11%	-17%	1%	-13%	-3%
Suite						
Average	-10%	12%	-6%	-9%	-12%	-3%
Mediterranean						
Inside	-14%	13%	17%	10%	0%	-4%
Balcony	11%	-4%	-2%	9%	2%	0%
Oceanview						
Suite						
Average	-2%	4%	8%	9%	1%	-2%
Australia						
Inside						
Balcony						
Oceanview						
Suite	-13%	11%	1%	7%	-9%	-31%
Average	-13%	11%	1%	7%	-9%	-31%
Asia						
Inside	7%	14%	8%	3%	6%	-2%
Balcony						
Oceanview						
Suite	-6%	-3%	8%	-7%	3%	-6%
Average	0%	6%	8%	-2%	4%	-4%

*Our Western Caribbean survey now includes RCL's Icon of the Seas

Source: BofA Global Research, cruiseline.com

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Exhibit 5: NCLH sequential price changes by region

Pricing for NCLH's Asia sailings saw the greatest sequential increase this month

Norwegian Cruise Line	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
E. Caribbean						
Inside	10%	-23%	-7%	1%	15%	8%
Balcony						
Oceanview						
Suite						
Average	10%	-23%	-7%	1%	15%	8%
W. Caribbean						
Inside						
Balcony	-16%	21%	1%	-5%	4%	6%
Oceanview						
Suite						
Average	-16%	21%	1%	-5%	4%	6%
Alaska						
Inside	-5%	4%	-7%	7%	8%	3%
Balcony						
Oceanview						



Exhibit 5: NCLH sequential price changes by region

Pricing for NCLH's Asia sailings saw the greatest sequential increase this month

Norwegian Cruise Line	8/1/2023	9/1/2023	10/1/2023	11/1/2023	12/1/2023	1/1/2024
Suite						
Average	-5%	4%	-7%	7%	8%	3%
Europe						
Inside						
Balcony	0%	-1%	10%	5%	-4%	0%
Oceanview						
Suite	1%	-6%	6%	-10%	3%	1%
Average	1%	-3%	8%	-3%	0%	1%
Mediterranean						
Inside	0%	5%	6%	-3%	0%	-1%
Balcony						
Oceanview						
Suite				1%	-1%	2%
Average	0%	5%	6%	-1%	-1%	1%
Australia						
Inside						
Balcony						
Oceanview	55%	-44%	26%	-46%	-25%	32%
Suite						
Average	55%	-44%	26%	-46%	-25%	32%
Asia						
Inside	-7%	-12%	-12%	-15%	5%	37%
Balcony						
Oceanview						
Suite						
Average	-7%	-12%	-12%	-15%	5%	37%

Source: cruiseline.com, BofA Global Research

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Exhibit 6: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CCL	CCL US	Carnival	US\$ 17.28	C-1-9
CUKPF	CCL LN	Carnival	1234.5p	C-1-9
NCLH	NCLH US	Norwegian Cruise	US\$ 17.51	C-2-9
RCL	RCL US	Royal Caribbean	US\$ 125.28	C-2-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

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

I, Andrew G. Didora, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

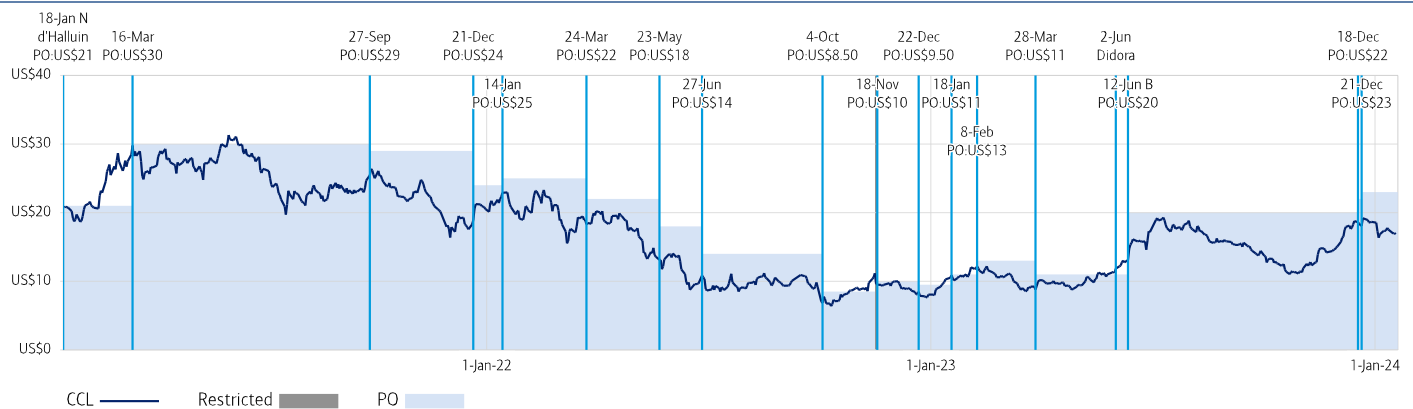
US - Airlines and Cruise Coverage Cluster

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

Disclosures

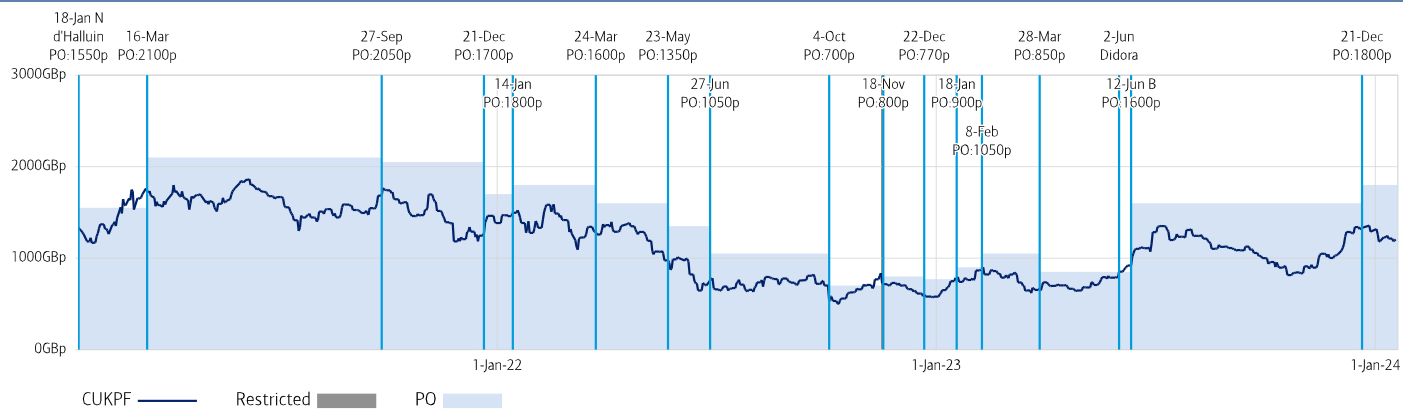
Important Disclosures

Carnival (CCL) Price Chart



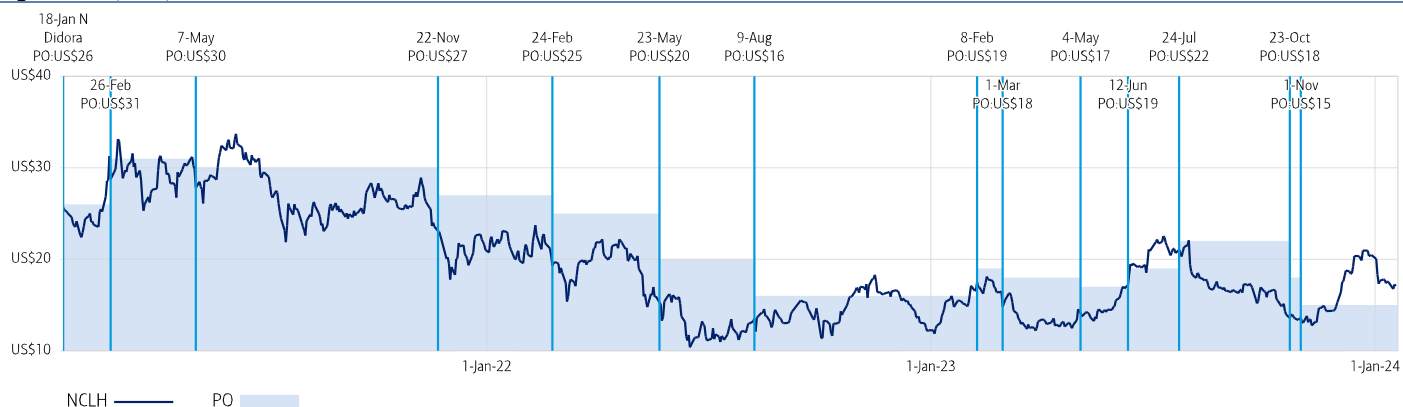
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

Carnival (CUKPF) Price Chart

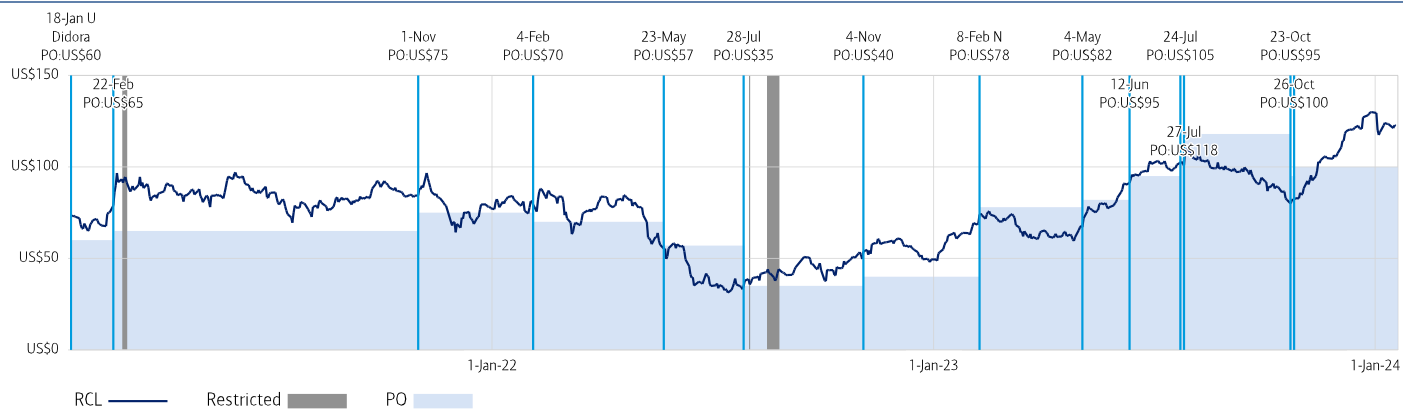
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

Norwegian Cruise (NCLH) 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.

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Carnival, Norwegian Cruise, Royal Caribbean.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Carnival Corporation, Royal Caribbean.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Carnival Corporation, Carnival Plc, Royal Caribbean.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Carnival Corporation, Carnival Plc, Norwegian Cruise, Royal Caribbean.

The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Carnival Corporation, Carnival Plc, Norwegian Cruise, Royal Caribbean.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Carnival Corporation, Carnival Plc, Royal Caribbean.

BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: Carnival Corporation, Carnival Plc, Royal Caribbean.

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