Carnival Corp
CCL: XNYS (USA)

View Stock Summary

Morningstar Rating for Stocks	Fair Value	Economic Moat	Capital Allocation
★★★★★	$27.50	Narrow	Standard

Rerating Carnival's Moat to Narrow as Brand Continues To Carry Relevance With Consumers

Jaime M Katz • Jan 11, 2024

Share

Business Strategy and Outlook

Carnival remains the largest company in the cruise industry, with nine global brands and 92 ships at the end of fiscal 2023. The global cruise market has historically been underpenetrated, offering cruise companies a long-term demand opportunity. Additionally, the repositioning and deployment of ships to faster-growing and underrepresented regions like Asia-Pacific had helped balance the supply in high-capacity regions like the Caribbean and Mediterranean prior to the pandemic, a factor which the firm can again utilize to help optimize forward pricing. With an European demand profile that has recently returned to normalized levels, we believe there is plenty of support for improving economic performance at Carnival.

Since consumers resumed cruising in summer 2021 (after a year-plus no-sail halt), cruise operators have been able to reassure passengers of both the safety and value propositions of cruising, all while offering a holiday product at 25%-50% less than land-based alternatives. We expect this discount to shrink over time, bolstering pricing growth as Carnival lifts pricing toward parity aided by the firm's brand intangible asset. This, along with full occupancy and little near-term price pressure, sets Carnival up for medium-term yield gains. On the expense side, with ongoing cost optimization initiatives and rationalized spending on pandemic protocols, spending should be well managed, resurrecting a cost edge. However, higher-than-normal dry dock days along with foreign exchange headwinds could crimp profitability intermittently.

These above factors should lead to average returns on invested capital including goodwill, that will again surpass our 10% weighted average cost of capital estimate. While we don't expect this to occur until 2027, we project earnings before interest to return to prepandemic levels by 2026. Although we believe Carnival has carved out a broad offering across demographics, the product still has to compete with other land-based vacations and discretionary spending for share of wallet, bounding our moat rating to narrow.

Bulls Say, Bears Say

Bulls

As Carnival continues to optimize occupancy, passenger counts and yields could rise at a faster pace than we currently anticipate.

A more efficient fleet composition (after pruning 26 ships between 2020-22) may benefit the cost structure to a greater degree than initially expected, with the fleet at full deployment.

Despite a temporary pause in Asia-Pacific, a return to the market remains promising after COVID-19, as the four largest operators had capacity for nearly 4 million passengers in 2020, signaling an opportunity for long-term growth with a returning consumer base.

Bears

The media accessing negative experience commentary regarding cruise incidents could weigh on Carnival's brand image and pricing leverage, making new cruisers hesitant to try cruising. A decrease in new cruisers leads to fewer repeat cruisers.

Higher commodity prices, particularly in energy, could affect profitability, especially as firms maintain compliance with IMO 2020 guidelines and face an EU emissions tax.

New COVID-19 variants, the reinstitution of no-sail orders, geopolitical concerns, or border closures could further pressure profits, leading to additional liquidity concerns.

Financial Strength

我们认为，嘉年华已确保充足的流动性，以便在宏观经济不确定性导致需求疲软的情况下不受干扰地运营，截至 2023 年 11 月底，嘉年华拥有约 24 亿美元的现金和投资，总流动性超过 50 亿美元。这应有助于为任何现金需求提供资金随着船队的部署，在疫情爆发初期，嘉年华每月的

现金消耗约为 5 亿美元或更多。自疫情爆发以来，该公司债务总额已达 310 亿美元，高于 2019 年底的约 120 亿美元。

我们认为，该公司的重点是尽快合理地减少偿债，以减少未来的利息支出。它还积极寻求延长期限，限制了短期偿债的现金需求。只要资本市场继续正常运转，我们预计短期内不会出现迫在眉睫的信贷紧缩。由于嘉年华可以获得 21 亿美元的多币种循环信贷额度，因此流动性仍然充足。

此外，为了释放现金来支持运营支出，嘉年华在 2020 年取消了股息（2019 年为 14 亿美元）。资产负债表上还有 64 亿美元的活期客户存款，提供了可用于运营业务的营运资金，表明邮轮需求仍然存在。股票市场也一直在适应，该公司于 2022 年 7 月促成了 10 亿美元的股权融资，这表明仍然可以获得现金，尽管我们认为嘉年华不会影响短期内进一步的股票发行。

经济护城河

在 COVID-19 大流行开始时取消嘉年华的护城河指定后，我们正在恢复对嘉年华的狭窄护城河评级，因为我们看到 10 年内超额经济租金的前景。我们认为嘉年华的护城河源于三个来源，包括高效规模、品牌无形资产和成本优势。考虑到封锁持续时间和对投资回报率的影响的不确定性，我们将护城河评级定为“无”。然而，最近的表现以及我们预测的前景表明，ROIC 应该会比我们预测的大流行前时期更好，在我们预测结束时达到 18%，而 2019 年为 10%（当时该公司此前持有狭窄的护城河评级））与我们的 10% 加权平均资本成本估算相比。

首先，我们认为有效规模是一个关键的护城河来源，这在邮轮业等资本密集型行业中往往很明显。这是由于船舶成本（新建船舶的成本高达 10 亿美元）、运营商的资本需求增加以及业务固定成本较高（我们估计超过三分之二的成本固定在船舶上）。短期）。

此外，我们认为，进入高效规模护城河来源的贷款存在重大障碍。我们认为，新进入者不太可能通过出口信贷便利获得廉价融资，从而导致造船成本过高。出口信贷机构（ECA）提供贷款、担保和保险，帮助当地公司（造船商）限制向国外销售商品和服务的风险。交易对手风险较低，利息成本也较低。例如，嘉年华为其大部分船舶融资支付 3% 或更少的利率；像丽思卡尔顿（Ritz Carlton）（目前隶属于狭窄护城河的万豪酒店）等规模较小的企业，往往会利用公开市场进行新船融资，支付更高的利率，从而降低了短期回报。这些融资合作伙伴在疫情期间采取了宽松的态度，在行业无法运营的情况下推迟了分期付款。除了为与造船厂合作的人员提供特殊融资外，全球造船能力有限，使得新船队的快速发展几乎不可能。嘉年华目前已订购三艘船舶，预计在 2025 年之前交付，而维珍和迪士尼等品牌分别只有一艘和两艘在同一时间段内排队等待交付。

有效规模的进一步证据源于沉没成本和历史先例。正如 11 月 30 日的资产负债表所示，嘉年华已经在净财产、厂房和设备（PP&E）上投资了 400 亿美元，这证明了其在促进运力和乘客增长的同时保持行业中流砥柱所需的雄厚财力。其中船舶、船舶改良、在建船舶占多数。此外，对于新进入者，我们的方法表明，如果一个市场在较长一段时间内几乎没有进入或退出，则更有可能出现有效规模，这是邮轮行业多年以来的特征。嘉年华在 2016 年占全球市场份额的 44%，而到 2022 年，即使考虑到自疫情大流行以来报废或出售的近 30 艘船舶，嘉年华仍占据约 40% 的

市场份额，这巩固了我们以有效规模支撑其狭窄护城河的立场。 ——考虑到前面提到的限制，我们认为没有什么迹象表明其未来的立场会发生改变。

我们还认为嘉年华拥有品牌无形资产优势，主要体现在定价能力、行业集中度以及影响购买决策的风险规避上。在大流行之前和之后的几年里，邮轮运营商的定价能力更加一致。嘉年华在 2023 年接近 2019 年的每日净收益率，并将在 2024 年超过疫情前的定价。这五年的定价转变比上次行业低迷要快得多——到 2019 年，嘉年华仍未恢复到 2008 年的价格，尽管11年过去了。此外，我们认为嘉年华的定价每年应该能够比我们的预测增长约 3%，略高于该公司在疫情爆发前五年内实现的 1%，并且高于晨星公司预计的低于 2% 的通货膨胀率。 2024-27 年间通胀增长。

我们认为，这是更好的收入管理系统、更动态的定价以及根据产品的品牌、行程和价格点按收入和年龄人口逐步加强营销的副产品。而且，从采购的角度来看，嘉年华处于独特的地位，可以利用全球需求的波动，通过关注对旅行最健康的消费地区来最大化价格。该公司来自北美以外地区的乘客比例最高，为 35%，尽管考虑到嘉年华产品线提供的本地化品牌（例如德国的 Aida 和意大利的 Costa），这一指标历来接近 45%。我们预计，当全球经济和政治环境稳定时，国际采购客户的比例将再次回升。这使得嘉年华能够将船舶重新分配到在任何特定时间拥有最具弹性消费模式的乘客的市场。

此外，我们认为，在过去五年中，避免打折来填满船舶并转向以营销为中心的策略已经为整个行业的定价带来了更加理性的思路。挪威航空前任首席执行官弗兰克·德尔·里奥（Frank Del Rio）率先实施了市场填补战略，他更愿意强调公司独特的产品，而不是降低价格以最大限度地提高

入住率。这一策略有助于向消费者明确传达这样的信息：为了获得最优惠的价格和选择的房间，尽早预订是最好的策略，并且随着启航日期的临近，价格可能会上涨，舱位选择也会受到限制。此外，为了防止需求减弱期间的价格压力，该公司改变了策略，在产品包装中添加甜味剂（例如短途旅行或水疗积分），以吸引消费者加入，表面上保持了总价格不变。利用这种捆绑机制有助于设定消费者对定价的预期——如果没有系统性折扣，每日定价就不可能像过去那样波动。这可以更好地保护周期性疲软时期的回报，我们认为这是整个行业的普遍目标。

考虑到邮轮回头客的比例以及旅行者不愿尝试具有不同体验的另一品牌的厌恶，我们认为对于那些已经在现有邮轮品牌之一上进行过令人满意的旅行的人来说，粘性是存在的。相比之下，连锁酒店运营商平均约 50% 的间夜由忠诚会员预订，约为嘉年华略高于 50% 的回头客（最新披露时间为 2021 年）。嘉年华占据的领先市场份额（按泊位计算）就证明了这一点。如前所述，近年来这种情况没有发生重大变化。鉴于该船已经在订单簿上建造，我们预计这种情况在未来十年不会发生重大变化。我们推测嘉年华将继续通过其旨在通过在干船坞增强产品来提升品牌的资本支出计划来推动相关性。近年来重新投入现有市场的最近翻新船舶的稳健性能证明了这一点，与干船坞前的性能相比，产量提高了（通常比现有硬件高个位数或更高）。

Lastly, we think Carnival holds a cost advantage moat source benefiting from proximity, buying power, and low-cost financing. As Carnival home ports well-demanded ships in more locations outside of the traditional Florida market, they are closer and more accessible to potential consumers, which should support a stable growth rate of new cruisers. Currently, Carnival has 18 U.S. port choices to embark from, helping reach a significantly higher proportion of the population. For example, the populations of the greater Los Angeles area (around 13 million), New York (24 million), and Seattle (4 million) together represent 41 million potential travelers, more than 12% of the U.S. population, and represent key markets Carnival has home ported ships.

More passengers provide broader scale benefits for the cruise companies, allowing for the delivery of the product at a cost lower than its smaller peer group. Prior to the pandemic, Carnival paid a mid-20% level of net cruise costs on SG&A, while Lindblad, a publicly listed competitor with 17 ships (with capacity under 150) spent more than 50%, indicating that size provides scale efficiency gains. In our opinion, limited global shipbuilding capacity should keep Carnival relatively larger than numerous other operators over the long term, keeping the cost spread wide. Furthermore, below the line, debt financing costs will provide another cost edge to Carnival, as cheaper ship funding through the earlier discussed ECAs will facilitate lower relative interest rates to the peer set. We don’t expect this option to disappear as its purpose is to incentivize foreign companies to support employment in certain industries (shipbuilding). The incumbent cruise operators have articulated such a factor is imperative to continue to participate in new orders.

Fair Value and Profit Drivers

We are lifting our per share fair value estimate for Carnival to $27.50 from $24, stemming from multiple changes to our model. On the plus side, roughly $7 is attributable to a longer stage 2 time horizon associated with a narrow moat rating. However, this was partially offset by slower long-term capacity growth of 2.5% (versus 2.7% prior) in the latter half of our forecast, and nudged up costs per diem (just under 2% from 1.5% prior).

Our other long-term estimates remain unchanged from Carnival's fourth quarter update. At that time, we incorporated continued momentum in consumer interest for the cruise product. For 2024, Carnival offered an outlook for net yield growth of 8.5%, above the 6% we forecast previously. With two thirds of capacity already booked for the year ahead, we see little risk to pricing growth expectations over the next few quarters, as consumers are still booking farther out than in the past, leaving a whopping $6.4 billion in customer deposits on hand. The cost outlook for 2024 was in line with our 4.4% increase excluding fuel, which is higher than optimal, but is impacted by 586 drydock days and modest inflationary pressures (together around 4%).

With cruisers back to traveling in full force, Carnival should see 2024 pricing surpass 2019 levels, as future cruise credits are in the rearview window and consumers continue to seek experiences that provide value. As demand normalizes longer term, we think pricing could grow at a low-single-digit clip (averaging around 3% between 2024 and 2033) as willingness to socially gather remains. We see total costs rising around 2% on average over the next decade.

With the industry back in operation, opportunities to improve Carnival's operating margins should surface; this includes increased scale as occupancy is maximized, improved brand awareness via tactical marketing spend, and better profitability as a result of mix (with numerous underperforming ships sold or scrapped since the beginning of the pandemic), which should increase adjusted EBITDA margins around 29% at the end of our forecast. This is higher than the 27% EBITDA average the company was able to achieve in the five years ending 2019.

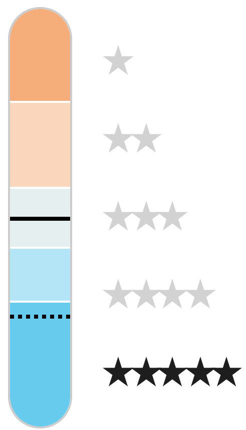
Carnival has generated ROICs including goodwill around our weighted average cost of capital assumption of 10% between 2016 and 2019 (coming in at 10.4% in 2017) thanks to improving brand equity, the expansion of the yield management platform (to facilitate strategic pricing), and strict cost containment; however, we expect this metric to remain a bit depressed as a result of a high invested capital base (due to significant capital raises during the pandemic) and don't anticipate the metric will surpass our WACC until 2027.

Price vs Fair Value View History

CCL is trading at a 46% discount.

Fair Value
$27.50
Jan 11, 2024
Uncertainty
High

Price
$14.78
Feb 26, 2024



1-Star Price	$42.63
5-Star Price	$16.50
Economic Moat	Narrow
Capital Allocation	Standard

Terms

Risk and Uncertainty

Despite the fleet being redeployed, we still rate Carnival's Uncertainty as High, given the cyclical nature of the business. Carnival faces a number of risks that may affect its value. First, self-inflicted headline and media risk could frame the business poorly, as it did in 2012-13; however, while Carnival implemented a plethora of measures to prevent self-imposed future mishaps from weighing on the business performance, it had been more difficult to escape the fallout from COVID-19 (despite it being an exogenous event). Carnival could be subject to higher product governance costs as the firm maintains improved quality and safety controls as a result of COVID-19, which we capture in our forecast. Second, global economic and political uncertainty could be problematic (for example, the Russia-Ukraine and Israel-Hamas conflicts). Further uncertainty surrounds eurozone economics, financial austerity, and terrorism incidents.

Changes to maritime rules could also impact Carnival's business. In the past, cruise operators have had to reduce sulfur emissions. In response, Carnival had implemented scrubber technology onto much of its existing fleet to ensure compliance with global rules. But this retrofitting came at an explicit cost. While some new ships ordered are set to be powered by LNG, which is better suited to sulfur emission rules, Carnival could be subject to costly environmental compliance when global rules change again.

From a macro perspective, if global economic growth slows, exacerbated as a result of another pandemic or persistent inflation, capturing the same allocation of discretionary dollars as in the past will likely be more difficult than in prior periods. Additionally, a longer-term concern is that changes to the company's tax status under the U.S. Internal Revenue Code could affect profitability.

Capital Allocation

Our Capital Allocation Rating for Carnival is Standard. Forecast adjusted returns on invested capital, including goodwill (10% on average over the next five years) are set to align with our weighted cost of capital estimate (at 10%) over the next few years. The balance sheet is on the mend after COVID-19, considering the company's high revenue cyclicality and operating leverage. Just 14% of the company's $31 billion debt load is coming due between 2024-25, leaving lower liquidity concern now that the firm has returned to profitability. We expect the net debt/EBITDA multiple to fall back under 4 times in 2026, improving the financial flexibility of the balance sheet.

From a leadership perspective, prior Chief Operating Officer Josh Weinstein took the helm at Carnival in August 2022, while prior CEO Arnold Donald moved to vice chairman of the board (Micky Arison remains chairman of the board). We generally prefer the separation of the chairman and CEO roles to promote independence and believe Arison, Donald, and Weinstein will continue to bring tremendous experience and insights regarding forward strategies for the company, so the evolution of leadership is viewed favorably. Given the slow global resumption of sailing, most significant investments were via drydocks as ships came out of layup, but we expect this spend will continue in 2024 in support of elevated brand investments. Historically, the most significant investment has stemmed from the purchase of new ships and refurbishments of the existing fleet.

Furthermore, we deem cash distributions as appropriate, with the management team returning capital to shareholders when optimal. As such, it suspended share repurchases early in the COVID-19 cycle and eliminated dividends. In considering the condition of the balance sheet, we don't expect either effort to resume until 2026, as debt paydown will likely take precedence for the use of excess cash.

SHARE THIS REPORT

Company Report Archive

View All

Company Report

Rerating Carnival's Moat to Narrow as Brand Continues To Carry Relevance With Consumers

Jaime M Katz • Jan 11, 2024

Stock Analyst Note

Carnival, Royal Caribbean, and Norwegian Capture Narrow Moats With Better ROICs in View

Jaime M Katz • Jan 11, 2024

Company Report

Carnival Sailing Into Wave Season With Robust Booking Profile Intact, Signaling Solid Travel Demand

Jaime M Katz • Dec 26, 2023

MORNINGSTAR

© Copyright 2024 Morningstar, Inc. All rights reserved. Dow Jones Industrial Average, S&P 500, Nasdaq, and Morningstar Index (Market Barometer) quotes are real-time.

United States