

Company Overview

Figure 1. RCL guests distribution by geography

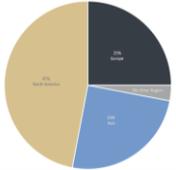
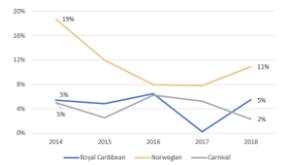


Figure 2. Industry Leaders 5-Year passenger growth (% y-o-y)



Royal Caribbean Cruises Ltd operates diversified cruise lines in over 1000 destinations in the world spanning across 126 countries and 7 continents. It has established itself as the world's second largest cruise line, with acquisitions that supports its expansion into developing market. In July 2019, RCL obtained 67% stake in luxury-tier Silversea which allowed for exotic premium itineraries that can cost as much as \$240,000 per person.

(\$ M)	FY17A	FY18A	FY19E	FY20E
Revenue	8,777.8	9,493.8	10,988.9	11,796.6
Net Income	1,605.0	1,857.4	2,022.3	2,228.5
NI Gr Rate (%)	22.8	15.73	8.88	10.2
Profit Margin (%)	18.29	19.56	18.40	18.89
ROA (%)	7.2	6.8	7.3	7.9
ROE (%)	15.0	15.9	15.4	15.1
EV/EBITDA	12.34	10.54	9.16	8.34
EPS	7.44	8.78	9.64	10.63
P/E Ratio	15.32	10.86	11.12	12.53
D/E	70.9	91.8	85.5	83.9

Investment Thesis

Figure 5. Market Share by Companies

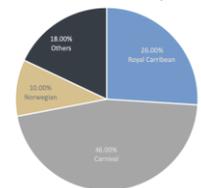
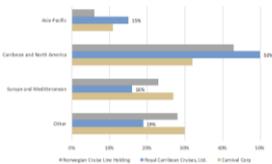


Figure 6. Cruise Line Deployment for 2019



- RCL has consistently delivered higher operating margins against peers** amidst an industry-wide push toward launching mega-ships to increase revenue growth. Margin gap is set to widen with incorporation of zero emission, and highly efficient ABB fuel cells incorporated in ships released in 2020. This will lead to future cost savings and hence drive future expansion of margins.
- Well positioned to capture APAC growth.** RCL's APAC deployment stands at 15% total deployment, highest amongst competitors. In 2018, APAC revenues represented 16% total revenue vs CCL's APAC revenue at 13%. Focus in the Asian region counters lower passenger count due to Northern Hemisphere seasonal cycles. APAC cruise 5-year passenger growth CAGR stands at 31%.
- Focused Tri-Brand Strategy** targets all income tranches of cruise passengers with high-end luxury line Silversea offering 500 exotic destinations including private islands. Silversea's EV/Berth is 1.6x nearest competitor in the same-standard luxury line Regent Cruise Lines. A tri-brand strategy lends better focus in comparison to Carnival Corp, stretched across 8 cruise brands.

12M Industry Outlook

Figure 3. Projected Ship/Berth Ratio

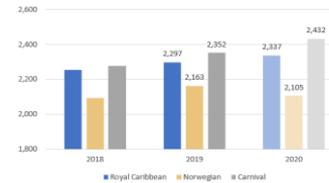


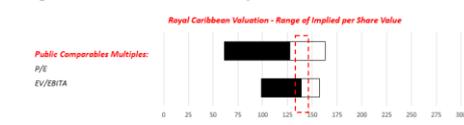
Figure 4. Historical Debt Profile for RCL



- Demand** In 2020, Millennials are set to become the generation with the largest spending power, who spend increasingly on experiences over material products. Millennials take more trips (travel), at 5.6 trips per year, compared with 4.4 (Gen-Z), 4.0 (Gen x) and 3.5 (Boomers). Increased demand likely to follow China's 5-year strategic plan from 2016 to 2020 to boost tourism.
- Supply** of cruise ship services to increase in China, the fastest growing market by revenue. Cruise ship operators are aligning growth and expansion strategies with China's 13th five-year development plan to build more international cruise terminals during 2016-2020 to boost tourism. Increasing orders for ships with increased capacity (>4500 pax), with RCL(+2 ships) and CCL(+4 ships).
- Risk:** Low levels of liquid assets and historically high debt to equity. D/E currently stands at 89%. While EBIT sufficiently covers interest payments (5.7x), this leads to a vicious cycle of continuous debt refinancing to pay off their debt. Liquidity crunch during slowdowns and recessions might severely impact refinancing abilities.

Valuations

Figure 7. Football Field Analysis



12M price target stands at \$137.02 with an implied upside of +25.6% based on last closing price of \$109.12 as at valuation date.

Figure 8. P/E Ratio and last price for RCL



Primary valuation method: Relative valuation achieved a price target of \$137.02 assuming no change in outstanding shares. A market cap-weighted P/E and EV/EBITDA was calculated and benchmarked against peers NCLH and CCL, both dominant in the oligopolistic cruise line industry. EBITDA was used instead because the cruise industry is capital intensive and the depreciation expense can vary greatly between companies.