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## Global Markets Division

# Cruise Industry

Capitalizing on the recovery phase in what is arguably the most heavily hit industry by the pandemic.

**Investment Horizon:** 7 Months

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Vienna, June 23<sup>rd</sup>

# Team Overview

## Global Markets Division

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- Task distribution
- Company analysis
- Trade structure



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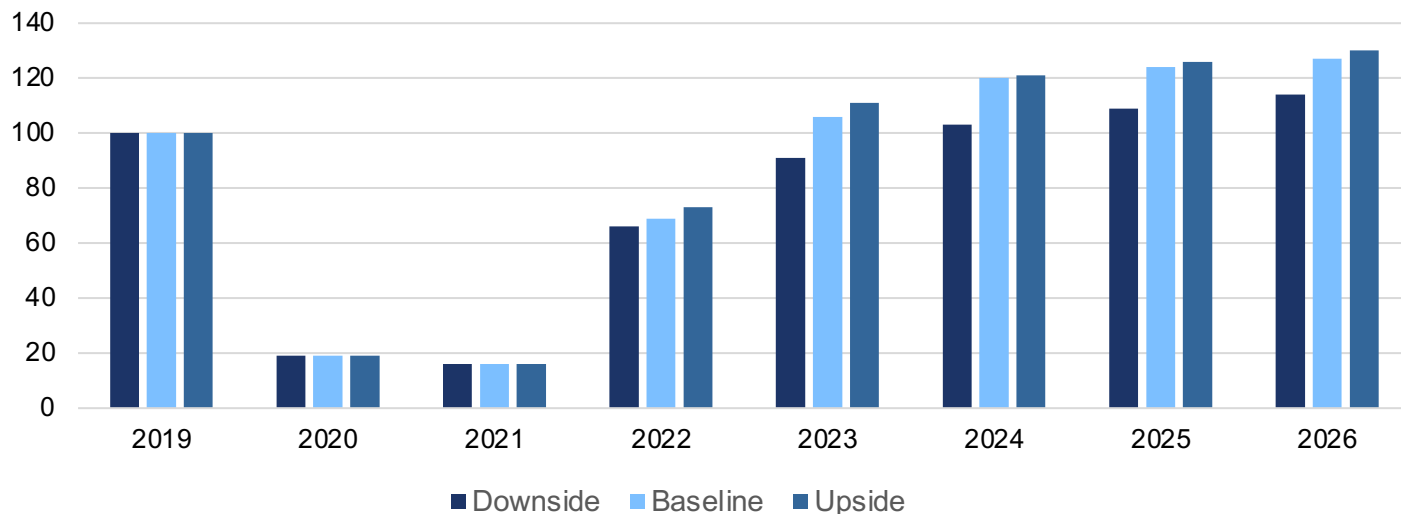


# Market Environment

# Cruising Industry Overview

Cruising industry rebounds to pre-pandemic levels in 2023

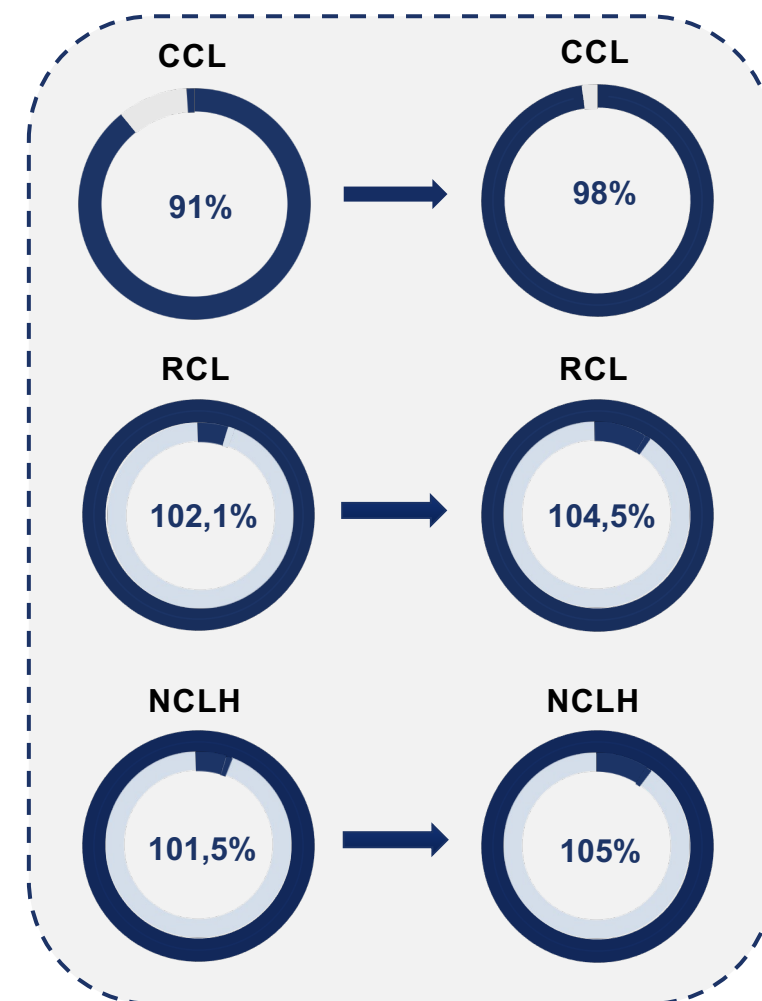
Global cruise passenger volume index 2019-2026, by scenario, with baseline year 2019



## Market drivers

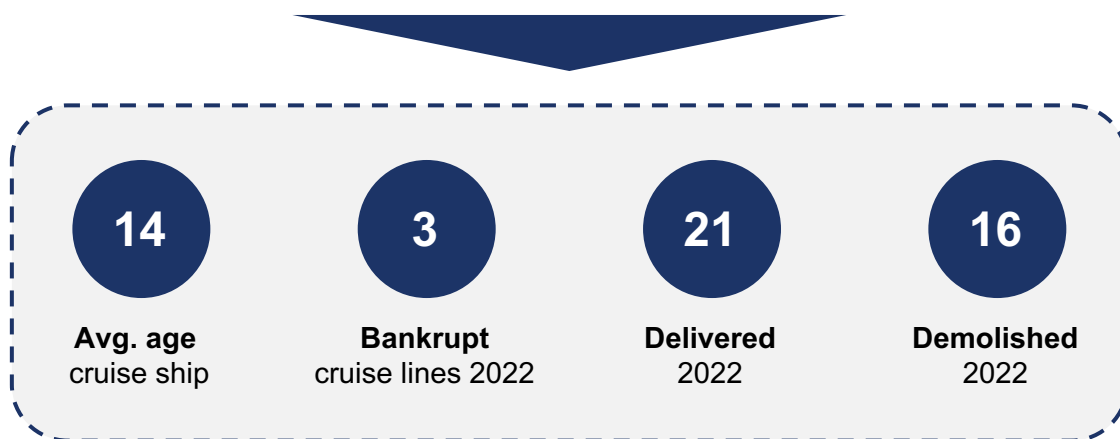
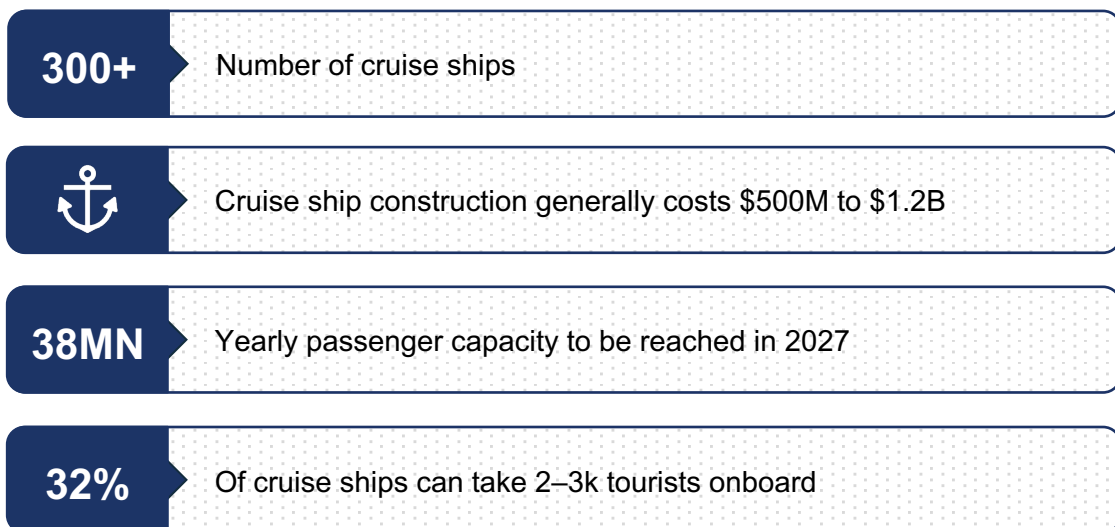
- Attractive value proposition compared to other types of holiday
- Further expansion in onboard activities from 2023 on
- Growth of destination offerings with warm climate
- Covid regulations gradually easing

Passenger occupancy, Q1 & Q2 2023





Despite the fleet regaining full capacity, cruise lines are still ordering new ships

## Figures

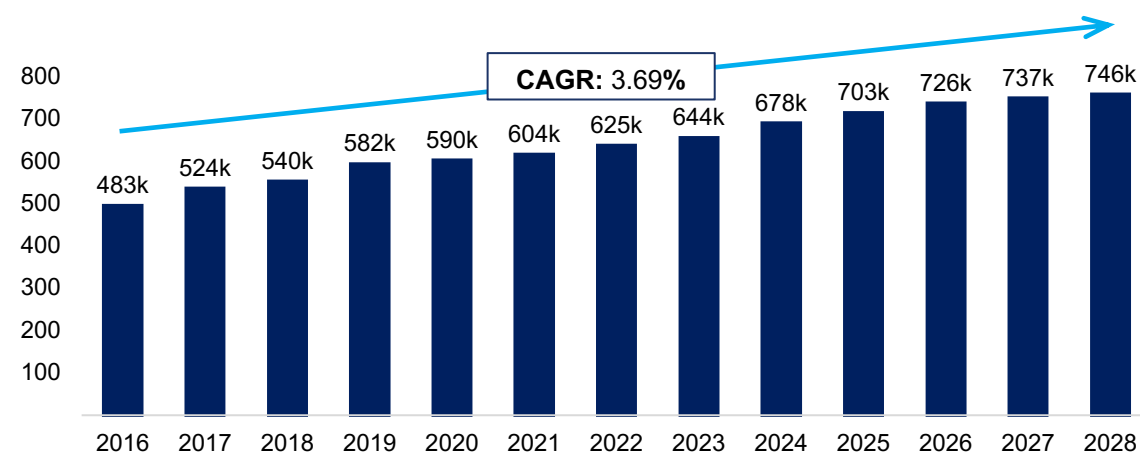


## Order-book

Year	2023	2024	2025	2026	2027	2028
<b>Orders</b>	14	13	18	7	6	4
<b>Passenger Capacity</b>	38.587	26.050	46.630	15.220	11.932	6.432

-  Fleet renewal drives active second-hand market in 2023
-  By 2022, cruise lines quickly regained full capacity helped by a number of new ships

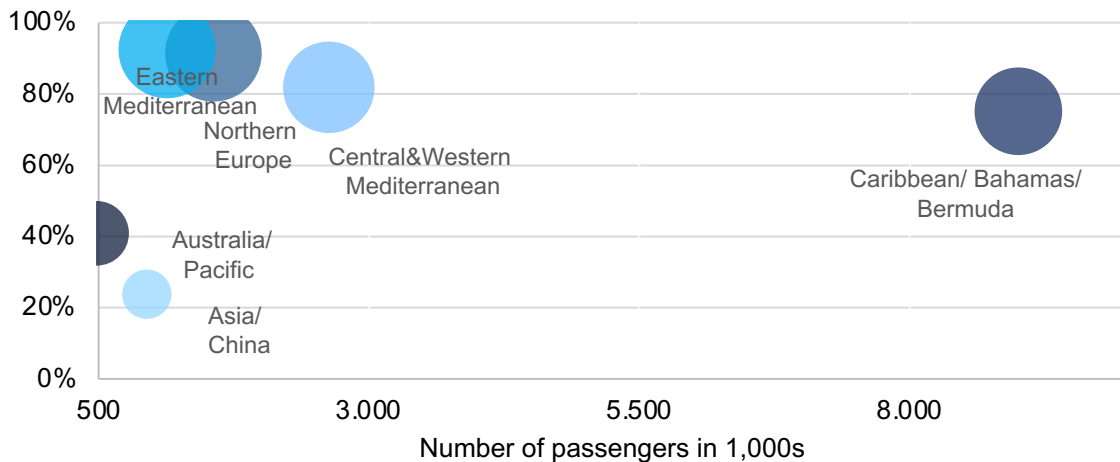
## Global cruise capacity projections



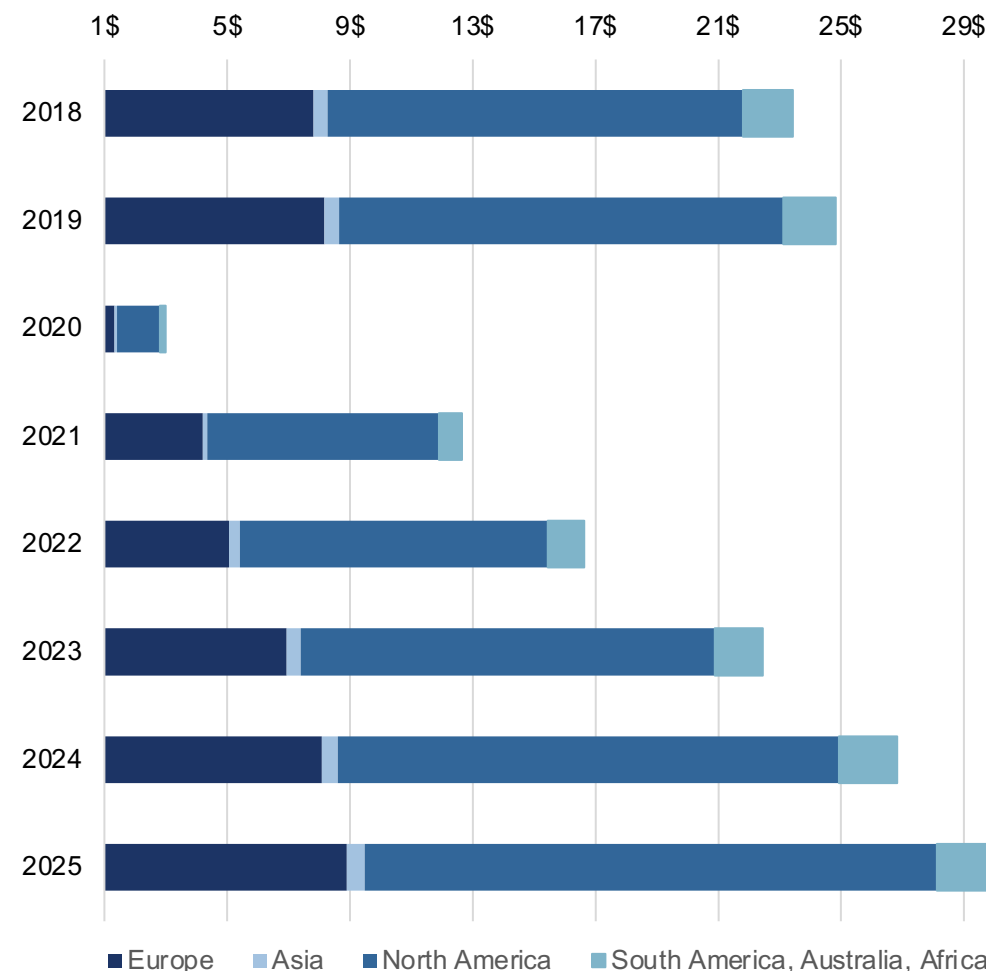
# Cruising Market Trends

Cruising markets show strong performance as fare prices recover

Cruise destinations: percentage recovery of visitors, 2019-2022



Cruises industry revenue in billion USD, 2018-2025

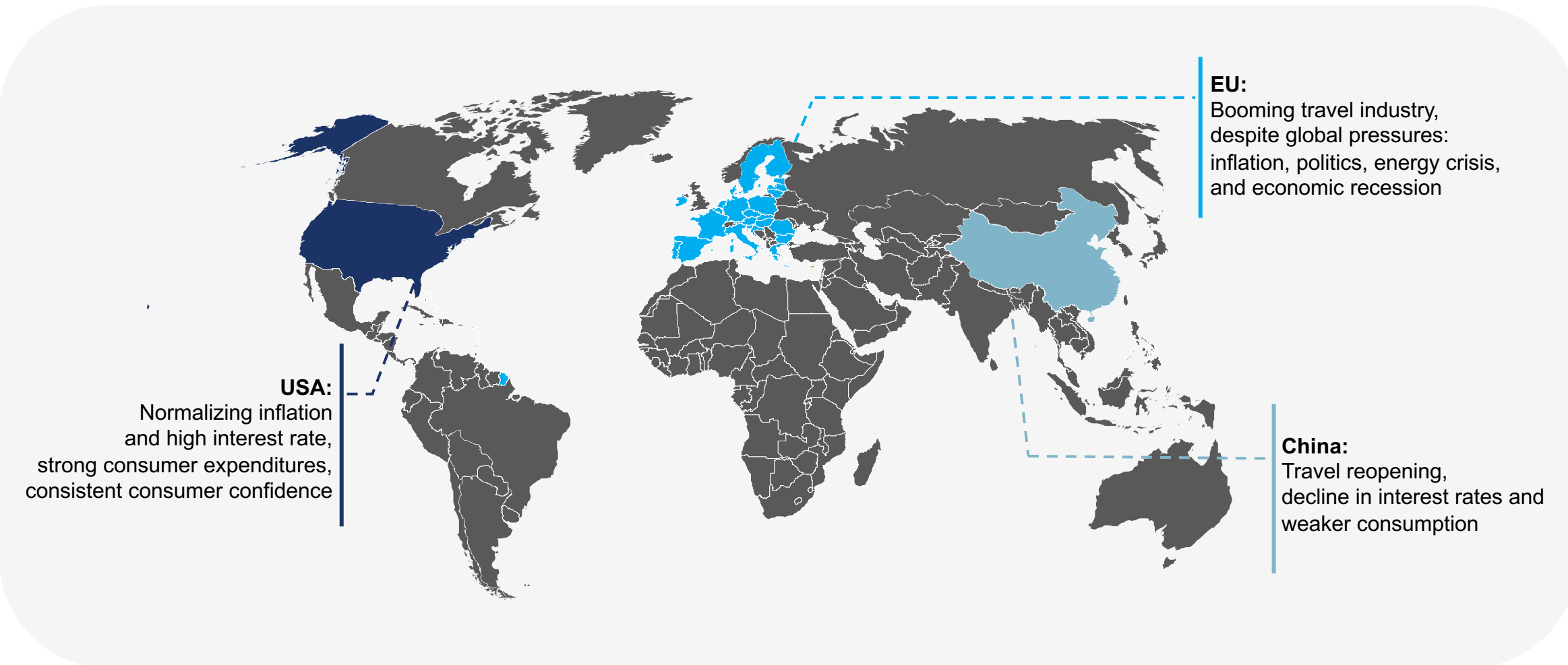


Cruising tickets trend

- Price-cutting deals in FY 2022
- Higher demand in Q3 2022: a rise in ticket prices
- Onboard service rates spike in 2023
- Attractive fares during non-peak demand periods
- Extra charge for port expenses, taxes and gratuities

# Economic outlook

Amidst global economic turbulences, strong tourism flows and high travel expenditures continue to thrive





The tourism industry is experiencing a gradual recovery, with consumers spending more than ever before

## Exploring the dynamics of tourism

Positive association between tourist expenditure and consumer confidence



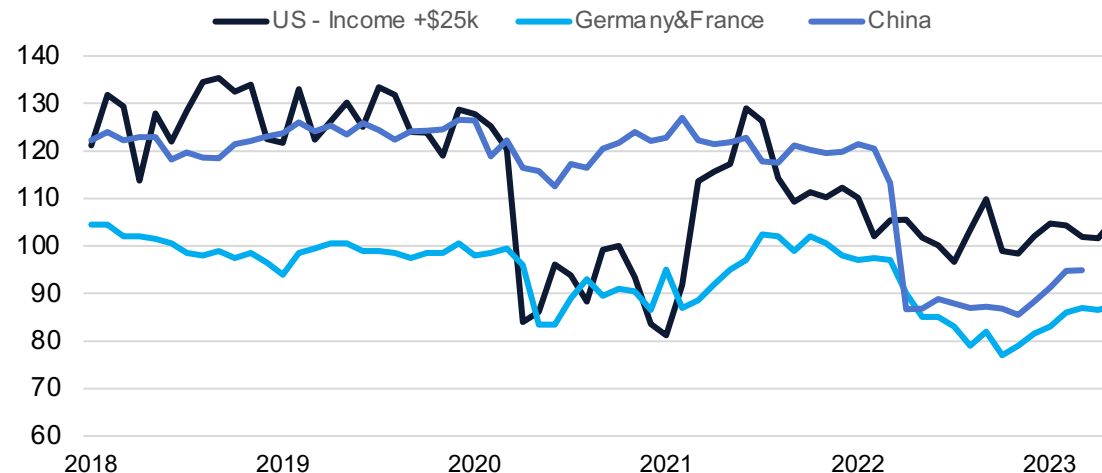
Strong rebound in Q1 2023 sees 80% pre-pandemic level arrivals, double 2022 figures



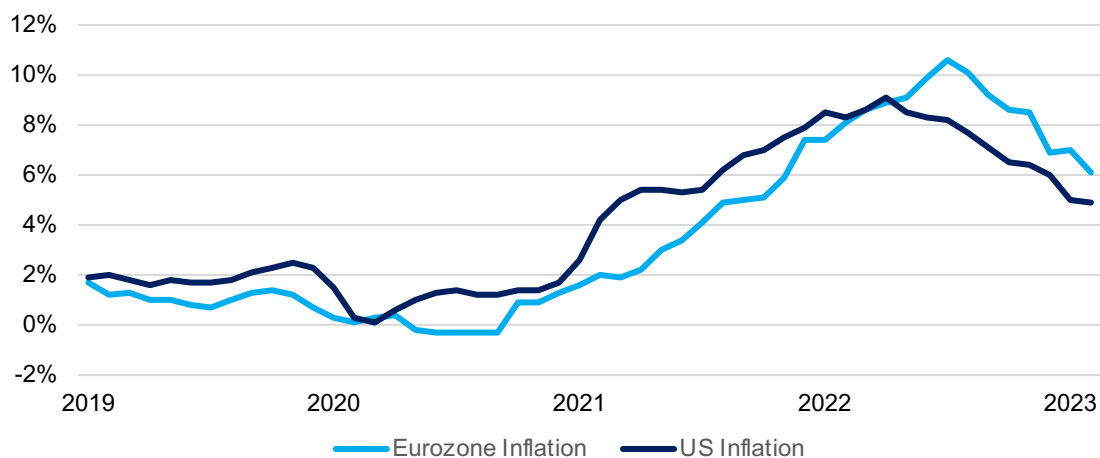
Economic challenges hindering tourism recovery: high costs, inflation, and shifting preferences

Declining inflation: a positive trend

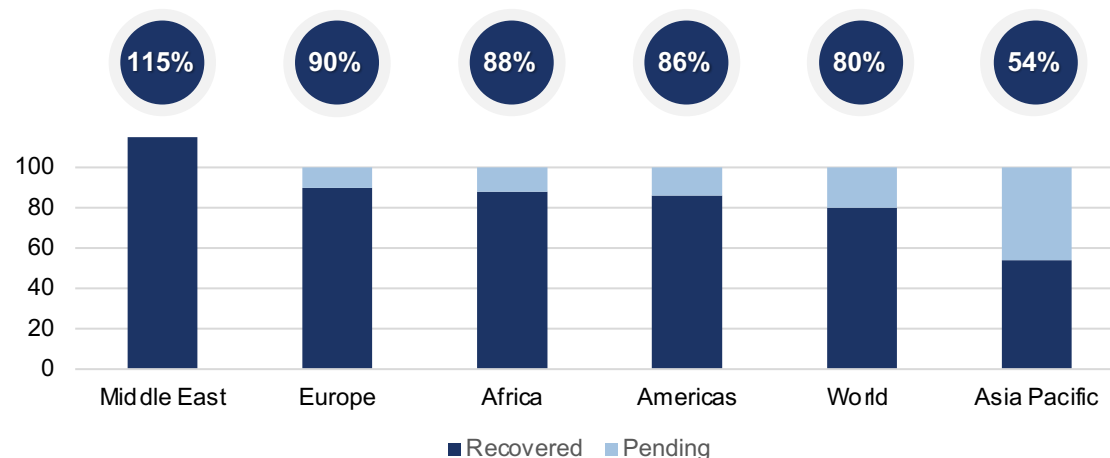
## Consumer confidence



## Inflation rates: exploring the economic impact on tourism



## Recoveries by region to pre-pandemic volumes (international arrivals)

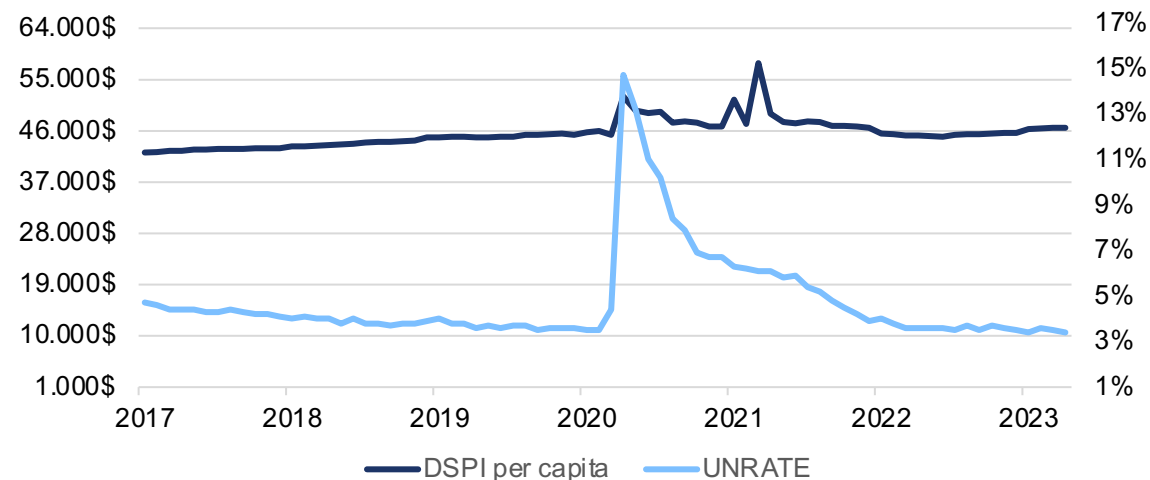


Passengers' increasing onboard expenditures boost cruising companies' revenue

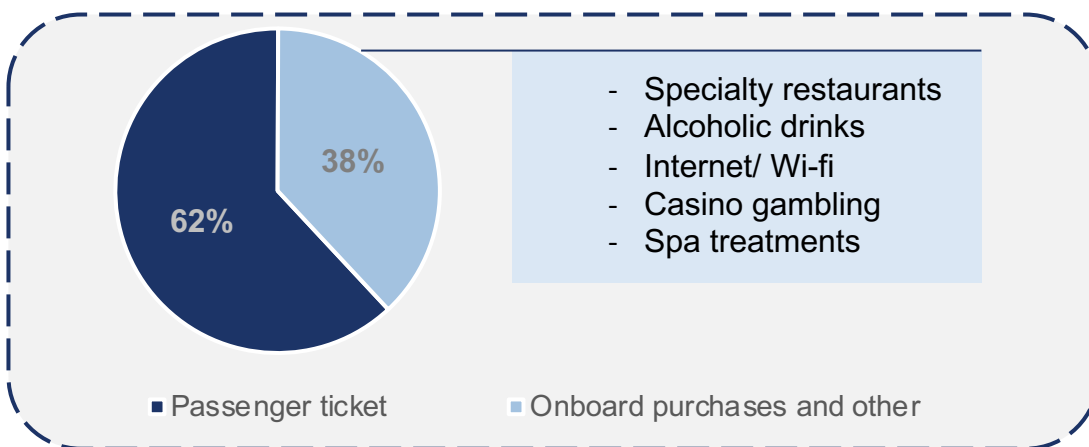
## Passenger revenue by segment

Year	Carnival Corp		Royal Caribbean		Norwegian Cruise Lines	
	Passenger tickets	Onboard and other	Passenger tickets	Onboard and other	Passenger tickets	Onboard and other
2017	12,9	4,3	6,3	2,5	3,8	1,6
2018	13,9	4,7	6,8	2,7	4,3	1,8
2019	14,1	6,3	7,9	3,1	4,5	1,9
2020	3,7	1,9	1,5	0,7	0,8	0,4
2021	1	0,9	0,9	0,6	0,4	0,3
2022	7	5,2	5,8	3	3,3	1,6

## US unemployment rate and disposable income per capita, 2017-2023



## Consumer statistics



7,5

Cruising length in days on average

>50%

Cruisers with a high annual household income

45.5

Average age of a cruise tourist

77%

Millennials interested in first-time cruising



# Company Evaluation

# Companies overview

The industry is dominated by three companies, and Carnival trades at a significant discount compared to its peers

## Public traded companies classified as cruise lines

Company Name	Market Cap. \$mn	Revenue (2022) \$mn	Net Income \$mn
Royal Caribbean Cruises Ltd.	20.203	8.841	-1.256
Carnival Corporation & plc	14.005	12.169	-3.505
Norwegian Cruise Line Holdings Ltd.	6.142	4.844	-1.302
TUI AG	3.315	16.224	-148
EIH Limited	1.551	255	39
H.I.S. Co., Ltd.	1.025	961	-196

## Key takeaways



Royal Caribbean, Carnival and Norwegian are the only true cruise lines

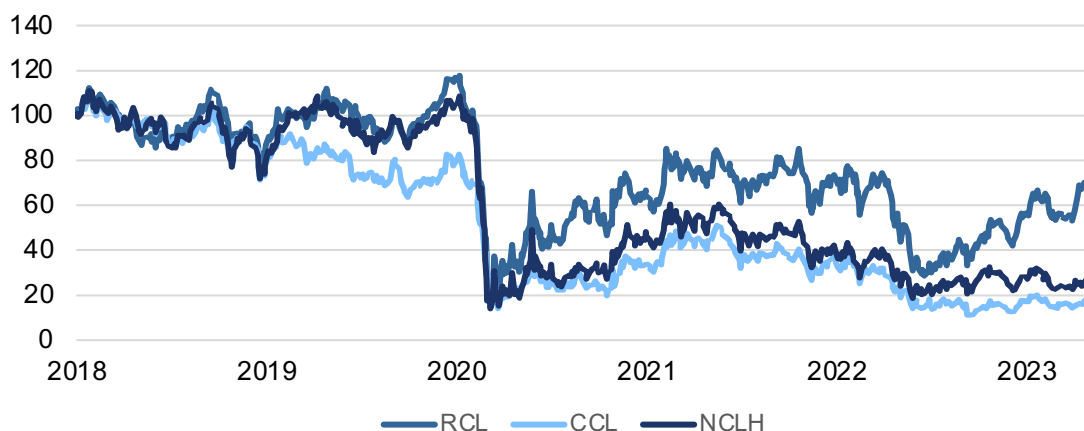


TUI, EIH and H.I.S. are general travel and tourism companies



Unprofitability across all cruise companies

## Share price performance (indexed 2018)



## Carnival's discount



Substantial debt incurred during the pandemic



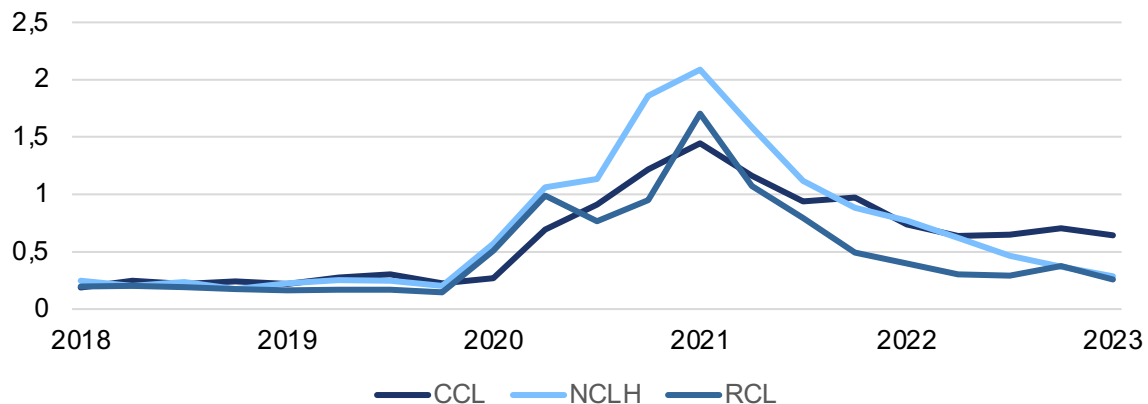
Revenue growth

> But still unprofitable

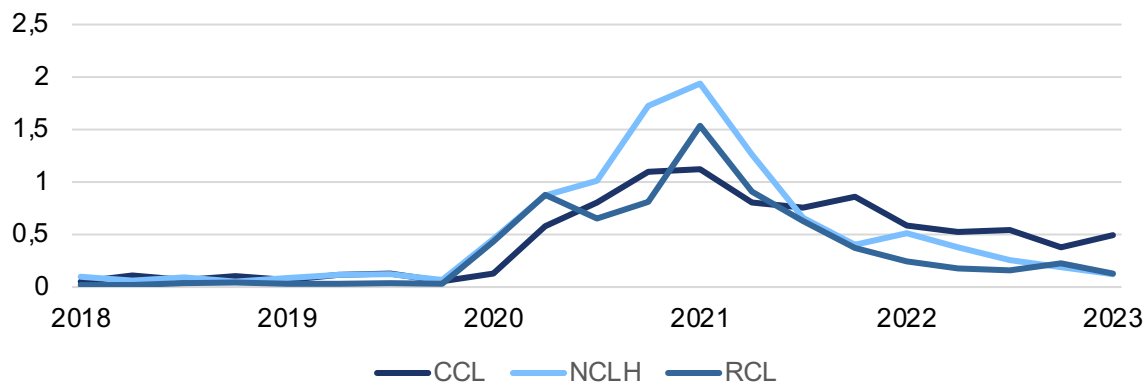
# Liquidity

Carnival Corporation sets sail with the strongest liquidity amongst competitors

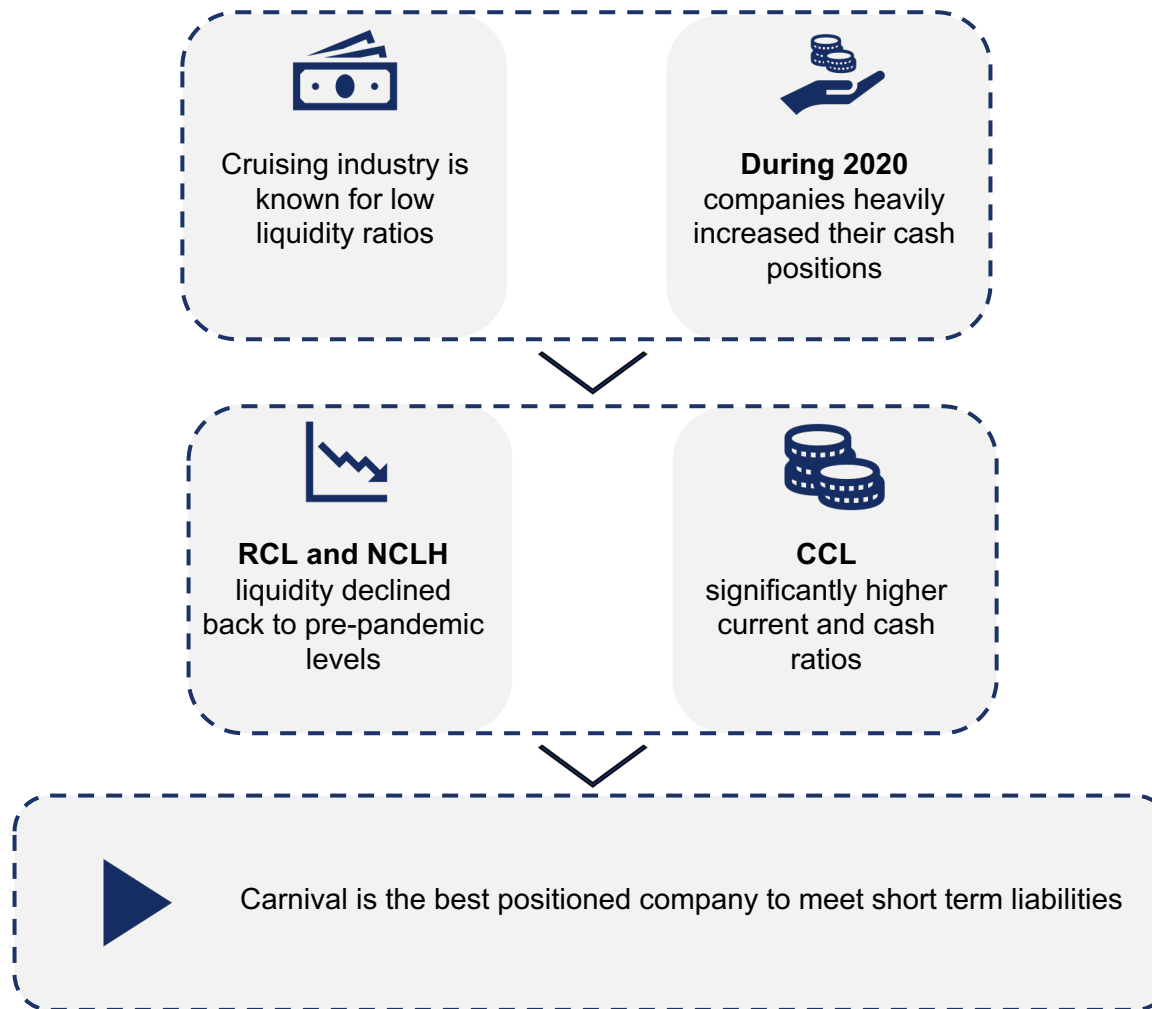
## Current ratio



## Cash ratio



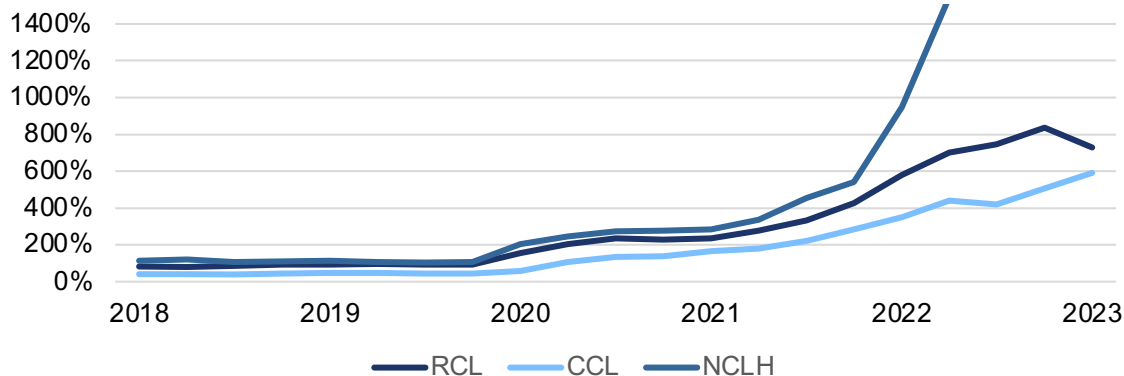
## What happened?



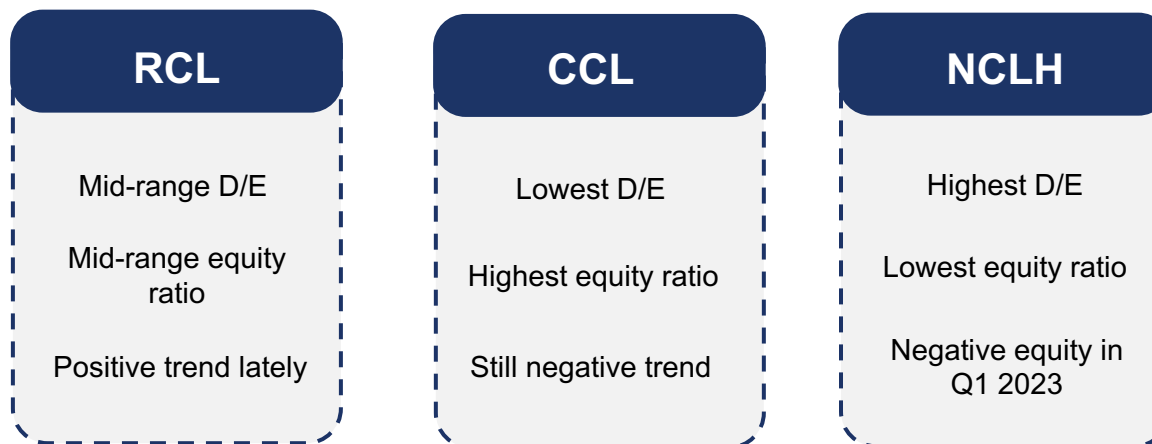
# Capital Structure

Carnival has the highest financial stability compared to peers

## Debt/Equity



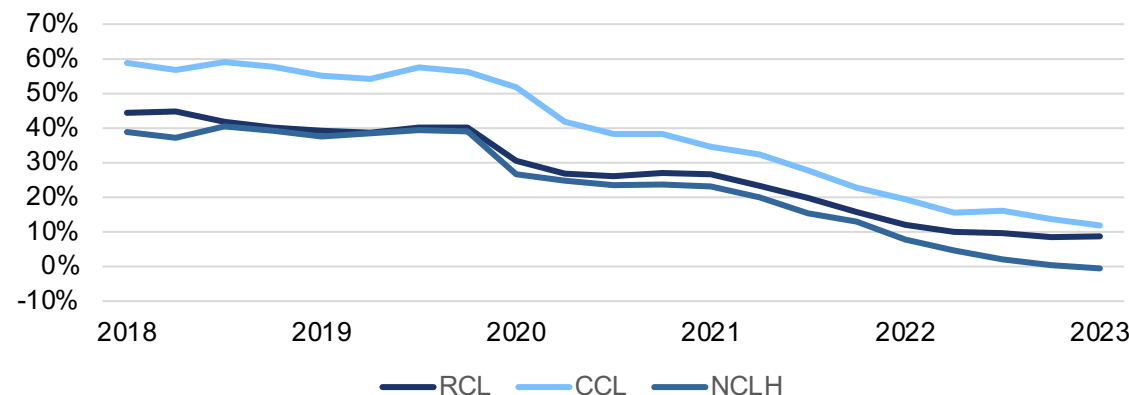
## Cap. structure compared to peers



## Key points

- Rising D/E ratios**  
 Since 2020, D/E ratios have risen sharply  
 New debt to maintain operations
- Declining equity ratios**  
 At the same time, the equity ratios fell accordingly  
 NCLH reported negative equity in Q1 2023
- CCL is in the best position**  
 Compared to its peers, CCL has the highest financial stability  
 RCL is the only one to report a positive trend

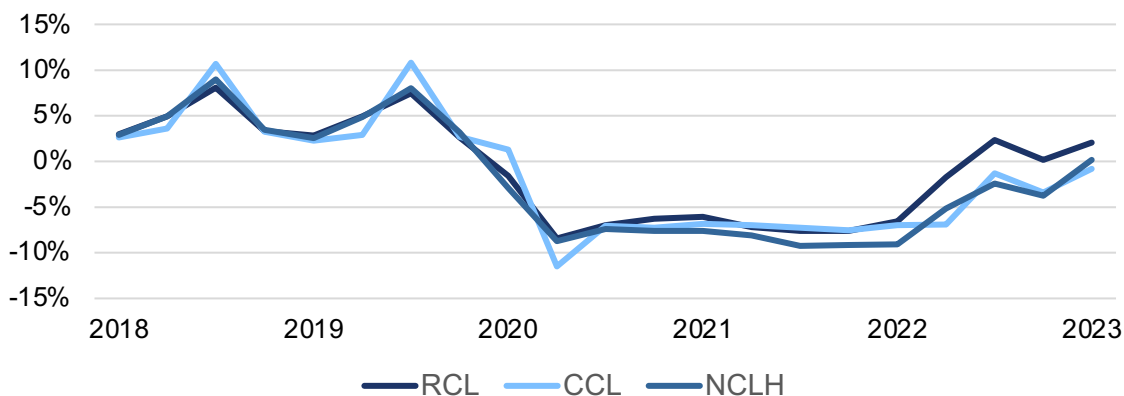
## Equity Ratio



# Profitability

RCL is the most profitable company

## Return on Assets

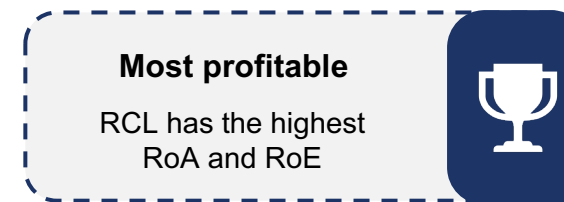


## Key takeaways



### Recovery

Ratios show a positive trend



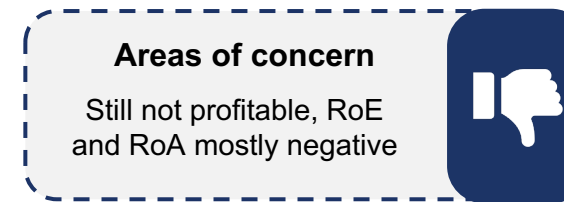
### Most profitable

RCL has the highest RoA and RoE



### Upside

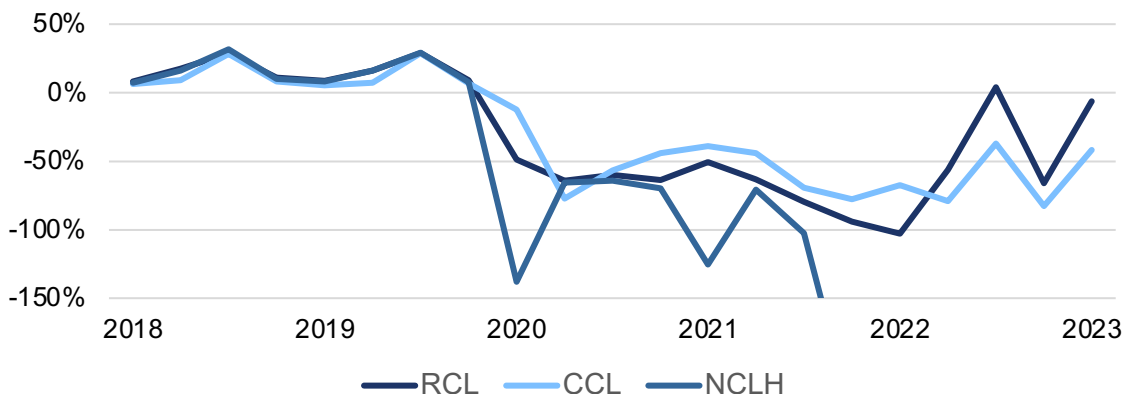
Pre-pandemic levels have not yet been reached



### Areas of concern

Still not profitable, RoE and RoA mostly negative

## Return on Equity

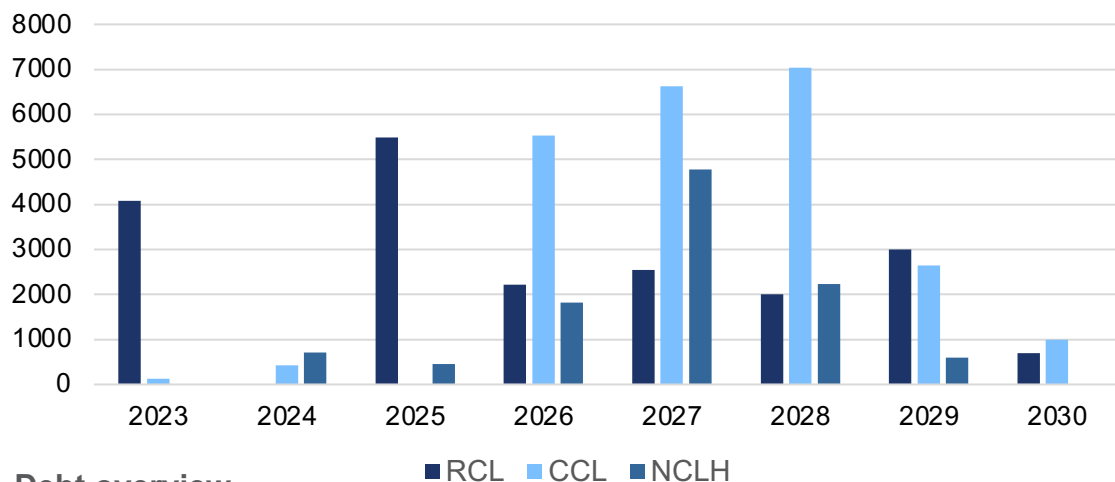


## Net profit margins since Q1 2022

Company	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
RCL	-110.2%	-23.9%	1.1%	-19.2%	-1.7%
CCL	-116.5%	-76.4%	-17.9%	-41.6%	-15.6%
NCLH	-188.3%	-42.9%	-18.3%	-31.8%	-8.7%

## RCL faces significant debt maturing in 2023, leading to costlier refinancing

Amnt. Outstanding, in USD mn



Debt overview

Company	Total debt \$ MN	Weighted average Yrs	Weighted average coupon	Net Interest expenses (2022) \$ MN
CCL	34.662,93	4,61	6,95	1.653
NCLH	20.417,76	4,41	4,9	636,4
RCL	31.394,84	4,33	9,95	1.398,5


In-depth look



**\$4 bn maturing 2023**

- Weighted average coupon of 6,88%
- Latest debt issued ~ 10%


Highest weighted average coupon



Highest debt outstanding

- No intention for further debt increases
- Aiming towards reducing balance sheet

Debt maturing from 2026 onwards



Lowest total debt

Lowest weighted average coupon

Lowest net interest expenses



## Preliminary Conclusion

### Economic outlook

- Challenging economic environment
- Consumer confidence drives tourism expenditure
- Strong tourism recovery

### Industry trends

- Full recovery of ships occupancy
- Improved overall pricing of ticket rates
- Cruises segment revenue to increase in all markets

### Company evaluation

- Carnival trading at discount
- Best overall fit regarding liquidity, capital structure, and debt outstanding

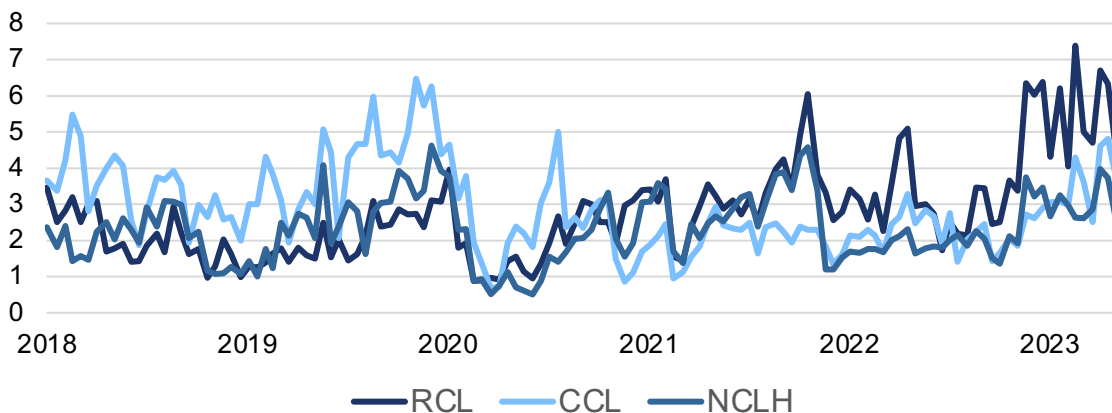


- ✓ Profiting from tourism and sector recovery trends
- ✓ Highest discount in from pre-pandemic price levels
- ✓ Best fitting company regarding liquidity, capital structure and debt outstanding

# Carnival Cruise Lines

Carnival Cruise Lines: A global leader in cruising

## Short interest ratio



## Overview

Largest global cruise company

Global headquarter in Miami

Incorporated in 1974

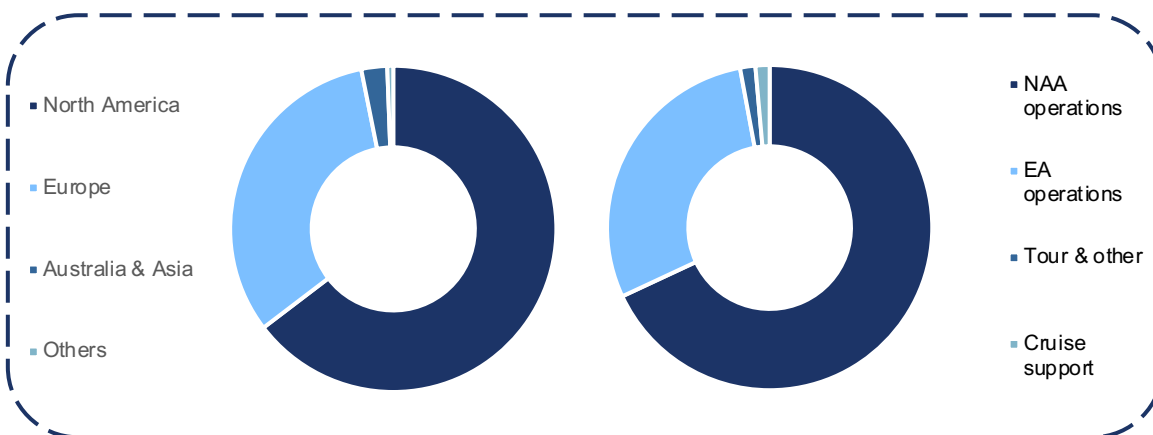
90 ships in service

Total passenger capacity of 245.000

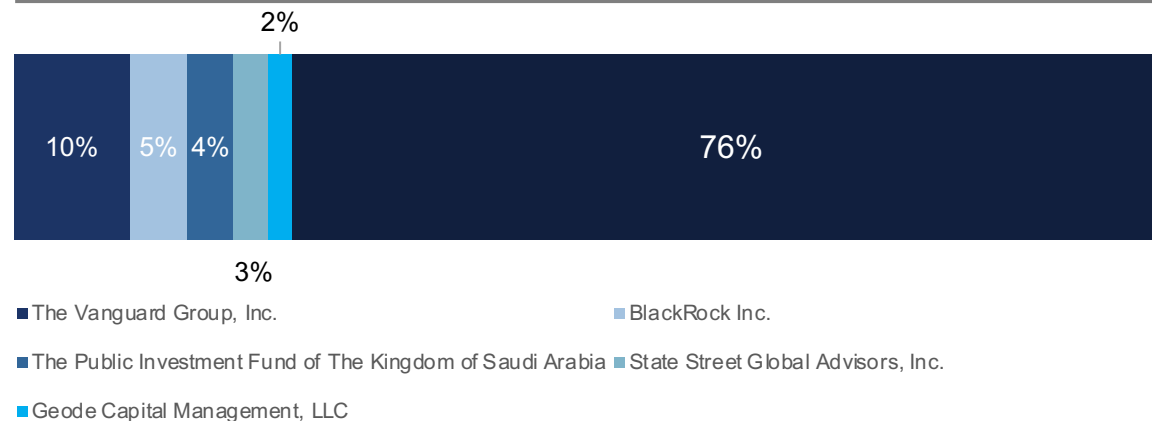
Q1 2022: most bookings in history

**Brands**

## Revenue breakdown 2022 (by region and operation)



## Shareholder structure



# Trade Structure

Placing a bull call spread on Carnival US Equity maturing in January 2024

## Bull Call Spread on \$CCL

Position	Expiration	Strike Price	Break Even Point	Net Debit	Max Profit
<b>BUY 15x</b> CCL 1/19/24 C17.5 @ \$1.98	Jan 19, 2024	\$17.50	\$18.22	-\$1,080	\$2,670
<b>SELL 15x</b> CCL 1/19/24 C20 @ \$1.28		\$20.00			

## Trade Description

### Bull Call Spread

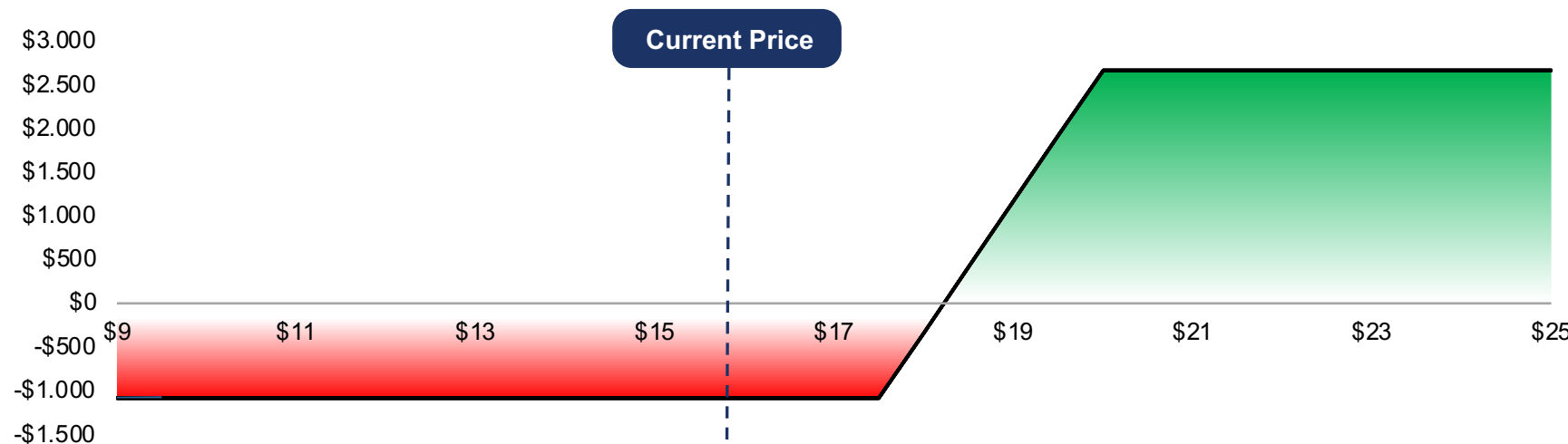
Bullish strategy  
 Purchase and sale of call options  
 Limited potential loss and profit

### Current Situation

Current price: **\$15.80**  
 Break even point: **+15.32%**  
 Max profit: **+26.6%**

### Payoff at Expiration

Max profit if CCL trades above **\$20**  
 Max loss if CCL trades below **\$17.5**



# Appendix

## Sources

Source Name	Link	Date of Retrieval	Used for
Statista	<a href="https://www.statista.com/topics/1004/cruise-industry/#topicOverview">https://www.statista.com/topics/1004/cruise-industry/#topicOverview</a>	03.06.2023	Passenger revenue per segment
CLIA Annual Report	<a href="https://cruising.org/en/about-the-industry/clia-annual-report">https://cruising.org/en/about-the-industry/clia-annual-report</a>	4.06.2023	Cruise destinations
FRED Economic data	<a href="https://fred.stlouisfed.org/series/A229RX0">https://fred.stlouisfed.org/series/A229RX0</a>	15.06.2023	Disposable income per capita
Bloomberg Finance L.P.		12.06.2023	Market and company research
S&P Capital IQ		09.06.2023	Companies screening
Yahoo Finance	<a href="https://finance.yahoo.com">https://finance.yahoo.com</a>	16.06.2023	Share price performance
Annual Report Carnival	<a href="https://www.carnivalcorp.com">https://www.carnivalcorp.com</a>	09.06.2023	Indiv. company research
Annual Report Norwegian	<a href="https://www.nclhld.com/investors/sec-filings/annual-reports">https://www.nclhld.com/investors/sec-filings/annual-reports</a>	09.06.2023	Indiv. company research
Annual Report Royal Caribbean	<a href="https://www.rclinvestor.com">https://www.rclinvestor.com</a>	09.06.2023	Indiv. company research
UNTWO	<a href="https://www.unwto.org">https://www.unwto.org</a>	11.06.2023	Market research
BRS Group Annual Review 2023	<a href="https://cdn.brsshipbrokers.skreycloud">https://cdn.brsshipbrokers.skreycloud</a>	11.06.2023	Cruise fleet
Bloomberg Finance L.P.		15.06.2023	Trade structure and execution

Option Chain 15.06.2023 12:00

Strike	Ticker	Bid	Ask	Last	Volm	OInt	IVM	DL	GL	VL	TL
17,5	CCL 1/19/24 C17.5	1,98	2,05	2,02	215	21116	52,73348	0,501812	0,009807	0,048337	-0,0055
20	CCL 1/19/24 C20	1,28	1,31	1,26	3374	29389	51,99859	0,368491	0,009371	0,045543	-0,00522

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