NUS INVESTMENT SOCIETY

Royal Caribbean Cruises Ltd

BUY: US$127.47 (+18.4%)

Equity Research Department | **10 November 2018**

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Basic Information

Last Closed Price	US$107.69
12M Target Price	US$127.47
+/- Potential	+18.4%
Bloomberg Ticker	RCL US Equity
GICS Sector	Consumer Discretionary
GICS Sub-Industry	Gaming, Lodging & Restaurants

1 Yr Price v Relative Index

Company Description

Royal Caribbean Cruises is a U.S. cruise company serving the contemporary, premium, and deluxe segments of the cruise vacation industry in North America, Europe and Asia Pacific.

Key Financials

Market Cap	22.938B
Basic Shares O/S	208.97M
Free Float	80.5%
52-Wk High-Low	US$135.65 - US$101.20
Fiscal Year End	31-Dec-17

(US$ M)	FY16A	FY17A	FY18E	FY19E
Revenue	8496	8778	10286	11245
Gr Rate (%)	2.38	3.31	17.2%	9.3%
EBITDA	2665	2806	3137	3429
Margin (%)	31.4	32.0	30.5	30.5
Net Income	1283	1625	1810	2004
Margin (%)	15.1	18.5	17.6	17.8
ROA	5.8	7.3	8.1	8.8
ROE	14.1	15.2	15.0	14.8
EV/EBITDA	10.8	11.4	10.5	9.6
P/E Ratio	13.8	15.8	12.8	11.5
D/E Ratio	1.4	1.1	0.9	0.7

Key Executives

Richard Fain	Chairman & CEO
Jason Liberty	Chief Financial Officer
Adam Goldstein	Chief Operating Officer

Sailing the Seven Seas

We are initiating coverage of RCL with a BUY rating and a $127.20 12M price target.

3Q18 Earnings Review

- Total revenue up 8.1% yoy; passenger ticket revenue +7.3%, onboard and other revenues +10.2% due to better than expected revenue from global brands and better performance from its joint ventures
- Cost of sales increased 6.6% yoy to USD $1.41b (3Q17: USD $1.32b) due to higher gross sales
- Operating cost increased 12.2% yoy to USD $585m (3Q17: USD $514m) due to expansion of cruise lines and ports
- Operating income increased 7.8% yoy to USD $800m (3Q17: USD $738m) while operating margins decreased slightly to 28.6% (3Q17: 28.7%)

Investment Thesis

- A strong move into the luxury segment with the acquisition of Silversea - expected to reap significant penetration into the consumer market as well as revenue and cost synergies. Coupled with Plan Invictus to upgrade the capacity and features of the Silversea fleet, RCL sees a strong growth position for 2019
- Robust booking demand in both 2018 and 2019, coupled with high price premiums indicate favorable earnings growth and share performance for the year ahead
- Positioned to leverage on onboard revenue growth trends through SeaPass program and superior casino infrastructure

Catalysts

- Stronger than expected demand for RCL's Silversea line will trigger an upward re-rating of RCL's target price
- Favorable first quarter earnings announcements due to robust booking trends across all product lines
- Depreciation of the US dollar, or the lifting of the trade-war will alleviate fuel cost volatility and improve earnings
- Stronger than expected economic growth and discretionary incomes coupled with improving macroeconomic conditions will increase demand for cruise holidays and reduce fuel cost risks

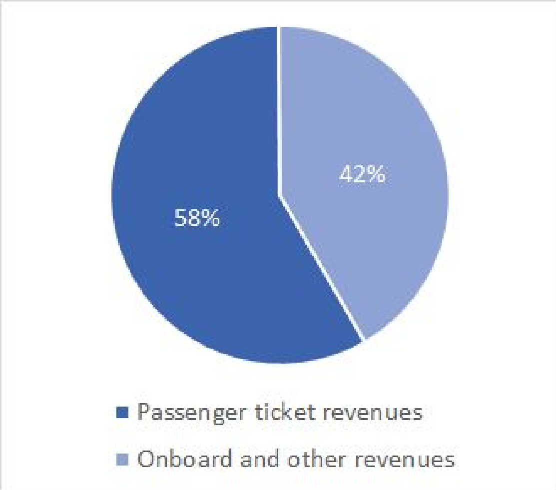
Valuations

Our 12 month price target from date of coverage is $127.47, derived via a blended DCF and forward P/E valuation approach, valuing RCL at a 10.76x P/E multiple. We also used a slightly more conservative exit multiple of 11.0x.

Investment Risks

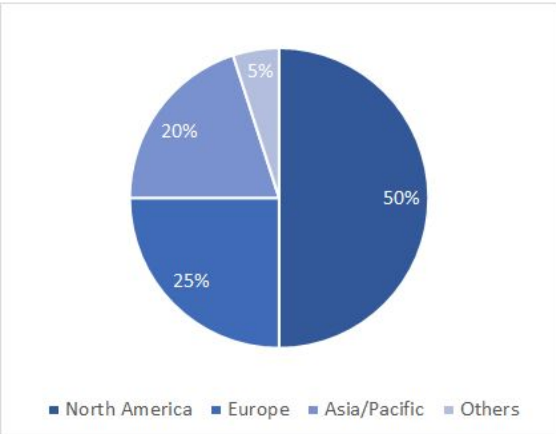
- Rising fuel prices are creating high levels of uncertainty. Fears of tightening oil supply over the ongoing Saudi Arabia spat as well as US trade sanctions on Iran pose an upward pressure on fuel costs.
- Currency risks are plaguing the cruise industry, given a strong US dollar in 2018. RCL generates over 50% of their revenue outside the United States, and continued appreciation will prove detrimental to RCL's earnings.
- Fed's forecasted interest rate hikes in end 2018 to 2019 reduces discretionary income, lowering RCL's earnings.

Figure 1. Revenue by Products, FY17



Source: RCL Annual Report 2017

Figure 2. Revenue by Geography, FY17



Source: RCL Annual Report 2017

Figure 3. RCL's Anthem of the Seas

Source: Royal Caribbean Cruises

Company Overview

Royal Caribbean Cruises Ltd is a U.S. based cruise company that was first established in 1968 as Royal Caribbean Cruise Line. Following its merger with Celebrity Cruises in 1997, it rebranded itself as Royal Caribbean International and Royal Caribbean Cruises Ltd to keep both cruise lines separate. The company currently owns and operate 3 global cruise brands: Royal Caribbean International, Celebrity Cruises and Azamara Club. In addition, it has joint ventures with German brand TUI Cruises, Spanish Brand Pullmantur and Chinese Brand SkySea Cruises to further expand its cruise lines into European, Caribbean and Asian waters.. It operates a combined total of 49 ships with approximately 124,070 berths as of December 31, 2017. It carried approximately 5.8 million number of passengers in 2017 and has been increasing 4.78% yoy from approximately 4 million in 2009.

Out of Royal Caribbean Cruises Ltd's revenue for the past 3 years, 72% is derived from passenger tickets while the other 28% is derived from onboard activities and other revenues. Passenger tickets consist of the sale of passenger tickets and the sale of air transportation to and from their ships; whereas onboard activities and other revenues mainly consists of sales of goods and services onboard ships, cancellation fees, sales of vacation protection insurance and pre- and post-cruise tours.

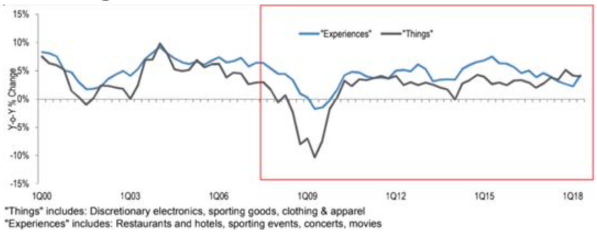
In 2017, Royal Caribbean Cruises Ltd holds 23.9% of market share of the cruise industry and is the 2nd biggest player, behind Carnival Corporation and plc, while its other main competitors are Norwegian Cruise Line Holdings Ltd, Disney Cruise Line, and MSC Cruises.

Within the next 3 years, RCL has a 20/20 Vision that aims to improve both customer experiences and employee engagement. It has also made a move into luxury cruise line business with its recent acquisition of ultra-luxury Silversea Cruises in June 18.

3Q18 Earnings Review:

- Total revenue up 8.1% yoy - passenger ticket revenue +7.3%, onboard and other revenues +10.2% due to better than expected revenue from global brands and better performance from its joint ventures
- North America revenue grew 8.6%, Asia Pacific revenue decreased 20.9%, Europe revenue gained 14.7%
- Passenger ticket revenue comprised of 59% from United States (increased from 56%), 13% from United Kingdom (consistent) and 7% from China (decreased from 10%)
- Cost of sales increased 6.6% yoy to USD $1.41b (3Q17: USD $1.32b) due to higher gross sales
- 3Q18 gross margins increased by 80bps to 49.5% from 48.7%
- SG&A spiked by 15.8%, driven by the transaction cost of recent acquisition of Silversea Cruises
- Operating cost increased 12.2% yoy to USD $585m (3Q17: USD $514m) due to expansion of cruise lines and ports
- Exceeded 3Q18 consensus EPS estimates of USD $3.88 with actual EPS of USD $3.97
- 3Q18 operating income increased 7.8% yoy to USD $800m (3Q17: USD $738m) while operating margins decreased by 10 basis point to 28.6% (3Q17: 28.7%)

Figure 4: Consumer spendings on "Experiences" vs "Things"



Source: Bureau of Economic Analysis, JPMorgan

Figure 5: Value drivers of cruise demand

Figure 35: Multitude of Demand Drivers, but Strength of the U.S. Consumer is the Most Important

	Driver	Explained	Comments
Macro	Consumer Spending	Operator net yields correlated with consumer spending	60% R^2 between Net Yield[1] and U.S. Consumption (PCE, lagged 6 months)
Secular	Favorable Shift of Consumer Preferences	Consumers are spending more on experiences	In the last three years, Consumer spending on "Experiences" has outpaced spending on "Things" in 90% of quarters since 2008
Structural	Cruise Penetration	Cruise underpenetrated in all markets; new-to-cruise travelers drive excess demand growth	Mid-to high single digits % of developed country target populations cruised in 2017[4]
	Value Proposition	Cheaper than land-based vacations	15-40% historical discount, depending on brand, region and other cycle dynamics[3]
Company-driven	New Hardware/ Innovation	New ships with the latest tech/innovation drives outsized customer interest	We calculate new ships are currently garnering an average ~50% pricing premium vs. existing fleets[2]
	Cruise Content/ Media	CCL's original content/media initiatives reaches wider audience and creates awareness	CCL's original programming has ~6m weekly viewers; 300+ million cumulative views to-date

1 Yield is capacity-weighted (CCL, RCL, NCL) since 2005
2 See Figure 3
3 CCL
4 NCLH

Source: JP Morgan

Figure 6: Inside ultra-premium Silversea cruise

Source: Silversea

Industry Outlook

Strong growing demand in the cruise sector

The consumer discretionary industry has seen a shift in consumer spending patterns from tangible items to experiences. JP Morgan reports that consumer spending on "Experiences" has outpaced spending on "Things" in 90% of quarters since 2008. Various drivers of demands make cruise vacations especially attractive as shown in Figure 5. 26.7 million passengers sailed on cruises globally in 2017, expected to expand to 28 million by the end of 2018.

This has in turn fuelled strong demand in cruise vacations as forward cruise ticket bookings gain continued momentum even with increasing price premiums. The North American cruise market is projected to grow 7% in 2019. Europe and Alaska are set to bear the brunt of the industry's capacity growth given strong demand – Credit Suisse estimates that both markets will be up single-digits next year. China is also a promising avenue as cruises are attracting record numbers of Chinese tourists – Bloomberg predicts that cruise yields will benefit in 2019 from China.

Various demand tailwinds await the cruise industry in 2019 – the lure of new ships and innovation, increasing awareness of the value proposition of cruises and increased accessibility to a range of cruise types. This is an exciting prospect for the industry, especially given its relatively low penetration in global markets – suggesting favorable runways for growth.

Shift in consumer preferences to more luxurious suites and smaller ultra-premium cruises

AAA Travel booking data reveals that a growing number of consumers are looking for a more intimate experience in smaller, ultra-premium cruises. Chris Austin, Senior Vice-President at Seabourn, reaffirms the changing industry trend in 2018, stating that the affluent customers of today seek "authentic, memorable experiences."

As a result, the ultra-luxury and expedition segments are growing at twice the rate of any other segment. Suite bookings and small luxury line ticket sales have exploded in the past 12 months especially in the luxury ocean and river cruise lines, and luxury cruise lines are enjoying high rates of repeat bookings at 50%.

Several cruise lines have already picked up on the trend. Seabourn is offering ultra-premium cruises to Antarctica and Patagonia, with the chance for customers to immerse themselves in such luxury cruises.

New IMO fuel regulations regarding sulfur compliance

There will be significant disruptions to the cruise industry given the new sulfur fuel cap enforced by the International Maritime Organization. Starting in 2020, the current 3.50% global limit for sulfur content on ships will be cut to 0.5%, increasing fuel costs across cruise-liners given the industry's current reliance of high-sulfur fuel oil. This will introduce a new element of uncertainty for RCL's operating expenses.

Figure 7: 2020 IMO Fuel Sulfur Regulation

Source: Wartsila

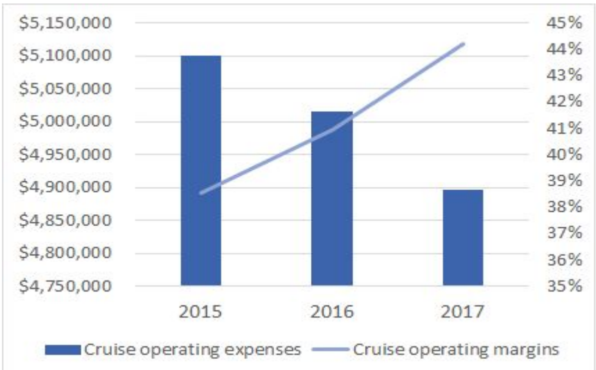
Figure 8: Silver Muse of Silversea Cruises

Source: Silversea, Robb Report

Figure 9: Silversea overhaul

Source: Silversea, cruisearabiaonline.com

Figure 10: Cruise operating expenses vs Cruise operating margins



Source: RCL Annual Report

An additional concern is the difficulty of developing these compliant 0.5% sulfur compliant products – supply is likely to be restricted and availability to be limited to major refining centres such as Singapore. Investing in technology for fuel oil conversion is expensive, as well as time consuming to implement (5-7 years), which is setting the stage of a shortfall in compliant oil supply and subsequent price spikes. Wood Mackenzie estimates that global fuel costs are likely to rise by a quarter in 2020, while Morgan Stanley predicts that these new regulations has oil headed for the $90 mark.

At this point, it's still too early to ascertain actual operating impact, but this development poses a significant headwind for RCL's bottom line. However, RCL has mitigated this risk by taking significant advantage of their hedging program as compared to its peers - RCL enjoys a lower futures price than CCL, and its 2019E fuel expense will only increase by 3.5% as compared to CCL's 14%.

Investment Thesis

1. A strong move into the luxury segment with the acquisition of Silversea expected to reap significant penetration into the consumer market - The US$1b acquisition of Silversea in 2018 is a strong strategic move by RCL, given its previous lack of a pure luxury cruise product. Silversea is a leading Ultra-Luxury and Expedition cruise company, and its inclusion into RCL's portfolio will allow it to expand its already strong market position to contest traditional competitors such as Carnival and Norwegian Cruises in the luxury segment. Silversea is expected to contribute 25% to RCL net profit.

Plans in pipeline for capacity and feature upgrades - Commitment to building on this partnership has already materialized - RCL has released a multi-year plan dubbed "Project Invictus", aimed at upgrading Silversea's nine ship fleet including onboard tweaks and major ship overhauls. Additionally, RCL has recently announced the building of 3 new ships for Silversea by 2022 - a new expedition vessel named Silver Origin by 2020, as well as two Evolution Class ships in 2022. RCL also further reported that " there will be an exciting array of upgrades that thrill guests", hinting at a "wide variety of onboard features...and strengthening Silversea's reputation for indulgent, luxurious embellishments." The increased capacity, customer offerings and value propositions will drive RCL's EBITDA margins.

Cost and revenue synergies - Significant cost synergies are expected to arise from Silversea's addition. JPMorgan anticipates US$50m of cost savings "within a relatively short period of time" to emerge, mainly from procurement, marine management, port operations, credit card fees, insurance fees and fuel sourcing costs. Decent revenue synergies are also expected from cross leveraging of travel agent networks, credit card savings, international sales networks and labor. We expect overall operating costs to drop slightly and earnings to increase over the next year, and significantly more so in the future once full synergies are realized.

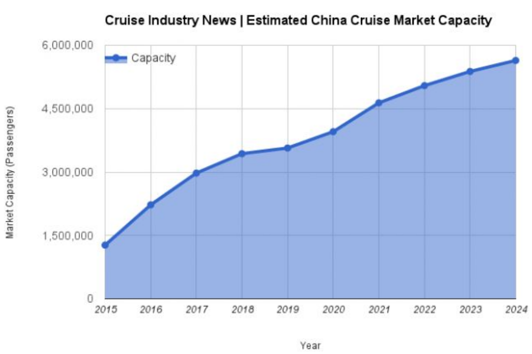
2. Robust booking demand in both 2018 and 2019, coupled with high price premiums indicate favorable earnings growth and share performance - This industry has seen 27.8 million passengers in the past year, up from 25.8 million in 2017. Hence, growth trends in

Figure 11: Cruise Prices

Luxury Cruise:	7 nights	4 nights
Royal Caribbean International	$599	$478
Celebrity Cruises	$599	$379
Carnival Cruise Lines	$449	$279
MSC Cruises	$449	-
Norwegian Cruise Line	$639	-
Extreme luxury Cruise:	7 nights	4 nights
Silversea	$2,500	-
Disney Cruise Line	$2,846	-

Source: priceoftravel.com

Figure 12: Estimated China Cruise Market Capacity

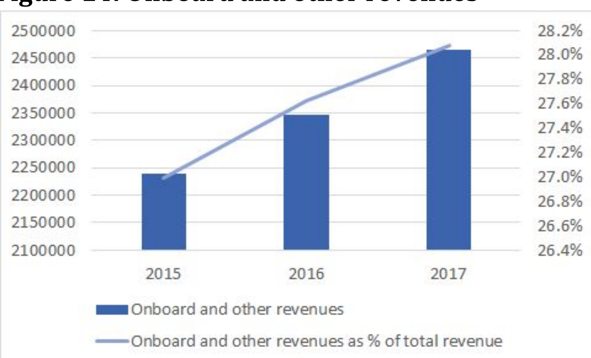


Source: Cruise Industry News

Figure 13: RCL's SeaPass card

Source: thetravelintern.com

Figure 14: Onboard and other revenues



Source: RCL Annual Report

cruising are expected to persist, especially since the number of passengers have been inching higher every year for in the past decade.

RCL's management expects a 15% Yoy bookings growth for 2019. With itineraries being "very well" booked, we expect RCL to further raise prices of tickets in the coming year. We expect the rise in demand to come specifically from China due to expanding distribution networks and the increase in willingness of individuals from Tier 2 and 3 cities spending on disposable income on leisure activities.

Furthermore, a report by PwC shows that the chinese consumer has an inking for exotic countries. We expect RCL to benefit from such sailings to places such as Cuba and Caribbean due to the nature of shorter trips, which would enable them increase frequency and therefore volume by 21%.

Increasing price premiums: RCL's new ships Symphony of the Seas and Celebrity Edge are garnering the highest industry price premiums of 61% and 99% respectively. This is compared to Norwegian Cruises' Bliss and Carnival's Horizon, which are seeing 33% and 21% premiums respectively. RCL's ticket prices are garnering the most growth ahead of its main competitors: +9.1%, +8.6%, +16.7%, and +13.3% in the last 4 quarters. This coupled with robust demand growth sets earnings expectations to soar on both volume and price fronts. Hence, in our view RCL's ability to command strong price premiums becomes an economic moat as they are still able to command strong brand loyalty.

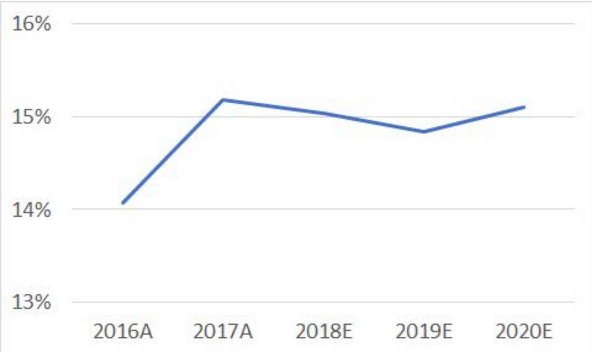
3. Positioned to leverage on onboard revenue growth trends through SeaPass program and superior casinos - RCL have been successful in driving revenues from onboard spending as compared to peers in the industry. Its success stems from RCL's SeaPass program, a cashless pay/loyalty system which encourages greater spending on board accounting for about one-third of total passenger costs. Growth for this segment will be propelled given favourable macroeconomic conditions with signals of a strong economic environment such as U.S. unemployment rate reported in October 2018 at 3.7%, is the lowest since 1969, similar to all time low of 6.7% of EU, coupled with jobless claims being reported at historic lows. Hence, we expect higher disposable income to boost onboard spending, driving onboard revenue growth.

Superior casino infrastructure ready to absorb Macau's capital outflow - Macau's gaming revenue has taken a hit as a result of the ongoing US-China trade war, which have resulted in outflows of mainland Chinese high rollers. As a result, Macau gross gaming revenue has fallen by 17.3%, bottoming to a one year low of US$2.72 billion, with absorption by Australian casinos. In recent years, onboard gambling has become a popular substitute for casino gambling, coupled with a lodging and entertainment ecosystem to support gaming passengers, we expect inflows into the cruise market. With RCL being in a position, apt to support this trend since, they hold the largest portfolio of cruises with casinos infrastructure. Such as flagships including Oasis of the Seas and Allure of the Seas being consistently referred to as the "best gambling cruise ship" by many previous customers. Furthermore, RCL will be likely to sustain its leadership thanks to the new class of Silversea cruises providing even more gambling facilities coming online in the next year.

Figure 15: Oasis of the Seas Casino

Source: Cruisecritic

Figure 16: RCL Return on Equity Trend



Source: RCL Annual Report, NUS Investment Society Estimates

Figure 17: Debt to Equity Ratio

Source: RCL Annual Report, NUS Investment Society Estimates

Catalysts

- Stronger than expected demand for RCL's Silversea line will trigger an upward re-rating of RCL's target price
- Favorable first quarter earnings announcements due to robust booking trends across all product lines
- The lifting of the trade-war will alleviate fuel cost volatility and improve earnings
- Stronger than expected economic growth and discretionary incomes coupled with improving macroeconomic conditions will increase demand for cruise holidays and reduce fuel cost risks

Financial Analysis

Financial Ratios	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Profitability								
Net Profit Margin	8.02%	15.11%	18.52%	17.60%	17.82%	18.88%	21.21%	21.85%
Return on Asset	3.20%	5.75%	7.29%	8.14%	8.80%	9.83%	11.45%	12.04%
Return on Equity	8.26%	14.07%	15.19%	15.04%	14.84%	15.11%	16.00%	15.59%
Liquidity								
Current Ratio	0.19	0.17	0.18	0.15	-0.08	0.02	0.29	0.45
Quick Ratio	0.17	0.14	0.15	0.12	-0.11	-0.01	0.26	0.42
Asset Utilization								
Total Asset Turnover	0.40	0.38	0.39	0.46	0.49	0.52	0.54	0.55
Financial Leverage								
Debt to Asset	61.20%	59.12%	52.00%	47.16%	40.70%	34.36%	28.05%	21.90%
Interest Coverage	3.15	4.81	5.81	4.70	5.90	8.86	18.90	60.88
Debt Service Coverage	0.74	0.93	1.17	4.70	5.90	8.86	18.90	60.88
Market Value								
Price to Earnings	27.92	25.06	19.74	20.44	18.41	15.81	12.70	11.45
Price to Sales	2.76	2.70	2.61	2.64	2.41	2.23	2.07	1.93
Price to Book	2.85	2.52	2.14	2.26	2.01	1.78	1.56	1.38
EV/EBITDA	17.84	12.80	11.26	9.68	8.85	8.17	7.36	6.85

Overview:

The financial condition chart above indicates our expectations for RCL 5 years forward, which highlights our assumptions (refer to appendix for more details), with specific attention paid to debt repayments and operational efficiencies. With an acquisition made by RCL over the past year, the impact on its balance sheet and income statements are expected to be material and thus included in our projections.

Venture into the luxury cruising segment to drive EBITDA growth

We expect income from Silversea to drive growth. Operating synergies realized through greater economies of scale from procurement, coupled with RCL's Double-Double program to improve operating efficiencies. Hence, a wider EBITDA margins is expected going forward. However, CapEx is also expected to be higher as a result of expansion activities and an increase in maintenance which will be required.

Higher on-board spending and pricing premium expands revenue

The discretionary spending from passengers is expected to propel RCL's on-board revenue segment as a result of a still strong macroeconomic environment. Coupled with RCL's greater pricing strategy will drive revenue growth.

Operating Margins

In the past 2 years, RCL has managed to improve their profit margins through their Double-Double program aimed at generating long-term cost savings. The success of this program has been reflected in RCL's 2Q2018 and 3Q2018 earnings, since despite lower revenues the cost control measures have managed to improve the company's margins. With the management targeting for a further improvement in cost savings through 2020. Hence, going forward the assumption that RCL's margins will be maintained in our financial projections. Furthermore, the company has a strong forward premium pricing compared to its competitors coupled with unrealised synergies for the Silversea acquisition.

Asset Turnover

Over the past year, RCL's long-term asset has increased as a result of expansion into the luxury cruising segment. However, the company's total asset turnover is expected to improve as a result of higher passenger demand.

Tax Burden
RCL is incorporated in Liberia, with headquarters in the US which enables RCL to avoid paying a hefty tax bill. Hence, there is no tax line item reported by the company.

Leverage
RCL is operating in a capital-intensive industry and coupled with the fact that the company is expanding its market share in the luxury cruising segment will likely see the company incurring higher cost of debt. However, this may not put RCL at a higher risk as cash flows for the company seem to be improving.

Valuations

Valuation Price Target: $127.47

DCF Model
A discounted cash flow analysis was used to estimate intrinsic value of RCL's share price given its strong cash flow generation capabilities. The primary model is forecasted over 5 years, accounting for RCL's plans for new terminals, cruise lines and luxury segments. On the revenue side, the model is driven by passenger tickets as well as onboard & other spending. On the cost front, working capital, COGS, SG&A and CapEx serve as crucial perimeters for projections due to their historical consistency. Three cases were formulated, with the base case consisting of guidance from historical performance, annual report, industry outlook, along with investor day presentations. The DCF is most sensitive to the following factors, derivation of which are explained below.

Weighted Average Cost of Capital (WACC)
To calculate Beta, linear regression of RCL's stock price was run against the S&P 500 for time frame of 12 months on a weekly basis and then averaged and adjusted. CAPM was used to estimate Cost of

Figure 18. WACC Buildup

Cost of equity		**13.52%**
	Risk free rate	3.1%
	Beta	1.73
	Market risk premium	6.0%
Cost of debt		**3.47%**
	Pre-tax cost of debt	3.54%
Tax rate		**2%**
Market cap (USD 'm)		22,938
Total debt (USD 'm)		7,539
WACC		**10.2%**

Source: Bloomberg, NUS Investment Society Estimates

Figure 19. Sensitivity Tables

Terminal Growth Rate	WACC 9.2%	9.7%	10.2%	10.7%	11.2%
1.000%	124.63	115.34	107.06	99.64	92.95
1.500%	133.19	122.82	113.65	105.48	98.15
2.000%	142.94	131.27	**121.04**	111.98	103.91
2.500%	154.15	140.91	129.39	119.28	110.34
3.000%	167.17	151.98	138.91	127.54	117.56

Exit Multiple	WACC 9.2%	9.7%	10.2%	10.7%	11.2%
10.0x	154.31	151.42	148.59	145.81	143.09
10.5x	161.87	158.85	155.90	153.00	150.16
11.0x	169.43	166.29	**163.21**	160.19	157.24
11.5x	176.99	173.72	170.52	167.39	164.31
12.0x	184.55	181.16	177.83	174.58	171.39

Source: NUS Investment Society Estimates

Equity, with the US Treasury 10-year yield as the risk-free rate. We used last fiscal year end interest expense divided by the latest two-year average debt to get the cost of debt. Tax shield was applied based on effective tax rate for last three years' income taxes.

Revenue Growth

A bottom-up approach was taken in our revenue projections. Our key drivers are (1) Passenger ticket sales and (2) Onboard spending & others. Our main assumptions lie in 5 variables: (1) Growth in Passenger Cruise Dates, (2) Growth in Available Passenger Cruise Dates, (3) Growth in Occupancy, (4) Growth in Passenger Tickets Sales and (5) Growth in Onboard & other spending.

Terminal Growth

As the industry becomes increasingly competitive and more markets hitting saturation point, RCL's growth rate will definitely slow down. We estimate this rate to reach 2% as increased competitiveness and saturation in the cruise industry will slow growth in the long run.

Relative Valuation

Based on P/E and P/B, RCL is fairly priced relative to peers. Given the leadership position for customer satisfaction and strong booking for upcoming seasons, we believe 10-20% premium to peers is justified.

Relative Valuation was primarily focused on P/E multiple. This is due to:

1) Similar trends in historical multiple movements
2) Competitors having similar phases of growth and comparable size
3) RCL having a median P/E ratio among comparables eliminating the risk of a reversion to the industry mean in the longer term

Investment Risks

Market Risks

Rising fuel prices are creating high levels of uncertainty. The price of crude oil has risen a staggering 52.2% in the past 12 months. While oil prices are cooling off recently dropping below US$80 in September, high levels of uncertainty regarding the demand and supply of oil created upward pressure back to an October high of $81.42. Fears of tightening oil supply over the ongoing Saudi Arabia spat as well as US trade sanctions on Iran pose an upward pressure on fuel costs.

Regulatory risk

Environmental enactments could increase RCL's operating costs. There is increasing global regulatory focus on climate change and greenhouse gas emissions, and the highly polluting cruise line industry is under intense scrutiny. Any new regulation regarding emissions controls or fuel controls will most likely increase RCL operating costs.

Currency risk

Royal Caribbean generates just under 50% of its revenues from customers outside the United States. Hence, the company is highly exposed to the impact of currency translation - continued appreciation of the US dollar will likely impact RCL's earnings negatively.

Interest rate risk

US Federal Reserves has forecasted 4 rate hikes - 1 in end of 2018 and 3 in 2019, with an eventual interest rate of 3.5% from 2.25%. Hence, with a rising interest rate environment, consumer discretionary industry sector will be adversely affected as consumers will have lower disposable income and would spend less on big ticket items such as ultra-luxury cruises.

Disclaimer

Appendix:

Pro Forma Financial Statements

Income Statement

Royal Caribbean Cruises Ltd.
3 Financial Statements

(USD in millions unless otherwise stated)	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Income Statement								
Net sales	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
Cost of sales, exclusive of depreciation and amortization	(1,033)	(979)	(988)	(1,208)	(1,320)	(1,431)	(1,538)	(1,653)
Gross profit	**7,266**	**7,517**	**7,790**	**9,078**	**9,924**	**10,756**	**11,560**	**12,425**
Salaries, wages and employee benefits	(862)	(883)	(853)	(1,046)	(1,143)	(1,239)	(1,331)	(1,431)
Selling, general and administrative expenses	(1,087)	(1,100)	(1,186)	(1,234)	(1,349)	(1,462)	(1,572)	(1,689)
D&A	(827)	(895)	(951)	(1,026)	(1,191)	(1,280)	(1,328)	(1,431)
Other operating expenses	(1,008)	(1,090)	(1,011)	(1,080)	(1,181)	(1,280)	(1,375)	(1,478)
Restructuring expenses	-	(9)	-	-	-	-	-	-
Commission expenses	(1,401)	(1,350)	(1,363)	(1,656)	(1,810)	(1,962)	(2,109)	(2,267)
Transporation fuel expenses	(796)	(714)	(681)	(926)	(1,012)	(1,097)	(1,048)	(1,126)
Loss on impairment of intangible assets	(411)	-	-	-	-	-	-	-
Operating income (EBIT)	**875**	**1,477**	**1,744**	**2,110**	**2,238**	**2,436**	**2,797**	**3,002**
Interest expense, net	(278)	(307)	(300)	(449)	(379)	(275)	(148)	(49)
Interest income	12	21	30	30	30	30	30	30
Equity investment income	81	128	156	156	156	156	156	156
Income before taxes	690	1,319	1,631	1,847	2,045	2,347	2,835	3,139
Tax Expense	(24)	(36)	(5)	37	41	47	57	63
Net income	**666**	**1,284**	**1,625**	**1,810**	**2,004**	**2,300**	**2,778**	**3,077**
Net income per share (USD) attributable to RCL:								
Basic	3.10	5.96	7.40	8.24	9.13	10.48	12.66	14.01
Diluted	3.10	5.93	7.37	8.20	9.08	10.42	12.59	13.94
Weighted-average shares outstanding:								
Basic	215	215	220	220	220	220	220	220
Diluted	215	216	221	221	221	221	221	221
EBITDA	**1,702**	**2,372**	**2,696**	**3,137**	**3,429**	**3,716**	**4,125**	**4,434**
EBIT	**875**	**1,477**	**1,744**	**2,110**	**2,238**	**2,436**	**2,797**	**3,002**

Balance Sheet

(USD in millions unless otherwise stated)	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Balance Sheet								
Assets:								
Cash and equivalents	122	133	120	(197)	(1,250)	(878)	453	1,396
Receivables	239	292	319	341	373	404	434	467
Inventories	121	114	111	140	153	165	178	191
Other current assets	355	210	293	346	378	410	440	473
Total current assets	**837**	**748**	**843**	**629**	**(347)**	**101**	**1,505**	**2,527**
Property and equipment, net	18,778	20,161	19,735	19,880	21,394	21,579	21,039	21,301
Goodwill	287	288	289	289	289	289	289	289
Other assets	880	1,112	1,430	1,430	1,430	1,430	1,430	1,430
Total non-current assets	**19,945**	**21,562**	**21,453**	**21,598**	**23,112**	**23,297**	**22,757**	**23,019**
Total assets	**20,782**	**22,310**	**22,296**	**22,227**	**22,765**	**23,398**	**24,262**	**25,546**
Liabilities:								
Accounts payable	302	305	360	390	426	462	497	534
Accrued interest	38	47	47	54	59	64	69	74
Current portion of LT Debt	900	1,286	1,189	-	-	-	-	-
Accrued expenses and other liabilities	659	692	903	909	994	1,077	1,158	1,245
Derivative financial instruments	652	147	47	334	365	395	425	457
Customer deposits	1,742	1,965	2,244	2,401	2,625	2,845	3,058	3,287
Total current liabilities	**4,293**	**4,443**	**4,790**	**4,088**	**4,469**	**4,844**	**5,206**	**5,596**
LT Debt	7,628	8,102	6,351	6,394	4,795	3,197	1,598	-
Other LT liabilities	799	646	453	-	-	-	-	-
Total long-term liabilities	**8,426**	**8,747**	**6,804**	**6,394**	**4,795**	**3,197**	**1,598**	**-**
Total Liabilities	**12,719**	**13,190**	**11,594**	**10,482**	**9,265**	**8,041**	**6,804**	**5,596**
Equity:								
Class A Common Stock	2	2	2	2	2	2	2	2
Paid-in capital	3,298	3,329	3,390	3,390	3,390	3,390	3,390	3,390
Retained earnings	6,945	7,860	9,022	10,351	11,826	13,544	15,682	18,054
Accumulated other comprehensive loss, net of tax	(1,328)	(916)	(334)	(334)	(334)	(334)	(334)	(334)
Treasury stock	(853)	(1,153)	(1,378)	(1,378)	(1,378)	(1,378)	(1,378)	(1,378)
Total RCL stockholders' equity	**8,063**	**9,121**	**10,702**	**12,031**	**13,506**	**15,224**	**17,362**	**19,734**
Total liabilities and stockholders' equity	**20,782**	**22,312**	**22,296**	**22,513**	**22,771**	**23,265**	**24,166**	**25,329**

Cash Flow Statement

(USD in millions unless otherwise stated)	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Cash Flow Statement								
Operating:								
Net income	**666**	**1,284**	**1,625**	**1,810**	**2,004**	**2,300**	**2,778**	**3,077**
Adjustments:								
Depreciation And Amortization - CF	827	895	951	1,026	1,191	1,280	1,328	1,431
Deferred Income Taxes - CF	(10)	3	2	-	-	-	-	-
Restructuring Charges - CF	0	0	0	-	-	-	-	-
Disposal/Sale of Assets	0	0	(31)	-	-	-	-	-
Stock Based Compensation	36	33	70	46	49	55	50	52
Other Non-Cash Items	111	99	(16)					
Change in Inventories	1	(2)	2	(28)	(32)	(31)	(30)	(33)
Change in Accounts Payable	(25)	30	37	(30)	(13)	(13)	(12)	(13)
Change in Accounts Receivable	63	5	(32)	(22)	(32)	(32)	(31)	(33)
Change in Prepaid Expenses	(2)	12	21					
Change in Accrued Expenses	23	29	36	6	85	83	81	87
Change in Other Current Assets	0	0	0	-	-	-	-	-
Change in Other Current Liabilities	0	0	0	-	-	-	-	-
Equity In Earnings Of Affiliates/JV-CF	(81)	(128)	(156)	(122)	(135)	(138)	(132)	(135)
Impairments	411	0	0	-	-	-	-	-
Change In Other Assets And Liabilities	19	72	92	61	75	76	70	74
Change in Deposits	(93)	189	275	124	196	198	172	189
Net cash provided by operating activities	**1,947**	**2,517**	**2,875**	**2,871**	**3,387**	**3,779**	**4,275**	**4,695**
Investing:								
Disposal of Fixed Assets	0	0	230	-	-	-	-	-
Capital Expenditures	(1,613)	(2,494)	(564)	(1,029)	(2,249)	(1,219)	(655)	(1,408)
Purchases of Investments	(56)	(9)	(10)	(25)	(15)	(17)	(19)	(17)
Other Investing Activities	(74)	(221)	131	(55)	(48)	9	(31)	(23)
Net cash from investing activities	**(1,743)**	**(2,725)**	**(214)**	**(1,109)**	**(2,312)**	**(1,226)**	**(705)**	**(1,448)**
Financing:								
Debt issuance costs	(68)	(88)	(52)	-	-	-	-	-
Increase in LT Borrowings	4,400	7,339	5,867	-	-	-	-	-
Decrease of LT Borrowings	(4,119)	(6,366)	(7,835)	(1,598)	(1,598)	(1,598)	(1,598)	(1,598)
Purchase of Treasury Stock	(200)	(300)	(225)	-	-	-	-	-
Dividends paid	(280)	(346)	(437)	(481)	(529)	(582)	(640)	(705)
Proceeds from exercise of common stock options	11	2	3	-	-	-	-	-
Other, net	3	3	4	-	-	-	-	-
Net cash used for financing activities	**(254)**	**244**	**(2,676)**	**(2,080)**	**(2,128)**	**(2,181)**	**(2,239)**	**(2,303)**
Effect of exchange rates on cash	(18)	(25)	2	-	-	-	-	-
Net increase (decrease) in cash and equivalents	68	11	(12)	(317)	(1,053)	372	1,331	943
Cash and equivalents, beginning of period	189	122	133	120	(197)	(1,250)	(878)	453
Cash and equivalents, end of period	**257**	**133**	**120**	**(197)**	**(1,250)**	**(878)**	**453**	**1,396**

Revenue Projections

Royal Caribbean Cruises Ltd.

Revenue Drivers

	Units	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Net Sales	US$ m	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
Sales by Segment:									
Passenger Tickets	US$ m	6,059	6,149	6,313	7,438	8,164	8,916	9,643	10,429
% of total	%	*73%*	*72%*	*72%*	*72%*	*73%*	*73%*	*74%*	*74%*
% y/y	%		*1%*	*3%*	*18%*	*10%*	*9%*	*8%*	*8%*
Onboard & Other	US$ m	2,240	2,347	2,465	2,848	3,081	3,271	3,455	3,649
% of total	%	*27%*	*28%*	*28%*	*28%*	*27%*	*27%*	*26%*	*26%*
% y/y	%		*5%*	*5%*	*16%*	*8%*	*6%*	*6%*	*6%*
Total net sales	US$ m	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
Assumptions									
Passenger Cruise Dates	M	38.52	40.25	40.03	44.91	47.63	50.26	52.78	55.41
Available Passenger Cruise Dates	M	36.65	37.84	36.93	40.62	42.65	44.79	47.03	49.38
y/y growth (%)	%		3.2%	-2.4%	10.0%	5.0%	5.0%	5.0%	5.0%
Occupancy	%	105.1%	106.4%	108.4%	110.6%	111.7%	112.2%	112.2%	112.2%
y/y growth (%)	%		*1.2%*	*1.9%*	2.0%	1.0%	0.5%	0.0%	0.0%
Passenger Tickets	US$ M	6058.8	6149.3	6313.2	7437.6	8163.6	8916.2	9642.8	10428.7
y/y growth (%)	%		*1.5%*	*2.7%*	*17.8%*	*9.8%*	*9.2%*	*8.2%*	*8.2%*
Passenger Ticket per Passenger Cruise Dates	US$	157.29	152.78	157.71	165.60	171.39	177.39	182.71	188.20
y/y growth (%)	%		*-2.9%*	*3.2%*	5.0%	3.5%	3.5%	3.0%	3.0%
Onboard & Other	US$ M	2347.1	2462.5	2464.7	2848.4	3081.1	3270.8	3455.0	3649.5
y/y growth (%)	%		*4.9%*	*0.1%*	*15.6%*	*8.2%*	*6.2%*	*5.6%*	*5.6%*
Onboard & Other per Passenger Cruise Dates	US$	60.93	61.18	61.57	63.42	64.69	65.07	65.47	65.86
y/y growth (%)	%		*0.4%*	*0.6%*	3.0%	2.0%	0.6%	0.6%	0.6%

Expenses

	Units	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Expenses									
Net Sales	US$ m	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
Cost of goods sold	US$ m	1,033	979	988	1,208	1,320	1,431	1,538	1,653
% of revenue	%	*12%*	*12%*	*11%*	12%	12%	12%	12%	12%
Salaries, wages and employee benefits	US$ m	862	883	853	1,046	1,143	1,239	1,331	1,431
% of revenue	%	*10%*	*10%*	*10%*	10%	10%	10%	10%	10%
Selling, general and administrative expenses	US$ m	1,087	1,100	1,186	1,234	1,349	1,462	1,572	1,689
% of revenue	%	*13%*	*13%*	*14%*	12%	12%	12%	12%	12%
Other operating expenses	US$ m	1,008	1,090	1,011	1,080	1,181	1,280	1,375	1,478
% of revenue	%	*12.1%*	*12.8%*	*11.5%*	10.5%	10.5%	10.5%	10.5%	10.5%
Commission expenses	US$ m	1,401	1,350	1,363	1,656	1,810	1,962	2,109	2,267
% of revenue	%	*16.9%*	*15.9%*	*15.5%*	16.1%	16.1%	16.1%	16.1%	16.1%
Transporation fuel expenses	US$ m	796	714	681	926	1,012	1,097	1,048	1,126
% of revenue	%	*9.6%*	*8.4%*	*7.8%*	9.0%	9.0%	9.0%	8.0%	8.0%

NWC

Working Capital									
Net Sales	US$ m	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
COGS	US$ m	1,033	979	988	1,208	1,320	1,431	1,538	1,653
Receivables	US$ m	239	292	319	341	373	404	434	467
Inventories	US$ m	121	114	111	140	153	165	178	191
Other Current Assets	US$ m	355	210	293	346	378	410	440	473
Accounts payable	US$ m	302	305	360	390	426	462	497	534
Accrued interest	US$ m	38	47	47	54	59	64	69	74
Current portion of LT Debt	US$ m	900	1,286	1,189	-	-	-	-	-
Accrued expenses and other liabilities	US$ m	659	692	903	909	994	1,077	1,158	1,245
Derivative financial instruments	US$ m	652	147	47	334	365	395	425	457
Customer deposits	US$ m	1,742	1,965	2,244	2,401	2,625	2,845	3,058	3,287
Assumptions									
Receivables as % of revenue	%	2.88%	3.44%	3.63%	3.3%	3.3%	3.3%	3.3%	3.3%
Inventories as % of COGS	%	11.7%	11.7%	11.3%	11.6%	11.6%	11.6%	11.6%	11.6%
Other Current Assets as % of revenue	%	4.28%	2.47%	3.34%	3.4%	3.4%	3.4%	3.4%	3.4%
Accounts payable as % of COGS	%	29.2%	31.2%	36.4%	32.3%	32.3%	32.3%	32.3%	32.3%
Accrued interest as % of COGS	%	3.7%	4.8%	4.8%	4.5%	4.5%	4.5%	4.5%	4.5%
Accrued expenses and other liabilities as % of COGS	%	63.8%	70.7%	91.4%	75.3%	75.3%	75.3%	75.3%	75.3%
Derivative financial instruments as % of COGS	%	63.1%	15.0%	4.8%	27.6%	27.6%	27.6%	27.6%	27.6%
Customer deposits as % of COGS	%	168.7%	200.8%	227.1%	198.8%	198.8%	198.8%	198.8%	198.8%
Days sales outstanding	#		11.4	12.7	11.7	11.6	11.6	11.7	11.7
Days sales in inventory	#		43.9	41.7	37.9	40.4	40.6	40.7	40.7
Days payable outstanding	#		113.2	122.9	113.3	112.8	113.3	113.8	113.8
Cash conversion cycle	#		**-57.9**	**-68.6**	**-63.7**	**-60.9**	**-61.1**	**-61.4**	**-61.4**

Fixed Assets:

Fixed Assets									
Net Sales	US$ m	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
Plant, Property & Equipment									
Ships	US$ m			23,715	24,743	26,992	28,211	28,866	30,274
Ship improvements	US$ m			2,411	2,501	2,698	2,804	2,862	2,985
Ships under construction	US$ m			642	666	863	970	1,027	1,150
Land, buildings and improvements	US$ m			250	250	250	250	250	250
Computer hardware and software	US$ m			763	791	853	887	905	944
Total Gross PPE	US$ m			**27,780**	**28,951**	**31,656**	**33,122**	**33,910**	**35,603**
Less: Accumulated decpreciation	US$ m			8,045	9,071	10,263	11,543	12,871	14,302
Total Net PPE	US$ m			**19,735**	**19,880**	**21,394**	**21,579**	**21,039**	**21,301**

FY2017A PPE:	Value	% of total PPE	Avg Useful life	% of capex
Ships	23,715	86.1%	30 yrs	86.1%
Ship improvements	2,411	8.8%	12 yrs	8.8%
Ships under construction	642	2.3%	12 yrs	2.3%
Computer hardware and software	763	2.8%	7 yrs	2.8%
Land, buildings and improvements	250	0.9%	25 yrs	N.A.
Total PPE	**27,530**	100.0%		
Weighted Average PPE Useful Life	**27 yrs**			

Capital Expenditure	US$ m	1,613	2,494	564	1,029	2,249	1,219	654.89	1,408
as % of revenue	%	19.4%	29.4%	6.4%	10.0%	20.0%	10.0%	5.0%	10.0%
Capex added to:									
Ships	US$ m				886	1,937	1,050	564	1,213
Ship improvements	US$ m				90	197	107	57	123
Ships under construction	US$ m				24	52	28	15	33
Computer hardware and software	US$ m				28	62	34	18	39
Depreciation									
Total depreciation	US$ m				1,026	1,191	1,280	1,328	1,431
Depreciation Method:									
Useful life									
Depreciation - % of revenue method									
Annual Depreciation	US$ m		895	951	1,115	1,219	1,321	1,419	1,526
% of revenue	%		10.5%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Depreciation - Useful Life Method									
Depreciation of existing PPE	US$ m		895	951	951	951	951	951	951
Depreciation of new PPE	US$ m				75	240	329	377	480
Total	US$ m				**1,026**	**1,191**	**1,280**	**1,328**	**1,431**

Depreciation of additions to ships:

Average useful life: **12 yrs**

Fiscal year	Capex	2018E	2019E	2020E	2021E	2022E
2018E	886	63	63	63	63	63
2019E	1,937		137	137	137	137
2020E	1,050			74	74	74
2021E	564				40	40
2022E	1,213					86
Total		**63**	**200**	**274**	**314**	**400**

Depreciation of additions to ship improvements:

Average useful life: **12 yrs**

Fiscal year	Capex	2018E	2019E	2020E	2021E	2022E
2018E	90	8	8	8	8	8
2019E	197		16	16	16	16
2020E	107			9	9	9
2021E	57				5	5
2022E	123					10
Total		**8**	**24**	**33**	**38**	**48**

Depreciation of additions to ships under construction:

Average useful life: **25 yrs**

Fiscal year	Capex	2018E	2019E	2020E	2021E	2022E
2018E	24	1	1	1	1	1
2019E	52		2	2	2	2
2020E	28			1	1	1
2021E	15				1	1
2022E	33					1
Total		**1**	**3**	**4**	**5**	**6**

Depreciation of additions to computer hardware:

Average useful life: **7 yrs**

Fiscal year	Capex	2018E	2019E	2020E	2021E	2022E
2018E	28	4	4	4	4	4
2019E	62		9	9	9	9
2020E	34			5	5	5
2021E	18				3	3
2022E	39					6
Total		**4**	**13**	**18**	**20**	**26**

Debt:

Debt

Net Sales	US$ '000	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
Cash	US$ '000	122	133	120	(197)	(1,250)	(878)	453	1,396
Cash as % of revenue	%	*1.5%*	*1.6%*	*1.4%*	*-1.9%*	*-11.1%*	*-7.2%*	*3.5%*	*9.9%*
Total interest expense	US$ '000				**449**	**379**	**275**	**148**	**49**
Target minimum cash balance	US$ '000				151	165	178	192	206
% of revenue	%				*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Cashflow before short-term/revolver borrowings									
Cash from operations	US$ '000				2,871	3,387	3,779	4,275	4,695
Cash from investing	US$ '000				(1,109)	(2,312)	(1,226)	(705)	(1,448)
Cash from financing	US$ '000				(2,080)	(2,128)	(2,181)	(2,239)	(2,303)
(+) Beginning cash balance	US$ '000				120	(197)	(1,250)	(878)	453
(+) Cash from new long-term borrowings	US$ '000				-	-	-	-	-
(-) Target minimum cash balance	US$ '000				(151)	(165)	(178)	(192)	(206)
Available cash before short-term borrowings	US$ '000				**(348)**	**(1,415)**	**(1,057)**	**261**	**1,190**

Short-term borrowings

Average interest rate:	*3.22%*					
Beginning balance	US$ '000	-	348	1,763	-	-
(+) Additions	US$ '000	348	1,763	-	-	-
(-) Principal repayments	US$ '000	-	(348)	(1,763)	-	-
Ending balance	US$ '000	348	1,763	-	-	-
Interest expense	US$ '000	6	34	28	-	-

Long-term borrowings

Type:	Principal:	Int Rate: *(3 month LIBOR + spread)*	Maturity:
Term loan facility	6,351	*6.17%*	2021
Weighted average interest rate:	**6.17%**		

Beginning balance	US$ '000	7,992	6,394	4,795	3,197	1,598
(-) Repayment	US$ '000	(1,598)	(1,598)	(1,598)	(1,598)	(1,598)
(+) Issuance	US$ '000	-	-	-	-	-
Ending balance	US$ '000	**6,394**	**4,795**	**3,197**	**1,598**	**-**
Interest expense	US$ '000	444	345	247	148	49
Total proceeds from borrowings	US$ '000	**348**	**1,763**	**-**	**-**	**-**
Total repayments	US$ '000	**(1,598)**	**(1,946)**	**(3,361)**	**(1,598)**	**(1,598)**

Retained Earnings

Retained Earnings & Dividends

Retained Earnings									
Beginning balance	US$ '000				9,022	10,351	11,826	13,544	15,682
(+) Net income	US$ '000				1,810	2,004	2,300	2,778	3,077
(-) Dividends paid	US$ '000				(481)	(529)	(582)	(640)	(705)
Ending balance	US$ '000				10,351	11,826	13,544	15,682	18,054
Dividends									
Cash dividend per share	US$	1.29	1.61	2.05	2.26	2.48	2.73	3.00	3.30
Basic shares outstanding	# '000	218	215	213	213	213	213	213	213
Cash dividends paid	US$ '000	280	346	437	481	529	582	640	705

Relative Valuations Comps

Name	Crncy	Mkt Cap (US$mn)	EV (US$mn)	P/E (x) 2018E	P/E (x) 2019E	P/E (x) 2020E	EV/EBITDA (x) 2018E	EV/EBITDA (x) 2019E	EV/EBITDA (x) 2020E	Price/FCF (x) 2018E	Dividend Yield (%) 2018E
ROYAL CARIBBEAN CRUISE	USD	20.80B	31.26B	11.4x	11.2x	10.0x	10.9x	10.6x	9.2x	43.12x	2.5%
Core Peer Group											
NORWEGIAN CRUISE LINE	USD	9.37B	16.00B	11.3x	8.8x	8.2x	9.6x	8.4x	7.8x	27.37x	--
CARNIVAL PLC	USD	37.55B	46.64B	12.9x	12.7x	11.6x	8.9x	8.7x	8.2x	19.00x	3.5%
Mean				**12.1x**	**10.8x**	**9.9x**	**9.2x**	**8.6x**	**8.0x**	**23.2x**	**0.0x**
Median				**12.1x**	**10.8x**	**9.9x**	**9.2x**	**8.6x**	**8.0x**	**23.2x**	**0.0x**
Hotels, Resorts and Cruise Lines											
HILTON WORLDWIDE HOLD	USD	20.34B	27.30B	26.8x	25.3x	21.6x	15.2x	13.1x	12.1x	18.80x	0.9%
CHINA INTERNATIONAL TR	USD	13.87B	12.41B	30.7x	26.2x	21.0x	17.7x	15.5x	12.4x	25.58x	1.1%
ACCOR SA	USD	13.24B	12.43B	77.4x	30.4x	23.0x	16.7x	15.3x	12.9x	--	2.6%
TUI AG-DI	USD	9.72B	9.81B	10.5x	12.1x	10.6x	6.6x	5.2x	5.1x	--	4.5%
HUAZHU GROUP LTD-ADR	USD	7.46B	8.07B	34.6x	32.0x	23.2x	20.1x	18.4x	14.4x	25.11x	0.6%
INTERCONTINENTAL HOTEL	USD	9.88B	11.69B	16.2x	18.2x	16.5x	12.3x	13.1x	12.1x	15.27x	1.9%
NORWEGIAN CRUISE LINE H	USD	9.37B	16.00B	11.3x	8.8x	8.2x	9.6x	8.4x	7.8x	27.37x	--
HYATT HOTELS CORP - CL	USD	7.31B	7.72B	41.5x	34.0x	33.0x	11.1x	10.1x	9.6x	201.68x	0.7%
MINOR INTERNATIONAL PC	USD	4.79B	7.17B	27.7x	26.6x	23.3x	22.1x	19.0x	16.9x	--	1.2%
CARNIVAL CORP	USD	37.55B	46.64B	12.9x	12.7x	11.6x	8.9x	8.7x	8.2x	19.00x	3.5%
SHANGRI-LA ASIA LTD	USD	4.81B	9.50B	19.2x	20.3x	17.4x	15.6x	14.6x	13.4x	20.21x	1.8%
FLIGHT CENTRE TRAVEL GR	USD	3.30B	2.24B	17.7x	15.7x	14.4x	7.3x	6.6x	6.1x	17.61x	3.6%
WYNDHAM HOTELS & RESO	USD	4.53B	6.26B	--	16.8x	13.7x	--	12.6x	10.0x	--	1.1%
MARRIOTT VACATIONS WO	USD	3.98B	3.50B	14.2x	11.9x	10.0x	12.0x	7.7x	4.3x	13.81x	1.9%
Mean				**26.2x**	**20.8x**	**17.7x**	**13.5x**	**12.0x**	**10.4x**	**38.4x**	**0.0x**
Median				**19.2x**	**19.3x**	**17.0x**	**12.3x**	**12.8x**	**11.0x**	**19.6x**	**0.0x**

Discounted Cash Flow

DCF Calculation

		Historicals 2015A	Historicals 2016A	Historicals 2017A	Forecast Period 2018E	Forecast Period 2019E	Forecast Period 2020E	Forecast Period 2021E	Forecast Period 2022E
Revenue	US$ '000	**8,299**	**8,496**	**8,778**	**10,286**	**11,245**	**12,187**	**13,098**	**14,078**
% y/y	%		*2.4%*	*3.3%*	*17.2%*	*9.3%*	*8.4%*	*7.5%*	*7.5%*
Gross Profit	US$ '000	7,266	7,517	7,790	9,078	9,924	10,756	11,560	12,425
Margin (%)	%	*87.6%*	*88.5%*	*88.7%*	*88.3%*	*88.3%*	*88.3%*	*88.3%*	*88.3%*
EBITDA	US$ '000	1,702	2,372	2,696	3,137	3,429	3,716	4,125	4,434
Margin (%)	%	*20.5%*	*27.9%*	*30.7%*	*30.5%*	*30.5%*	*30.5%*	*31.5%*	*31.5%*
EBIT	US$ '000	875	1,477	1,744	2,110	2,238	2,436	2,797	3,002
Margin (%)	%	*10.5%*	*17.4%*	*19.9%*	*20.5%*	*19.9%*	*20.0%*	*21.4%*	*21.3%*
Income Tax	US$ '000	24	36	5	37	41	47	57	63
Tax rate (%)	%	*0.0%*	*0.0%*	*0.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
NOPAT	US$ '000	**851**	**1,441**	**1,739**	**2,073**	**2,197**	**2,389**	**2,740**	**2,940**
Margin (%)	%	*10.3%*	*17.0%*	*19.8%*	*20.2%*	*19.5%*	*19.6%*	*20.9%*	*20.9%*
Add: D&A	US$ '000	827	895	951	1,026	1,191	1,280	1,328	1,431
% of revenue	%	*10.0%*	*10.5%*	*10.8%*	*10.0%*	*10.6%*	*10.5%*	*10.1%*	*10.2%*
Less: Capex	US$ '000	1,613	2,494	564	1,029	2,249	1,219	655	1,408
% of revenue	%	*19.4%*	*29.4%*	*6.4%*	*10.0%*	*20.0%*	*10.0%*	*5.0%*	*10.0%*
Less: Increase in NWC	US$ '000	(390)	56	93	80	77	76	73	79
% of revenue	%	*-4.7%*	*0.7%*	*1.1%*	*0.8%*	*0.7%*	*0.6%*	*0.6%*	*0.6%*
FCFF	US$ '000	**455**	**(214)**	**2,034**	**1,991**	**1,062**	**2,375**	**3,340**	**2,884**
Period proration factor	#				0.15	1.00	1.00	1.00	1.00
Prorated FCFF	US$ '000				**294**	**1,062**	**2,375**	**3,340**	**2,884**
Discount Period	#								
Discount Factor	#				0.07	0.65	1.65	2.65	3.65
Discounted Cash Flow	US$ '000				**292**	**998**	**2,025**	**2,587**	**2,028**

Ratios:

Financial Ratios	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Profitability								
Net Profit Margin	6.7%	5.9%	5.9%	6.0%	6.0%	6.0%	6.0%	6.1%
Return on Asset	9.9%	8.1%	8.8%	9.0%	9.2%	9.5%	9.8%	10.0%
Return on Equity	15.4%	13.9%	15.5%	15.2%	14.5%	13.8%	13.1%	12.3%
Liquidity								
Current Ratio	3.7	3.1	3.3	3.4	3.5	3.6	3.6	3.7
Cash Ratio	1.4	0.3	0.4	0.5	0.5	0.6	0.6	0.7
Asset Utilization								
Total Asset Turnover	1.5	1.4	1.5	1.5	1.5	1.6	1.6	1.6
Inventory Turnover	2.9	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Receivables Turnover	11.0	9.1	9.1	9.1	9.1	9.1	9.1	9.1
Financial Leverage								
LT Debt to Assets	12.2%	21.9%	23.4%	20.8%	16.5%	11.9%	5.9%	0.0%
LT Debt to Equity	18.9%	37.6%	41.2%	35.0%	25.7%	17.3%	7.9%	0.0%
Debt to Equity	21.0%	40.1%	43.2%	36.5%	27.0%	18.3%	8.7%	0.7%
Debt to Asset	14%	23%	24%	22%	17%	13%	7%	1%
Interest Coverage	65	27	47	50	56	101	117	237
Debt Service Coverage	39	16	27	29	33	60	70	142
Market Value								
Price to Earnings	90	81	57	46	39	34	30	27
EV/EBITDA	44	39	27	22	18	15	13	12

Extended Du Pont Analysis:

Du Pont Analysis	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Tax Burden								
Earnings Before Taxes	342,210	386,685	561,979	701,918	830,365	968,756	1,103,189	1,226,744
Net Income	208,042	232,573	337,187	421,151	498,219	581,253	661,913	736,046
Tax Burden Ratio	60.8%	60.1%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Interest Burden								
Earnings Before Taxes	342,210	386,685	561,979	701,918	830,365	968,756	1,103,189	1,226,744
EBIT	347,545	401,313	574,021	715,996	845,132	977,921	1,112,100	1,231,286
Interest Burden Ratio	98.5%	96.4%	97.9%	98.0%	98.3%	99.1%	99.2%	99.6%
Profitability								
Revenue	3,084,370	3,963,313	5,668,949	7,071,078	8,346,408	9,657,820	10,982,953	12,160,015
EBIT	347,545	401,313	574,021	715,996	845,132	977,921	1,112,100	1,231,286
Operating Profit Margin	11.3%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Asset Turnovers								
Revenue	3,084,370	3,963,313	5,668,949	7,071,078	8,346,408	9,657,820	10,982,953	12,160,015
Total Assets	2,095,083	2,868,900	3,836,850	4,658,259	5,389,457	6,089,008	6,747,216	7,395,202
Total Asset Turnover	1.5	1.4	1.5	1.5	1.5	1.6	1.6	1.6
Financial Leverage								
Total Assets	2,095,083	2,868,900	3,836,850	4,658,259	5,389,457	6,089,008	6,747,216	7,395,202
Total Equity	1,350,300	1,668,222	2,177,409	2,772,280	3,445,956	4,204,421	5,045,318	5,962,138
Asset/Equity Ratio	1.6	1.7	1.8	1.7	1.6	1.4	1.3	1.2
ROE	15.4%	13.9%	15.5%	15.2%	14.5%	13.8%	13.1%	12.3%