Royal Caribbean Group ("RCL")

Overweight

Fixed Income Department – Consumer Goods

Date: 8th Dec. 2022

Analysts

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Basic Issuer Information

Issuer	Royal Caribbean Ltd
Equity Ticker	NYSE: RCL
Corporate Ticker	RCL Co. Ltd
Credit Rating (M/S/F)	B2/B/-
Sector	Consumer Discretionary

RCL vs S&P500 1Y Price Trend (Rebase to 100)

Company Description

Royal Caribbean is one of the leading cruise companies in the world. RCL controls and operates three global cruise brands: Royal Caribbean International, Celebrity Cruises and Silversea Cruises (collectively, our "Global Brands").

RCL also own a 50% joint venture interest in TUI Cruises GmbH ("TUIC"), that operates the German brands TUI Cruises and Hapag-Lloyd Cruises (collectively, our "Partner Brands"). RCL operates a combined total of 61 ships in the cruise vacation industry with an aggregate capacity of approximately 140,855 berths as of December 31, 2021.

Key Financials

(US$b)	FY18A	FY19A	FY20A	FY21E
Revenue	9.43	10.9	2.2	1.5
Gr Rate (%)	8.2	15.3	(79.8)	(30.6)
EBITDA	1.8	2.1	(3.0)	(3.7)
Margin (%)	19.1	17.2	(262.5)	(343.7)
ROA	4.7	4.5	(6.0)	(7.3)
Debt/Asset	0.3x	0.3x	0.6x	0.6x
OCF Ratio	0.49	0.47	(0.82)	(0.26)

Key Executives

Jason T. Liberty	Chief Executive Officer
Richard D. Fain	Chairman
Naftali Holtz	Chief Financial Officer

Strength in Waves of Volatility

Recommendations

We are initiating coverage of Royal Caribbean (NYSE RCL). We have given an overall issuer profile rating of "overweight".

We have given an issuer profile rating of "overweight" to RCL bonds with 1-5 years maturity over 5-10 years maturity. Within 1-5 years maturity we are "overweight" RCL 4.25 1-Jun-2023 over RCL 2.88 15-Nov-2023. Within 5-10 years maturity, we are "overweight" RCL 5.50% 30-April-2028 over RCL 9.25% 6-Jan-2029.

Recent Developments

- Rising load factors as reopening takes place globally
- Operating cash flow turned positive in 2Q22
- Shift to LNG cruise ships
- New terminal and cruises to provide new customer experience

Key Credit Considerations

Despite the adverse economic environment in 2022, RCL is still able to excel due to its unique position as a leading global cruise service provider. Demand for RCL cruise services is expected to remain strong and this will have a positive influence on RCL's credit strength for the years to come.

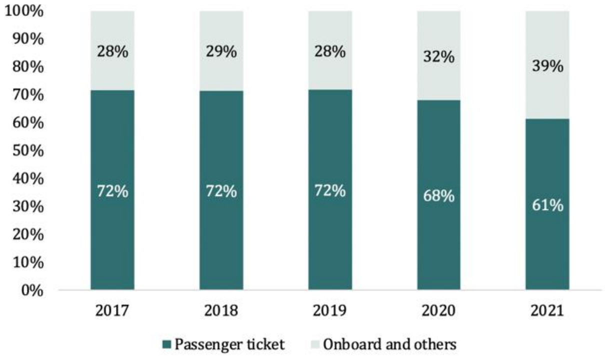
Credit Positives

- Strong momentum in RCL bookings from global reopening
- Strong infrastructure and operating processes to maintain RCL's product advantage with projected increase in demand across geographies
- Recovering margins from COVID-19 pandemic with improving interest coverage and moderation in CAPEX

Credit Negatives

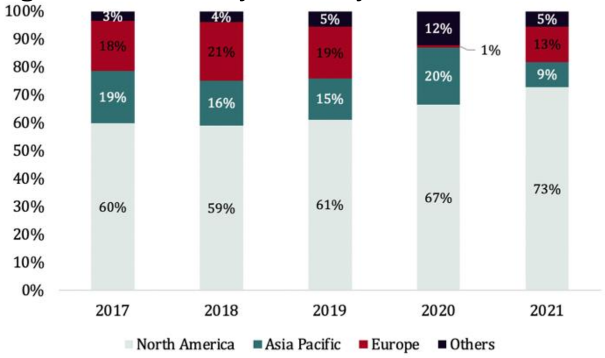
- RCL bookings face potential slowdown in key market U.S. and globally as a global recession loom
- Heavy long-term debt financing after the COVID-19 pandemic will lead to rising refinancing costs going forward

Figure 1: Revenue by Business Segments



Source: RCL Annual Report

Figure 2: Revenue by Itinerary



Source: RCL 2021 Annual Report

Figure 3: RCL's Close Competitors

Top Competitors of Royal Caribbean Group
Carnival Corporation and Plc
Norwegian Cruise Line Holding Limited
Crystal Cruise LLC
Disney Cruise Line
Carnival Corporation and Plc

Source: Owler Inc 2022

Figure 4: RCL's Prominent Managers & Shareholders

Prominent Managers and Directors of Royal Caribbean Group	
Director & Chief Executive Officer	Jason T. Liberty
Chairman of the board	Richard D. Fain
Non-Executive Director	John F. Brock
Non-Executive Director	Stephan R. Howe Jr.
Non-Executive Director	William L. Kimsey
Non-Executive Director	Michael O. Leavitt
Non-Executive Director	Amy C. Mcpherson
Non-Executive Director	Maritza G. Montiel
Non-Executive Director	Ann S. Moore
Non-Executive Director	Eyal Ofer

Source: RCL Annual Report

Company Overview

Royal Caribbean Group (RCL) was established in 1968 and its parent corporation, Royal Caribbean Cruises Ltd., was incorporated on July 23, 1985, in the Republic of Liberia under the Business Corporation Act of Liberia. RCL is one of the leading cruise companies in the world, providing cruise services to target markets that include adventure-seeking families, singles, and couples in their 30s to 50s.

Royal Caribbean Group was publicly listed in New York Stock Exchange in 1993 and is a constituent stock of the Russell 1000, S&P 500 Consumer Discretionary, Russell 3000, S&P 500 index. As of 5th December 2022, RCL has a market capitalization of US$15.44B.

Revenue by Business Segments

RCL has 2 main revenue segments: **1) passenger ticket revenue**, and **2) onboard and other revenue.** In FY2021, RCL booked a total revenue of US$1.53B. Passenger ticket revenue contributed 61% of total revenue while onboard and other Revenue contributed 39% as seen in Figure 1.

The revenue mix by business segments has been consistent since 2017 with passenger ticket revenue contributing the majority of RCL's total revenue.

Revenue by Itinerary

RCL operates in North America, Asia Pacific, Europe, and Other Regions. RCL's North America itineraries comprise of the U.S., Canada, Mexico, and the Caribbean. In 2021, RCL's North America itinerary accounts for approximately 72.8% of RCL's Revenue by Itinerary as seen in Figure 2.

The revenue mix by itinerary has seen some changes from 2017 to 2021. Notably, revenue by itinerary from North America has increased from 60% in 2017 to 73% in 2021. This change could be attributed to RCL's decision to double down and establish itself as the largest brand in the North America region.

The Asia Pacific region consists of itineraries in Southeast Asia, East Asia, South Asia, and Oceania. These itineraries consist of cruises in Singapore, Thailand, the Philippines, China, Japan, India, Australia, and other nearby countries. In 2021, RCL's Asia Pacific itinerary accounted for approximately 9% of RCL's Revenue by Itinerary.

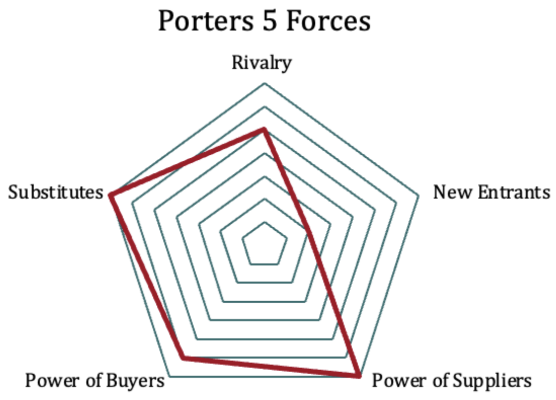
The Europe region consist of cruises in the Nordic countries, Germany, France, Italy, Spain. In 2021, RCL's Europe itinerary accounts for approximately 12.6% of RCL's Revenue by Itinerary.

Recent Earnings Review

In the second quarter of 2022, RCL saw a 58% improvement in its net income from the first quarter. In the first quarter of 2022, RCL reported a net loss of US$1.2B and in the second quarter of 2022, RCL reported a Net loss of US$0.5B. This improvement in performance was the result of RCL's ability to return its entire global fleet back into operation as its cruise operations were suspended in the first quarter of 2022.

Consumer's strong propensity for travel and cruise accelerated demand for cruising and on-board spending. Load Factor is expected to average about 95% in the third quarter of 2022 and increase to triple digits by the end of 2022 due to load factor seasonality.

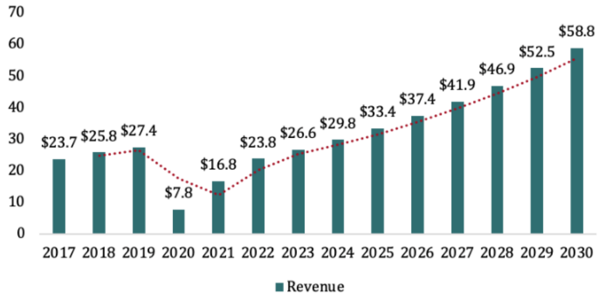
Figure 5: Porters 5 Forces



New Entrants	Low: Requires high Capital to enter market
Power of Suppliers	Mid: Procurement of raw materials depends status of global market
Power of Buyers	Mid: Opportunity for buyers to view other firms
Substitutes	Mid: Cruise industry products are almost homogenous
Rivalry	Mid-High: Concentrated market with various similar positioned products

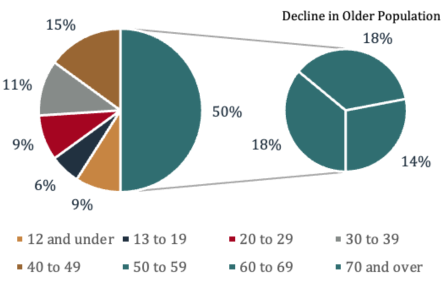
Source: RCL Annual Report

Figure 6: Revenue in Cruise Industry 2017 – 2030



Source: FactSet

Figure 7: Proportion of Passengers in Cruise Industry 2021



Source: RCL Annual Report (2019 to 2022)

Ownership & Management

Management of RCL

The current President and CEO of Royal Caribbean Group is Jason T. Liberty who has been a director at RCL since 2021. Since joining RCL in 2005, Jason T. Liberty has served as Executive Vice President and Chief Financial Officer. In his previous role, Jason T. Liberty was responsible for Finance, Strategy, Shared Service Operations, Legal, Technology, Silversea Cruises and the TUI Cruises and Hapag-Lloyd Joint Venture. Before joining Royal Caribbean Group, he was a senior manager with the accounting firm KPMG LLP.

Industry Overview

Cruise Industry Growing at a CAGR of 11.97 %

Historically, the cruise industry has been very resilient relative to traditional land-based tourism that has been growing consistently with an annual passenger CAGR of 6.6% from 1990 to 2019. Due to the cruise industry's ability to have operations globally, it increases its accessibility to consumers regardless of difficulties in travelling. In addition, the success of this industry can be seen in their average annual growth rate of 5.4% between 2009 and 2019, which is higher than regular land-based tourism (4.9%) from 1980 – 2017 (Perucic, 2019).

The global cruise market was valued at US$5.3B in 2022. The global cruise market is forecasted to reach US$17.4B by 2032, registering a 11.97% compound annual growth rate (CAGR). Among the regions of the global cruise market, Asia Pacific is expected to have the highest growth rate of up to 12.1% (CAGR) from 2022 to 2032. This could be due to a change in consumer demand in Asia as elaborated further below. The cruise industry is dominated by 3 prominent key players with 15 different brands that represent more than 75% of the market share. These key market leaders include Carnival Corporation, Royal Caribbean Group and Norwegian Cruise Line Holdings. In 2021, Carnival had the largest market share of 37.1%, followed by Royal Caribbean of 21.2%.

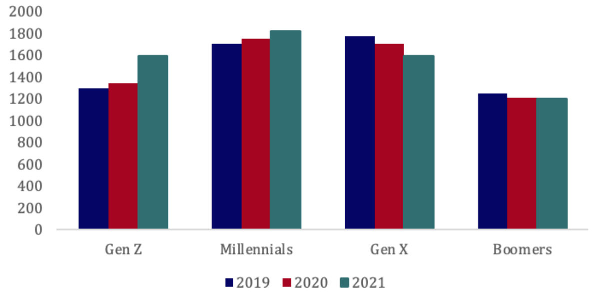
The onset of the Covid-19 pandemic left most cruises to be suspended from operations, negatively impacting their business temporarily. The pandemic dampened demand by over 80% and revenue declined over US$20B in 2020. The pandemic turned the cruise industry's strongest traits of being able to be a one-stop shop for all tourists, to a covid hotspot, turning the industry into a double-edged sword, which was another key factor that resulted in a steep decline in demand. The ensuing global economic downturn continued to prove difficult for the cruise industry.

However, post-pandemic trends have seen tremendous potential for the global cruise industry. A market survey by CLIA, indicated that more than 75% of the industries' fleet are resuming business, with 100% of ships to be in operation by Q4 of 2022. In addition, there were 3.60% more cruise ships built in 2021 vs 2020 with expected CAGR of 11.97% from 2022 to 2032 due to consumer demographic changes. All of these indicate that moving forward, near-term pent-up demand along with long term preferences such as the shift in consumer demand has poised the cruise industry to recover strongly and grow at a much quicker pace than land-based tourism.

Porter 5 Forces

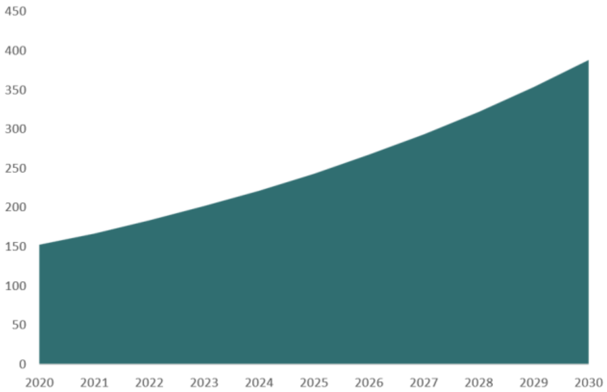
New entrants in Resorts & Casinos, generally have high capital expenditure to enter the market. While current players focus on new products and services, using economies of scale to their advantage. High amounts of capital go into building capacities and research departments. New entrants are unlikely to enter due to the strong foothold of large companies such as Carnival and Royal

Figure 8: Consumer Spending on Travel 2019 to 2021 (US$B)



Source: RCL Annual Report (2019 to 2022)

Figure 9: U.S. Wellness Tourism Market Size from 2020-2030 (US$b)



Source: Global Wellness Institute

Figure 10: RCL Table of Financial Ratios (2017A-2026F)

	2017A	2018A	2019A	2020A	2021A	2022LTM
Profitability Ratios						
Gross Margin	44.2%	44.6%	45.6%	-22.0%	-70.7%	-1.0%
EBITDA Margin	30.7%	30.8%	30.4%	-79.5%	-162.9%	-37.0%
Operating Margin	19.9%	20.0%	19.0%	-137.4%	-247.3%	-65.8%
Net Income Margin	18.5%	19.1%	17.2%	-262.5%	-343.7%	-95.5%
ROA	4.9%	4.7%	4.5%	-6.0%	-7.3%	-5.7%
ROE	16.4%	16.2%	15.6%	-53.7%	-76.0%	-79.2%
Liquidity Ratios						
Quick Ratio	0.08	0.08	0.07	0.87	0.42	0.23
Current Ratio	0.19	0.17	0.15	0.95	0.49	0.30
OCF Ratio	0.59	0.49	0.47	-0.82	-0.26	-0.06
Solvency Ratio						
Debt / Asset	0.29	0.33	0.32	0.57	0.57	0.51
Debt / Equity	0.71	0.93	0.93	2.30	4.28	7.02
Long-Term Debt/ Equity	0.60	0.72	0.71	2.13	3.82	5.39
Interest Coverage Ratio	5.87	5.68	5.10	-3.60	-2.93	-2.38
Debt Service Coverage	1.47	0.78	0.81	-2.30	-1.73	-0.57
Leverage Ratio						
Net Debt/ EBITDA	4.28	5.38	5.21	-11.40	-9.81	-16.42

Ratios	2022F	2023F	2024F	2025F	2026F
Profitability ratios					
Gross margin	0.4	0.44	0.45	0.45	0.46
Net Profit margin	-0.031	0.054	0.104	0.138	0.176
	-3.09%	5.45%	10.36%	13.84%	17.56%
Liquidity ratios					
Current ratio	1.00	2.14	1.85	2.02	2.44
Quick ratio	0.95	2.07	1.80	1.98	2.41
Solvency Ratios					
Interest coverage ratios	0.84	1.33	1.72	2.06	2.46
Debt / asset ratio	0.87	0.86	0.80	0.79	0.73
Debt / Equity ratio	6.48	6.06	4.09	3.75	2.67

Source: RCL Financial Statement

Caribbean. Thereby, significantly reducing the window of opportunity for new firms attempting to enter the market.

Suppliers often supply to the same brands and firms, while buyers in the industry are mostly price elastic and therefore price sensitive, often looking for the best deals within the industry by comparing the product offerings of the various brands. An example would be buyers focused on health-related trips, leading to brands marketing more health-related products to be more attractive to consumers. In addition, powerful suppliers can reduce the profit margins of the cruise industry and the overall impact of strong suppliers may undermine the profitability of the cruise industry.

Although the industry is dominated by a few players as mentioned, there are many comparable brands which results in a high threat of substitutions. For example, if other firms provide a more attractive proposition to consumers, it will differentiate them from the rest of the industry. Prices may be affected if rivalry among players are intense, overall prices may be driven down and decrease the overall profitability of the different firms, threatening the industry.

Consumer Demographic Changes

The demographic of the cruise market has changed with the new demands of a rapidly evolving world and social network. According to Deloitte (Deloitte, 2020), generation Z will soon surpass Millennials as the largest demographic group on earth with more than one-third of the world's population counting themselves as Gen Zers, while the older generations such as the Boomers have fallen from 25.4% to 21.5%. The average age of passengers was 46.7 years in 2020 (CLIA, 2020), with a decreasing average of 1% year on year. Coupled with the increase in younger generations, there might be a significant shift in consumer behavior for the global cruise industry. This coupled with the accelerated use of technology in everyday life post-pandemic have shifted consumers to make more purchases online.

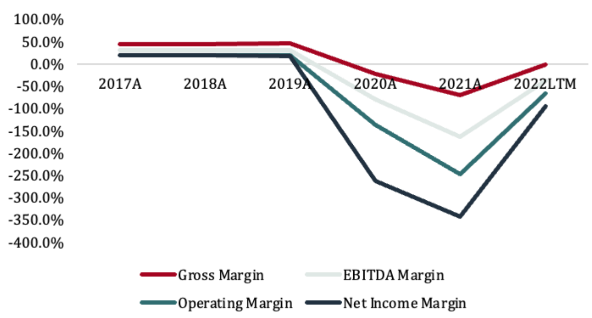
In addition, wellness tourism is one of the fastest-growing tourism sectors in the world, with the Global Wellness institute projecting it to be worth approximately US$639B by 2024. Between 2014 and 2019, inbound tourism visits to spas increased at a CAGR of 6%, highlighting considerable growth in the sector before the pandemic. In addition, health and wellness tourists are likely to be high spenders, making them an attractive market for cruise operators. Moving forward, demand will be driven by Gen Z's and will likely result in greater demand for cruise products especially wellness and integrate the use of technology. Forcing industry leaders such as Royal Caribbean and Carnival to lift their green credentials and sustainability within their brands due to the growing influence of Gen Z and change in consumer demand.

Leveraging Technology to Boost Business Operations

The pandemic has helped spearhead technological enhancement across all hospitality sectors, not just cruises. Although contactless technologies have been available within the sector for several years, the demand for these technologies has grown substantially at over 5.5% per annum.

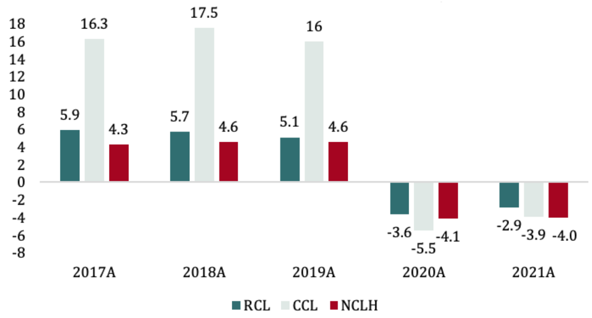
Contactless technology further addresses concerns revolving around Covid-19, allowing travelers to move throughout ships with reduced contact through doors or when purchasing items. When combined with apps, they streamline the booking process for spas, restaurant tables, or other onboard activities, providing a more convenient option for guests. Specific case study "Princess Cruise" implemented a device "Medallion" as a wearable device for guests to enhance their stay with the company featuring food delivery, locating loved ones and even on-demand services. Most brands

Figure 11: Profitability Metrics for RCL



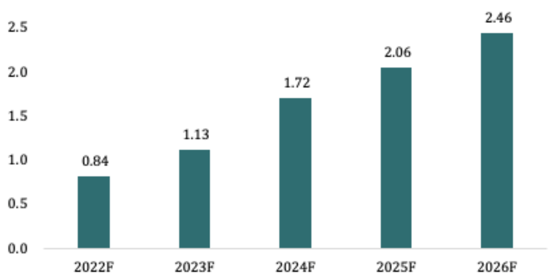
Source: RCL Annual Reports

Figure 12: Peer Comparison of Interest Coverage Ratio



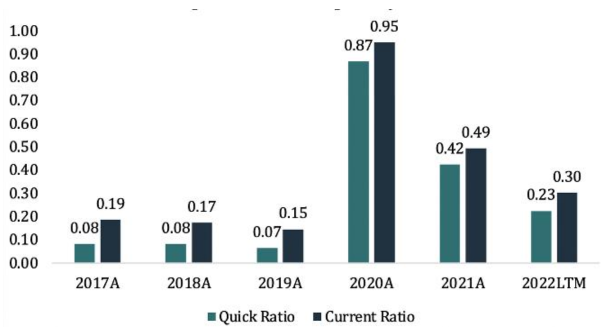
Source: RCL Annual Reports

Figure 13: RCL Interest Coverage Ratio Forecast



Source: RCL Annual Reports

Figure 14: Comparison of Liquidity Ratios



Source: RCL Annual Reports

such as Royal Caribbean, Carnival and Genting cruises have started implementing mobile apps to allow customers to have access to a suite of services highlight the importance of leveraging technology and omni-channeling. This will see more Capex spent in this area moving forward.

Financial Analysis

Overview:

Figure 10 shows RCL's 5-year historical financial performance including key ratios which indicate their profitability, activity, liquidity, and leverage positions. It is worth noting that COVID-19 had a significant impact on the company, with revenues and EBIT falling.

Stable Profitability Metrics

From 2017 to 2019, revenue and net income grew at an average rate of 11.75% and 7.55% respectively. From 2019 to 2021, gross margins decreased from 45.6% to -70.7% due to lower revenue from passenger sales amid COVID-19 pandemic. From 2019 to 2021, profit margin decreased from 17.2% to -343.3%.

Moving forward, we expect gross margins to improve in the next few quarters. As the number of passengers onboard RCL's cruises increases, the revenue from passenger ticket sales and revenue from onboard and other activities are expected to increase. Since cruises incur high fixed costs upfront, the increase in passengers on board RCL's cruises should not have insignificant impact on RCL's COGS.

We also expect gross and profit margin to significantly increase year on year from 2022 to 2023 due to post-pandemic demand increases and subsequently taper off. As seen in our model, gross profit margin is expected to be around 128% in 2022 post-covid. Subsequently, y-o-y increases from FY22 to FY23 is 20% and subsequent years hovering around 12-13%. The profit margin on the other hand, will decrease drastically in FY22 due to costs bared over from previous financial years and subsequently improve year on year from FY22 of -1648% to 150% increase.

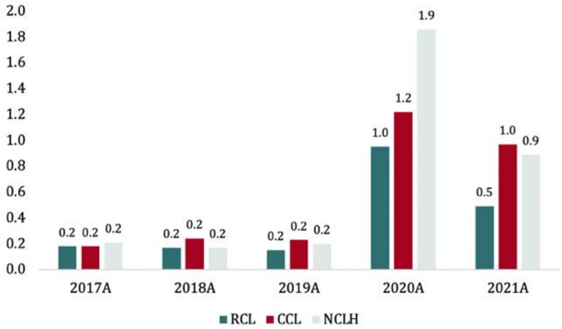
Recovering Interest Coverage Ratios

After the pandemic, RCL's interest coverage ratio turned negative. Operation suspensions affected RCL EBIT generation ability and the additional debt that RCL took on during the pandemic has resulted in interest expense to be larger than the previous years before the pandemic. Given that Covid-19 was a black swan event, historical interest coverage ratios were positive.

Despite the current pessimism among consumers due to fears of a looming recession, demand for cruise travel is expected to remain resilient for 2023 and 2024 amid reopening. Consumers who value experiences continue to spend on vacation regardless of economic cycles. Cruises remain as an appealing vacation option during economic downturns due to its compelling value proposition as compared to other land-based holiday alternatives. In the near term, we expect a more hawkish stance by the Fed and is expected to drive interest rates higher which will temporarily increase interest expenses for RCL.

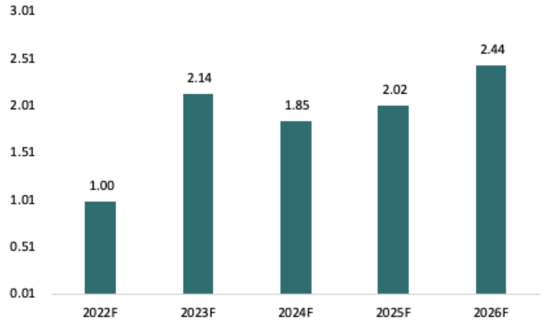
Given RCL's strong bargaining power in obtaining cheaper financing, we expect interest coverage ratios and EBIT to increase as the number of cruise passengers increases over time. In addition, RCL has been adding onto longer tenor bonds which will help alleviate pressure of cash flow and ensure that interest coverage ratios are covered. Therefore, we believe that RCL will still be able to meet its obligations given that revenue is recovering with manageable short-term debt.

Figure 15: Peer Comparison of Current Ratio



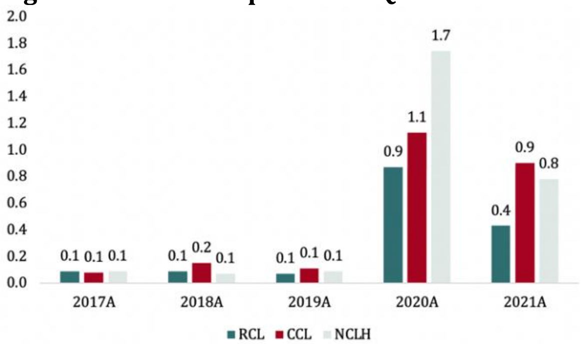
Source: RCL Annual Reports

Figure 16: RCL Current Ratios Forecasted



Source: RCL Annual Reports

Figure 17: Peer Comparison of Quick Ratio



Source: RCL Annual Reports

Figure 18: RCL Quick Ratios Forecasted

Source: RCL Annual Reports

Increases in Liquidity Ratios

As seen in figure 15, RCL's current ratio has an average of 0.16 from 2017 to 2019. The current ratio peaked at 0.95 in 2020 due to debt financing to finance operations during Covid-19 disruption. Subsequently, declining down to 0.49 in 2021 and currently standing at 0.30 higher than pre-pandemic levels. In the past 5 years, industry average current ratio is around 0.95.

Quick ratio is generally low at 0.08 to a peak of 0.87 in 2020. The industry average quick ratio was 0.5 within those years. RCL has been performing badly in its ability to pay the short-term debts due to its focus on growth. From Figure 13 and Figure 14, we can observe that the Current Ratio and Quick Ratio of RCL are generally lower than its peers from 2017 to 2021.

Moving forward, with strong growth and the ability to refinance to reduce the pressure on cash flows. This coupled with its infrastructure investments will streamline operational efficiencies. The team's view is that RCL will be able to pay back its debts more efficiently, as seen in Figures 16 and 17, as it repays its nearer term principal bonds.

RCL Operational Cash Flow Ratios

Cash flow was generally healthy from 2017 to 2019 of 0.59 to 0.478. but has since faced a steep decline in 2020 to -0.82 due to covid disruptions in their businesses. It has since been slowly recovering from -0.82 to -0.06 post pandemic in 2022 LTM, which indicates a strong recovery considering the large cash gap being plugged from its business.

If the Fed eventually pivots towards a more dovish stance and consumer confidence increases, we expect consumers to allocate more money for discretionary spending. RCL will benefit from an increase in demand for cruise services and experience a higher operating cashflow. Assuming that RCL can paydown on its short-term liabilities with its elevated levels of cash, the operating cash flow ratio of RCL is expected to increase over the years.

Capital Structure & Debt Maturity

Capital Structure

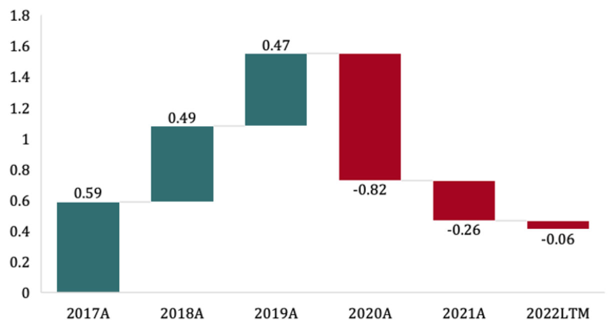
RCL has a capital structure that is made up by 81.1% Debt and 18.9% Equity which is in line with other competitors with Carnival at 74.0% debt and 26.0% and Norwegian Line with 84.4% debt and 15.6% equity as seen in figure 16. Companies in the cruise industry typically have a capital structure that is more heavily funded by debt due to the consistent amount of cash needed to operate effectively as well as large costs to make payments for their ships and equipment.

On average, the capital structure of cruise companies consists of about 79.8% Debt and 20.2% Equity. This is due to the need to consistently keep up with growth and often, costs are extremely high to fund. RCL's debt generally consists of senior unsecured notes as well as revolving debt to support their refinancing to repay principal payments on debt and allocate enough cash for its operations.

Debt Maturity

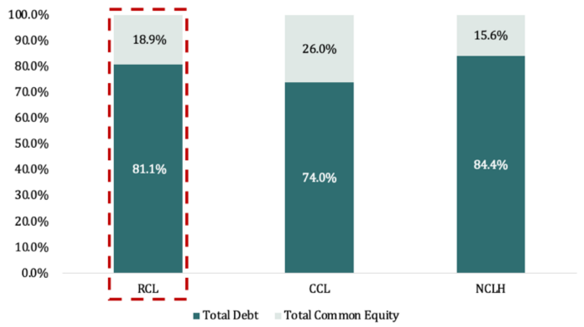
Debt maturity for RCL is mostly spread out for the next 7 years. But a larger proportion of RCL's upcoming debt maturity will be due in 2023 and 2025. In 2023 there is an outstanding amount of 4.07 billion in debt maturity. In 2025 there is an outstanding amount of US$5.48B in debt maturity. In 2022, RCL reissued more bonds to off-set their short-term obligations. Although this is seen as risky, it is still possible for RCL to use this to spread out their debt obligations over time and reduce the strain on their cashflow in the long run.

Figure 19: RCL Operational Cash Flow Ratios Worsen



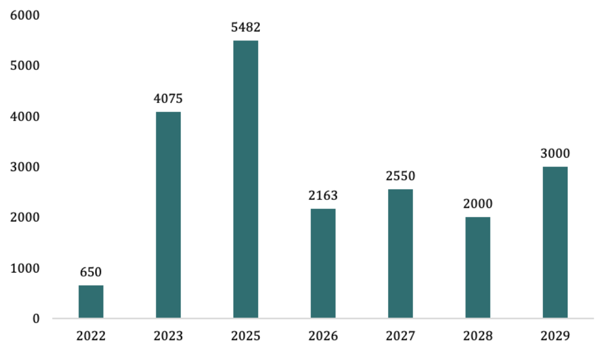
Source: RCL Annual Reports

Figure 20: RCL Capital Structure



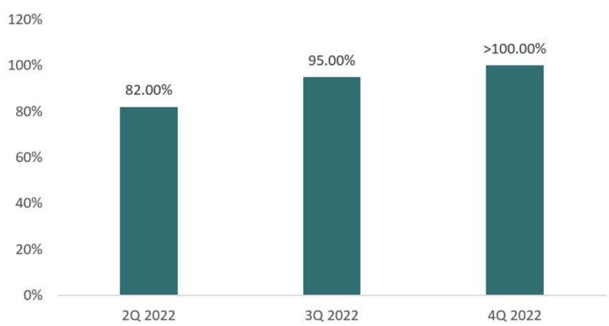
Source: Capital IQ

Figure 21: RCL Outstanding Amt (US$m)



Source: Capital IQ

Figure 22: RCL 2022 Load Factor



Source: RCL 3Q22 Financial Report

Recent developments

Rising load factors as further reopening takes place globally

RCL's largest market, the US, has been putting in place more significant measures which should continue to boost RCL's load factors as consumers find it more convenient to take the cruise without strict COVID measures. From 5th September 2022, RCL no longer requires vaccination for sailings that leave from European ports, Los Angeles, Galveston and New Orleans.

RCL has recovered well from almost close to zero load factor during the early pandemic and is set to enjoy accelerating load factors as more COVID measures ease in the US as well as globally. Load factor for RCL hit 82% for 2Q2022, up from 68% in March 2022, and is expected to cross 100% in 4Q 2022 which is pre-pandemic levels.

Operating cash flow turned positive in 2Q22

RCL achieved positive EBITDA and operating cash flow in 2Q22 for the first time since the start of the pandemic, driven by continued strength in accelerating load factors and onboard revenue as reopening takes place. Operating cash flow was in the range of negative US$200m to negative US$500m but turned positive with US$478.6m as the number of bookings accelerate towards pre-pandemic levels. Apart from rise in bookings, pent-up demand for goods and services with rise in savings from fiscal stimulus have led to customers spending at least 30% more on board across all categories in 1H2022 compared to pre-pandemic levels in 2019. In general, operating cash flow performance was slightly lower than some industry peers but in line with Norwegian Cruise Holdings.

Shift to LNG cruise ships

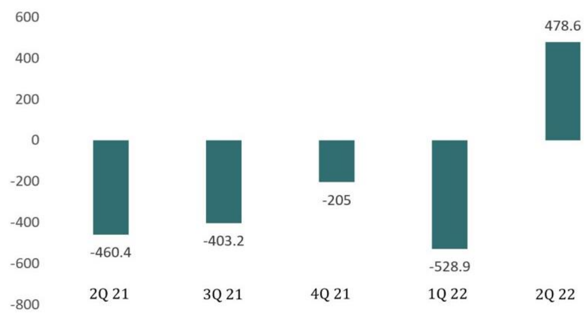
RCL has been actively adapting to a low-carbon future by shifting its cruises from dirty fuels, mainly diesel, to less-emission fuels such as Liquified Natural Gas (LNG). RCL launched 2 LNG cruise ships in 2022. On 20th October 2022, RCL officially unveiled Icon of the Seas which is set to sail on 28th January 2024. It is LNG-powered, along with Utopia of the Seas (launching in Spring 2024). 2 more LNG cruise ships are currently planned to be built. All cruise ships built in the future will be powered by LNG and include environmentally friendly applications that will reduce carbon footprint. This will help align RCL with regulatory pressure on cruise industry to cut carbon emissions and reduce carbon costs in the long run. The only potential issue here is if RCL is unable to meet their goals in reducing their carbon emissions in time, they may get caught out with additional carbon taxes given the global crackdown from the recent G7 meetings.

New terminal and cruises to provide new customer experience

To stay competitive, RCL opened its Galveston Cruise terminal on 9th November 2022. It features state-of-the-art technology, including mobile check-in and facial recognition to expedite guest arrival. It has significantly expanded the company's presence in the port, increasing RCL's ability to accommodate up to 630,000 guests per year. It also aligns with the low-carbon efforts by RCL, and it is the world's first cruise terminal to be a Leadership in Energy and Environmental Design (LEED)-certified Zero Energy facility with 100% of energy supplied through on-site solar panels.

To target larger families, Icon of the Seas is also set to be the world's largest cruise ship with 10,000 people capacity but with fewer cabins than the existing largest cruise ship, Wonder of the Seas.

Figure 23: RCL Operating Cash Flow (US$m)



Source: RCL past financial reports

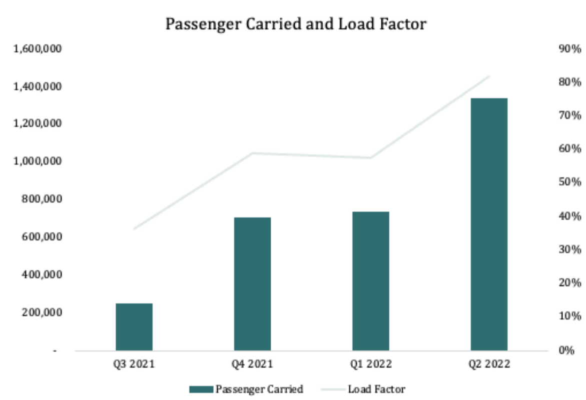
Figure 24: RCL LNG Cruise Ship Icon of the Seas Announced in 2022

Source: RCL

Figure 25: RCL LNG Cruise Ships Announced in 2022

Source: RCL

Figure 26: RCL Passenger Carried and Load Factor



Source: RCL Annual Report

Issuer Credit Analysis

Positives

1. Strong momentum in rebound for RCL bookings

Due to the Covid-19 Pandemic, RCL cruise operations were suspended since March of 2022. RCL was only able to resume its global cruise operation in the second quarter of 2022. Since then, the passenger carried by RCL cruises increased from 251,744 passengers in Q3 2021 to 1,340,622 passengers in Q2 2022. Load factor increased from 36% in Q2 2021 to 82% in Q2 2022. Higher load factor enables cruise operators to spread their fixed cost amongst more passengers which helps to improve their margins and ability to finance their debt in the years ahead. Despite the easing of restrictions on other forms of travel, as mentioned previously, demand for cruise travel has still been historically stronger at 5.4% compared to land based travel of 4.9%. Moving forward, although we expect a slowdown in growth due to the reduction of pent-up demand, we still expect consistent growth in the industry. This is coupled with uncertainty that Covid-19 is fluctuating, drives consumers towards cruise travel.

2. Strong infrastructure and operating process of RCL is expected to increase RCL revenue generation ability in the years to come

A new terminal is expected to be completed by 2023 (US) and it will be a 100% solar powered terminal, reducing carbon footprint by 75%. It will also reduce waste emissions emitted by the usual oil and gas needed for operations. The terminal is expected to increase cruise line's ability to accommodate up to 630,000 guests per year.

This is expected to result in a reduction in costs for RCL. Firstly, upgrades will increase revenue as newer and more efficient ships are expected to appeal to families. Simultaneously, RCL will generate cash flow from the sale of its less efficient ships. Overall, this is expected to produce positive cash flow and EBITDA in the coming years.

Moreover, RCL reduces its exposure to fluctuations in fuel prices via hedging. RCL fuel consumption is 56% hedged via swaps for the remainder of 2022, with 36% hedged for 2023 below market prices.

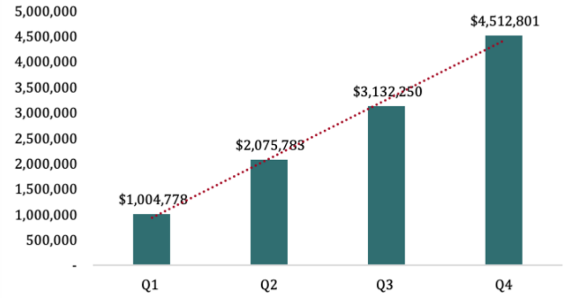
There is also consistent increase in demand for cruise services globally. North America Industry cruise CAGR 4%. Europe Industry cruise CAGR 3%. Asia/Pacific Industry cruise CAGR 24%. Will increase moving forward due to changes in demographics and consumer preference. For 2023, all quarters are currently booked at historical records at record pricing, expanding itineraries in Asia, highlight that RCL is poised for strong growth in years to come. Given that Asia is a growing market, there may be room for RCL to grow further and have a competitive advantage over its peers.

Given RCL's strong investments into new infrastructure as well as improving current ship operations, the team believes that RCL is poised to be able to pivot more efficiently compared to its peers. This would allow them to consistently make gains on comparable peers such as NCL and Carnival Corporation. With its efforts on increasing sustainability in its operations as well, this is also in line with the global view to make businesses more climate friendly.

3. Improving financials and moderation in capex moving forward

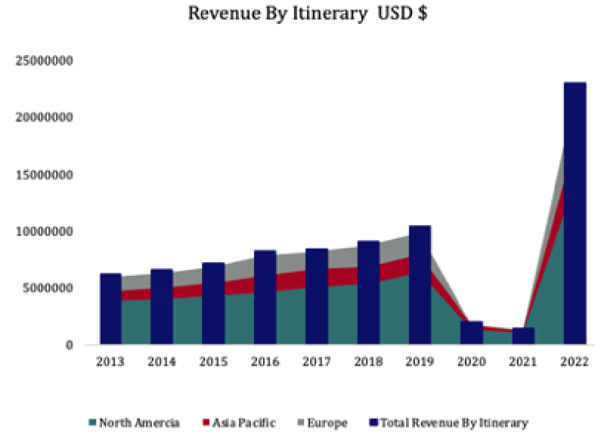
Ever since RCL announced its plans to resume cruise sailings in December 2020 after Pfizer COVID-19 vaccine in November 2020, cruise bookings have rebounded strongly and helped to boost top line revenue from US$34m in 4Q22 to US$2,184.2m in 2Q22, recovering almost to 2Q19 level of US$2,807m. In addition, the Net profit (NPM) and gross profit margins (GPM) of RCL have been

Figure 27: RCL Revenue 2022



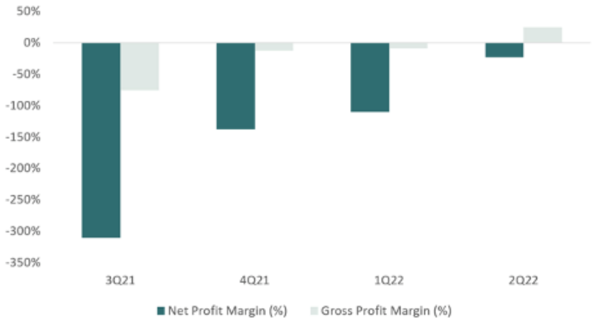
Source: RCL Annual Report

Figure 28: RCL Revenue by Itinerary



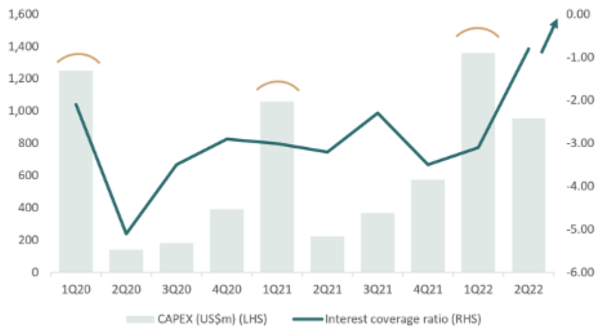
Source: RCL Annual Report

Figure 29: RCL NPM and GPM (3Q21-2Q22)



Source: RCL Annual Report

Figure 30: RCL Capex and EBIT/Interest Expense



Source: RCL

recovering strongly as well, with GPM of 24.12% in 2Q22, the first time turning positive since 2020.

Meanwhile, RCL interest coverage ratio (EBIT/interest expense) has improved from a trough of -5.1 in 2Q20 to -0.8 in 2Q22. With the rise in bookings through 2022 and 2023 bookings outpacing 2019's thus far, revenue is expected to grow further for 2023. Cash outflows towards CAPEX is expected to moderate as cruise revamps for COVID-19 and orders were already done over the past 2 years. 2H22 CAPEX will be expected to be US$500m vs 2H21 US$943m.

Moving forward, we expect strong recovery and growth for RCL driven by load factors from consumer demographic changes. In addition, with better cashflows and stronger ability to fulfil short- and long-term obligations, RCL's credit looks more positive in the long run potentially gaining more market share from peers such as NCL and Carnival Corporation.

Negatives

1. RCL bookings may face a potential slowdown in its key market due to market sentiment

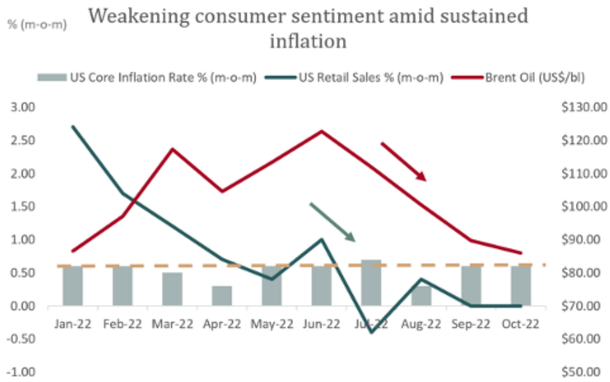
Based on RCL financials and Figure 25, the U.S. market accounts for 76% of RCL's FY2021 revenue. Despite inflation showing gradual lower numbers in late 2022 in the US, prices nevertheless continue to stay elevated due to the strength of price growth in services over the past two years, with signs of slowing already flashing with lower retail sales and ISM PMI numbers. The probability of a US recession is 100% in the next 12 months according to Bloomberg economists' model projections in Oct 2022. Since cruise holidays are a form of discretionary spending, it will be negatively affected, and cruise bookings may face a decline for late-2023 and 2024 relative to 2022. Consumers have historically reduced travel spending by about 1.0% of their total spending during recessionary periods. This decrease in consumer spending on discretionary items will negatively affect RCL's revenue and profit in the short run of within the next year or so. In the long run, we expect the inflation to be at a terminal rate of 5%, and plateau moving forward. It will likely result in a slowdown but not a full contraction of RCL's financials.

2. COVID-19 lockdowns hit RCL's revenue stream severely, which led to large debt raising to sustain operations back in 2020

In Figure 27, Debt/Equity ratio rose from 2.30 in FY2020 to 7.02 in the last twelve months (LTM). Most of the debt is longer-term debt with at least 5 years to maturity, reflected in the long-term Debt/Equity ratios which are only slightly below Debt/Equity ratios. Yields for RCL bonds were trading mostly at 5% mark at the start of 2022. As Fed turned hawkish to fight inflation, RCL bonds sold off to hit mid-teens YTM.

As seen in Figure 30, in August and September 2022, RCL raised US$1.25B (11% coupon, unsecured, B rated) and US$2B (US$1B secured note 8.25%, US$1B priority notes 9.25%, B rated) respectively at higher rates to finance debt maturing in Nov 2022, Jun 2023, and Nov 2023. This reflects that RCL might have to take on more new debt to pay down principals of maturing debt which will not help in debt reduction until sustainable operating cash flows are maintained with a full recovery of travel industry and sustained economic recovery. This arose due to RCL's consistent focus on churning out the biggest and newest ships to attract customers pre-covid. Further, the black swan event of Covid-19 severely crippled RCL in the short run which has since trickled into the current state on its financials. However, much of its previous investments such as their terminals and refurbishment of ships may prove to be a turning point in the longer run.

Figure 31: Weakening consumer sentiment amid sustained inflation

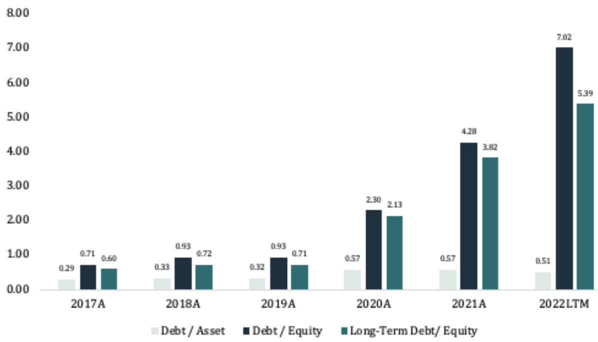


Source: Bloomberg

Figure 32: Travel as a share of U.S Consumer Spending

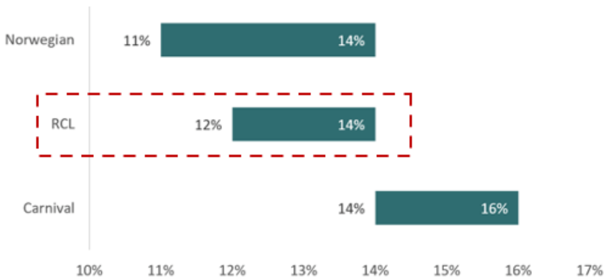
Source: Bloomberg

Figure 33: RCL Solvency Ratios



Source: RCL Annual Report

Figure 34: RCL and peers outstanding bonds



Source: RCL Annual Report

Issuance Analysis (Relative Valuation)

Royal Caribbean Group (RCL) Outstanding Bonds

Overweight RCL 1-5 years' Time-To-Maturity vs 5-10 years' Time-To Maturity

In Figure 29, maturities are concentrated for RCL's short to mid-term maturity bonds, especially in year 5. The majority of RCL's bonds are above the OAS regression curve (relative to US Treasury curve). For the 5-10 years' time to maturity bonds, mostly are priced above the OAS curve, reflecting medium-term concerns over these debts outstanding.

We view some concerns for repayment around year 5 due to the larger principals due. Due to aggressive borrowing, together with rapid rise in rates that has brought spreads up across high-yield bonds, RCL bonds in this maturity time have high spreads.

Nonetheless, RCL financials although a weak point, shows improvement and expected improvements along with relatively positive cashflow moving forward as bookings show no signs of slowing with above historical bookings for 2023, thus we are more bullish on near term bonds with less than 5 years to maturity. In addition, RCL is committed to sustainability by upgrading its fleet and leveraging technology with innovative features to attract travelers. This provides strong potential to strengthen its financial strength in the future despite investor's fears pushing down its short-to-medium term bond prices.

Underweight RCL 4.25% 1-Jun-2023 over RCL 2.88% 15-Nov-2023

2 bonds with maturity dates that are less than 6 months apart, but with higher spread for the one due earlier in June 2023. RCL 4.25% 1-Jun-2023 maturing in ~0.65 years and RCL 2.88% 15-Nov-2023 maturing in ~ 1 year. RCL 4.25% 1-Jun-2023 has an OAS spread of 6.510bps versus RCL 2.88% 15-Nov-2023 5.08bps, suggesting a higher relative carry for the former.

Disparity in spreads could be due to RCL 2.88% 15-Nov-2023 having a lower investment risk due to short-term liquidity position that is in the midst of recovering. However, it does not justify the higher pricing relative to RCL 4.25% 1-Jun-2023 as it is similarly BB rated, and we believe that RCL will be able to pay the principal for the June 2023 bond. As such, RCL 4.25% 1-Jun-2023 premium presents an investment opportunity.

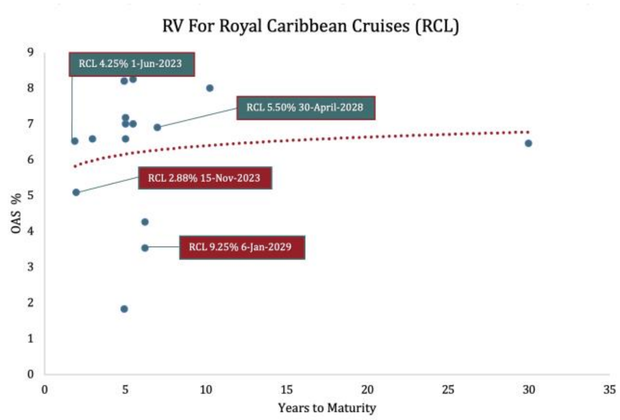
Overweight RCL 5.50% 30-April-2028 over RCL 9.25% 6-Jan-2029

The former offers higher spread based on OAS analysis, despite being shorter to maturity. RCL 5.50% 30-April-2028 with about 6.90 years to maturity compared to RCL 9.25% 6-Jan-2029 of about 5.90 years to maturity. RCL 5.50% 30-April-2028 has a YTW of 11.016 as seen in figure 30. Which is indicative that the bond is trading at a discount. Comparatively RCL 9.25% 6-Jan-2029 has a YTW of 8.845% which indicates it is trading at a premium given that its YTW is lower than its coupon rate.

There are differences despite the issuance company for both bonds being the same with a relatively small difference in time to maturity. It could be due to the recent market uncertainty in overall treasury bonds due to global interest rate risks. This combined with the higher short-term upside of RCL 5.50% 30-April-2028 provides an investment opportunity.

Hence, despite these uncertainties, we are overweight RCL 5.50% 30-April-2028 (BB) vs RCL 9.25% 6-Jan-2029 (BB-).

Figure 35: Mean Yield Curve and Relative Valuation for RCL Bond Issuances



Source: Factset, NUS Investment Society

Figure 36: RCL Bond Issuances

Instrument ID	Description	Amt Out (MM)	Coupon Rate	Maturity	Issue Date	YTM%	YTW%	Rating
2023								
780153BB7	Royal Caribbean Group'	350	4.25	1/6/23	12/7/21	1.712	1.712	BB
780153BF8	Royal Caribbean Cruises Ltd. /!	225	2.88	11/2023	15/11/21	3.746	3.746	
2024								
FDS0YNBS6	Royal Caribbean Group'	1,900	-	04/2024	5/4/19			B+
2025								
780153AZ5	Royal Caribbean Group'	1,392	11.50	06/2025	19/5/20	8.109	6.388	B
V7780TAC7	Royal Caribbean Group'	1,392	11.50	06/2025	19/5/20	8.109	6.388	B
780153BP6	Royal Caribbean Group'	1,150	6.00	08/2025	5/8/22	-3.735	-3.735	B
2026								
780153BH4	Royal Caribbean Group'	650	4.25	07/2026	24/6/21	10.913	10.913	B
V7780TAF0	Royal Caribbean Group'	650	4.25	07/2026	24/6/21	10.913	10.913	B
780153BJ0	Royal Caribbean Group'	1,000	5.50	08/2026	19/8/21	11.327	11.327	B
V7780TAG8	Royal Caribbean Group'	1,000	5.50	08/2026	20/8/21	11.327	11.327	B
≥2027								
780153BK7	Royal Caribbean Group'	1,000	5.38	07/2027	7/1/22	11.39	11.39	
V7780TAH6	Royal Caribbean Group'	1,000	5.38	07/2027	7/1/22	11.39	11.39	B
780153BL5	Royal Caribbean Group'	1,250	11.63	08/2027	18/8/22	12.599	12.599	BB-
V7780TAJ2	Royal Caribbean Group'	1,250	11.63	08/2027	18/8/22	12.599	12.599	BB-
780153AG7	Royal Caribbean Group'	300	7.50	10/2027	14/10/97	12.202	12.202	B
780153AW2	Royal Caribbean Group'	500	3.70	03/2028	28/11/17	10.595	10.595	B
780153BG6	Royal Caribbean Group'	1,500	5.50	04/2028	29/3/21	11.061	11.061	B
V7780TAE3	Royal Caribbean Group'	1,500	5.50	04/2028	30/3/21	11.061	11.061	B
780153BR2	Royal Caribbean Group'	1,000	9.25	01/2029	6/10/22	8.932	8.845	BB-
780153BS0	Royal Caribbean Group'	1,000	8.25	01/2029	6/10/22	8.166	8.141	B+

Source: Factset, NUS Investment Society

Disclaimer

Appendix:

Income Statement

Financial Statements *(USD million, Financial Year End Jun. 30)*	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Income Statement										
Revenue	8,777.8	9,493.8	10,950.7	2,208.8	1,532.1	9,736.0	11,001.7	12,431.9	14,048.0	15,874.3
Other Revenue	-	-	-	-	-					
Total Revenue	**8,777.8**	**9,493.8**	**10,950.7**	**2,208.8**	**1,532.1**	9,736.0	11,001.7	12,431.9	14,048.0	15,874.3
Cost Of Goods Sold	(4,896.6)	(5,262.2)	(5,958.7)	(2,695.8)	(2,615.4)	(5,841.6)	(6,160.9)	(6,837.5)	(7,726.4)	(8,572.1)
Gross Profit	**3,881.3**	**4,231.6**	**4,992.0**	**(487.0)**	**(1,083.3)**	3,894.4	4,840.7	5,594.4	6,321.6	7,302.2
Selling General & Admin Exp.	(1,186.0)	(1,303.1)	(1,663.3)	(1,268.9)	(1,412.2)	(1,400.0)	(1,330.0)	(1,263.5)	(1,200.3)	(1,200.3)
R & D Exp.	-	-	-	-	-					
Depreciation & Amort.	(951.2)	(1,033.7)	(1,245.9)	(1,279.3)	(1,292.9)	(1,300.0)	(1,430.0)	(1,501.5)	(1,576.6)	(1,655.4)
Other Operating Expense/(Income)	-	-	-	-	-					
Other Operating Exp., Total	**(2,137.2)**	**(2,336.8)**	**(2,909.3)**	**(2,548.2)**	**(2,705.1)**	**(2,700.0)**	**(2,760.0)**	**(2,765.0)**	**(2,776.9)**	**(2,855.7)**
Operating Income	**1,744.1**	**1,894.8**	**2,082.7**	**(3,035.2)**	**(3,788.3)**	1,194.4	2,080.7	2,829.4	3,544.7	4,446.4
Interest Expense	(297.1)	(333.7)	(408.5)	(844.2)	(1,291.8)	(1,421.0)	(1,563.1)	(1,641.2)	(1,723.3)	(1,809.5)
Interest and Invest. Income	30.1	32.8	26.9	21.0	16.8	20.1	24.2	29.0	34.8	41.7
Net Interest Exp.	**(267.0)**	**(300.9)**	**(381.6)**	**(823.2)**	**(1,275.0)**	**(1,400.9)**	**(1,538.9)**	**(1,612.2)**	**(1,688.5)**	**(1,767.7)**
Income/(Loss) from Affiliates	156.2	210.8	231.0	(213.3)	(135.5)	(80.0)	80.0	96.0	115.2	138.2
Currency Exchange Gains (Loss)	(13.6)	(4.8)	1.8	(89.5)	(6.6)	(22.0)	(24.2)	(26.6)	(29.3)	(32.2)
Other Non-Operating Inc. (Exp.)	23.7	24.7	31.1	(66.6)	183.0	28.5	34.2	41.0	49.2	59.1
EBT Excl. Unusual Items	**1,643.4**	**1,824.6**	**1,964.9**	**(4,227.7)**	**(5,022.4)**	**(280.0)**	**631.8**	**1,327.5**	**1,991.3**	**2,843.8**
Restructuring Charges	-	-	-	-	-	-	-	-	-	-
Impairment of Goodwill	-	-	-	(576.2)	-	-	-	-	-	-
Gain (Loss) On Sale Of Invest.	-	(9.7)	-	-	-	-	-	-	-	-
Gain (Loss) On Sale Of Assets	-	21.8	-	-	-	-	-	-	-	-
Asset Writedown	-	-	-	(990.2)	(38.2)	-	-	-	-	-
Other Unusual Items	-	-	(24.7)	4.0	(245.2)	-	-	-	-	-
EBT Incl. Unusual Items	**1,643.44**	**1,836.65**	**1,940.24**	**(5,790.12)**	**(5,305.81)**	**(280.0)**	**631.8**	**1,327.5**	**1,991.3**	**2,843.8**
Income Tax Expense	18.3	20.9	32.6	(15.0)	(45.2)	20.9	32.6	39.1	46.9	56.3
Earnings from Cont. Ops.	**1,625.1**	**1,815.8**	**1,907.6**	**(5,775.1)**	**(5,260.6)**	**(300.9)**	**599.2**	**1,288.4**	**1,944.4**	**2,787.5**
Earnings of Discontinued Ops.	-	-	-	-	-	-	-	-	-	-
Extraord. Item & Account. Change	-	-	-	-	-	-	-	-	-	-
Net Income to Company	**1,625.1**	**1,815.8**	**1,907.6**	**(5,775.1)**	**(5,260.6)**	**(300.9)**	**599.2**	**1,288.4**	**1,944.4**	**2,787.5**
Minority Int. in Earnings	-	(4.8)	(28.7)	(22.3)	-	-	-	-	-	-
Net Income	**1,625.1**	**1,811.0**	**1,878.9**	**(5,797.5)**	**(5,260.5)**	(300.9)	599.2	1,288.4	1,944.4	2,787.5

Balance Sheet

Financial Statements (USD millon, Financial Year End Jun. 30)	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Balance Sheet										
ASSETS										
Cash And Equivalents	120.1	287.9	243.7	3,684.5	2,701.8	4,103.9	7,059.8	9,020.0	11,160.3	13,995.4
Trading Asset Securities	-	-	-	0.3	6.5	-	-	-	-	-
Total Cash & ST Investments	**120.1**	**287.9**	**243.7**	**3684.735**	**2,708.2**	4,103.9	7,059.8	9,020.0	11,160.3	13,995.4
Accounts Receivable	280.0	305.4	279.9	254.6	386.6	292.1	330.1	373.0	421.4	476.2
Notes Receivable	38.7	19.1	25.9	29.5	21.5	29.2	33.0	37.3	42.1	47.6
Total Receivables	**318.6**	**324.5**	**305.8**	**284.1**	**408.1**	**321.3**	**363.1**	**410.3**	**463.6**	**523.9**
% Revenue	3.630%	3.418%	2.793%	12.864%	26.634%					
Inventory	111.4	153.6	162.1	118.7	150.2	486.8	495.1	497.3	421.4	412.7
Prepaid Exp.	258.2	456.5	429.2	154.3	286.0	1,820.6	517.1	584.3	660.3	746.1
Other Current Assets	99.3	19.6	21.8	69.8	47.7	155.8	132.0	99.5	70.2	79.4
Total Current Assets	**907.6**	**1,242.0**	**1,162.6**	**4,311.7**	**3,600.3**	**6,888.4**	**8,567.0**	**10,611.2**	**12,775.8**	**15,757.5**
Gross Property, Plant & Equipment	27,780.1	32,435.1	36,237.5	35,863.6	37,629.8	37,629.8	37,629.8	37,630.0	43,094.8	43,094.8
Accumulated Depreciation	(8,044.9)	(8,968.9)	(10,083.1)	(10,017.0)	(11,179.7)	(11,179.7)	(11,179.7)	(11,179.7)	(11,179.7)	(13,424.9)
Net Property, Plant & Equipment	**19,735.2**	**23,466.2**	**26,154.4**	**25,846.6**	**26,450.1**	26,450.1	26,450.1	26,450.3	31,915.1	29,669.9
Long-term Investments	10.7	23.5	0.0	17.3	0	-	-	-	-	-
Goodwill	288.5	1,378.4	1,385.6	809.5	809.4	809.4	809.4	809.4	809.4	809.4
Other Intangibles	0	502.1	488.6	444.9	434.6	434.6	434.6	434.6	434.6	434.6
Accounts Receivable Long-Term	60.1	57.8	55.5	53.7	52.9	56.0	56.0	56.0	56.0	56.0
Loans Receivable Long-Term	292.7	182.9	158.6	135.1	109.1	175.0	175.0	175.0	175.0	175.0
Other Long-Term Assets	1,066.2	845.4	914.9	846.5	802.1	954.1	1,078.2	1,218.3	1,376.7	1,555.7
Total Assets	**22,360.9**	**27,698.3**	**30,320.3**	**32,465.2**	**32,258.4**	**35,767.7**	**37,570.3**	**39,754.9**	**47,542.7**	**48,458.1**
LIABILITIES										
Accounts Payable	360.1	488.2	563.7	353.4	546.0	847.0	935.1	1,031.8	1,151.9	1,254.1
Accrued Exp.	950.5	974.3	1,148.4	868.4	1,139.5	1,022.3	1,155.2	1,305.3	1,475.0	1,666.8
Short-term Borrowings	0	775.5	1,434.2	409.3	0	5,075.9	979.8	4,096.1	5,075.9	5,075.9
Curr. Port. of LT Debt	1,188.5	1,646.8	1,153.0	909.9	2,191.7	1,418.0	1,418.0	1,418.0	1,418.0	1,418.0
Curr. Port. of Leases	-	-	130.5	154.5	120.4	135.2	135.2	135.2	135.2	135.2
Unearned Revenue, Current	2,308.3	3,148.8	1,700.0	124.8	814.3	1,619.2	1,619.2	1,619.2	1,619.2	1,619.2
Other Current Liabilities	47.5	78.5	1,823.0	1,716.7	2,473.8	1,227.9	1,227.9	1,227.9	1,227.9	1,227.9
Total Current Liabilities	**4,854.9**	**7,112.2**	**7,952.9**	**4,537.1**	**7,285.7**	**11,345.5**	**7,470.4**	**10,833.6**	**12,103.2**	**12,397.1**
Long-Term Debt	6,397.4	8,264.9	8,281.6	17,941.1	18,488.5	18,488.5	23,564.4	19,831.3	24,057.2	21,397.6
Long-Term Leases	-	130.9	798.3	725.4	955.5	652.5	652.5	652.5	652.5	652.5
Other Non-Current Liabilities	406.3	542.8	553.6	500.9	443.1	496.5	561.1	634.0	716.5	809.6
Total Liabilities	**11,658.6**	**16,050.8**	**17,586.5**	**23,704.5**	**27,172.8**	**30,983.0**	**32,248.4**	**31,951.4**	**37,529.4**	**35,256.8**
Common Stock	2.4	2.4	2.4	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Additional Paid In Capital	3,390.1	3,420.9	3,494.0	5,998.6	7,557.3	7,557.3	7,557.3	7,647.3	7,647.3	7,647.3
Retained Earnings	9,022.4	10,263.3	11,523.3	5,562.8	302.3	1.4	538.6	1,950.4	4,160.2	7,348.2
Treasury Stock	(1,378.3)	(1,953.3)	(2,058.1)	(2,064.0)	(2,066.0)	(2,066.0)	(2,066.0)	(1,086.2)	(1,086.2)	(1,086.2)
Comprehensive Inc. and Other	(334.3)	(627.7)	(797.7)	(739.3)	(710.9)	(710.9)	(710.9)	(710.9)	(710.9)	(710.9)
Total Common Equity	**10,702.3**	**11,105.5**	**12,163.9**	**8,760.7**	**5,085.5**	**4,784.6**	**5,321.8**	**7,803.4**	**10,013.2**	**13,201.3**
Minority Interest	-	542.0	570.0	-	-	-	-	-	-	-
Total Equity	**10,702.3**	**11,647.6**	**12,733.8**	**8,760.7**	**5,085.5**	**4,784.6**	**5,321.8**	**7,803.4**	**10,013.2**	**13,201.3**
Total Liabilities And Equity	**22,360.9**	**27,698.3**	**30,320.3**	**32,465.2**	**32,258.3**	**35,767.7**	**37,570.2**	**39,754.9**	**47,542.6**	**48,458.0**
Balance	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Discepency	0	(0)	0	(0)	0	0	0	0	0	0

Cash Flow Statement

Cash Flow Statement										
Cashflow from operating activities										
(loss)/ Profit for the year	1,625.1	1,811.0	1,878.9	(5,797.5)	(5,260.5)	(300.9)	599.2	1,288.4	1,944.4	2,787.5
changes in working capital	(287.90)	(373.60)	(431.60)	(455.15)	(409.01)	522.9	1,274.3	(170.0)	(273.6)	(156.5)
changes in depreciation &amortization	(101.30)	(82.50)	(212.25)	(33.31)	(13.62)	(1,300.0)	(1,430.0)	(1,501.5)	(1,576.6)	(1,655.4)
changes in intangible assets	1550.17	502.10	(12.12)	(43.72)	(10.30)	-	-	-	-	-
changes in other non current assets	269.5	(210.02)	69.55	(68.48)	(44.37)	152.0	124.0	140.2	158.4	179.0
changes in other non current liabilities	(178.74)	1,811.83	2,425.32	2,667.52	3,859.22	53.4	64.5	72.9	82.4	93.1
Net cash from operating activities	2,876.86	3,458.86	3,717.79	(3,730.64)	(1,878.59)	(872.5)	632.1	(170.0)	335.0	1,247.7
Cash flow from investing activities										
change in long term investment	(0.01)	12.85	(23.51)	17.26	(17.27)	-	-	-	-	-
capital expenditure	(564.1)	(3,660.0)	(3,024.7)	(1,965.1)	(2,229.7)	2,336.6	2,200.3	1,864.8	1,404.8	1,587.4
other adjustment	350.552	-841.988	-43.29	-230.664	102.309					
Net cash used in investing activities	(213.56)	(4,489.14)	(3,091.50)	(2,178.50)	(2,144.66)	2,336.6	2,200.3	1,864.8	1,404.8	1,587.4
Cash flow from financing activities										
changes in long term debt	1751.00	1,867.45	16.69	9,659.52	547.38	-	-	-	-	-
dividends paid	(437.5)	(527.5)	(602.7)	(326.4)	0	(62.0)	123.4	265.4	400.5	-
Net cash from financing activities	(2,675.81)	1,198.03	(670.40)	9,349.88	3,040.55	(62.0)	123.4	265.4	400.5	-
Net increase in cash and cash equivalents	(12.50)	167.74	(44.10)	3,440.74	(982.70)	1,402.2	2,955.8	1,960.2	2,140.3	2,835.1

Revenue & Cost Model

Financial Statements *(USD million, Financial Year End Jun. 30)*	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue Model										
Revenue by business segment										
Passenger Ticket	6,313.17	6,792.72	7,857.06	1,504.57	941.18	4,868.00	6,050.92	7,459.14	8,428.83	9,524.57
Onboard and Others	2,464.68	2,701.13	3,093.60	704.24	590.96	4,868.00	4,950.76	4,972.76	5,619.22	6,349.72
% of onboard revenue passenger ticket	0.39	0.40	0.39	0.47	0.63	0.5	0.45	0.4	0.4	0.4
Total Reveue	**8,777.85**	**9,493.85**	**10,950.66**	**2,208.81**	**1,532.13**	**9,736.00**	**11,001.68**	**12,431.90**	**14,048.05**	**15,874.29**
Revenue Growth by Business Segment										
Passenger Ticket		7.6%	15.7%	-80.9%	-37.4%	417.2%	8.0%	9.0%	10.2%	11.5%
Onboard and Others		9.6%	14.5%	-77.2%	-16.1%	723.7%	9.6%	10.8%	12.3%	13.9%
Total Revenue Growth		**8.16%**	**15.34%**	**-79.83%**	**-30.64%**	**535.45%**	**13.00%**	**13.00%**	**13.00%**	**13.00%**
Revenue by geographical segment										
North America	5,062.31	5,399.95	6,392.35	1,342.43	1,039.78	7,302.00	6,289.46	6,592.83	7,318.04	8,123.03
Asia/Pacific	1,588.80	1,463.08	1,529.90	411.87	128.35	1,752.48	1,664.86	1,798.04	1,995.83	2,215.37
Europe	1,509.59	1,914.55	1,942.06	18.60	180.26	1,168.32	1,109.90	1,198.70	1,330.55	1,476.91
Other Regions	285.95	348.15	567.90	241.59	77.99	486.80	462.46	499.46	554.40	615.38
Total Revenue	**8446.647**	**9125.728**	**10432.213**	**2014.488**	**1426.372**	**9,736.00**	**11,001.68**	**12,431.90**	**14,048.05**	**15,874.29**
Revenue growth by geographical segment										
North America		6.7%	18.4%	-79.0%	-22.5%	602.3%	-13.9%	4.8%	11.0%	11.0%
Asia/Pacific		-7.9%	4.6%	-73.1%	-68.8%	1265.4%	-5.0%	8.0%	11.0%	11.0%
Europe		26.8%	1.4%	-99.0%	868.9%	548.1%	-5.0%	8.0%	11.0%	11.0%
Other Regions		21.7%	63.1%	-57.5%	-67.7%	524.2%	-5.0%	8.0%	11.0%	11.0%
Total Revenue Growth		**8.16%**	**15.34%**	**-79.83%**	**-30.64%**	**535.45%**	**13.00%**	**13.00%**	**13.00%**	**13.00%**
Average Revenue	**8,612.25**	**9,309.79**	**10,691.44**	**2,111.65**	**1,479.25**	**9,736.00**	**11,001.68**	**12,431.90**	**14,048.05**	**15,874.29**

Financial Statements *(USD million, Financial Year End Jun. 30)*	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Operating Cost & Gains Model										
Cost of Sales										
Cost of Sales	(4896.58)	(5262.21)	(5958.67)	(2695.80)	(2615.39)	(5,841.60)	(6,160.94)	(6,837.54)	(7,726.42)	(8,572.12)
Cost of sale as a % of Revenue	56.86%	56.52%	55.73%	127.66%	176.80%	60.00%	56.00%	55.00%	55.00%	54.00%
Operating cost										
Selling General & Admin Exp.	(1186.02)	(1303.14)	(1663.35)	(1268.92)	(1412.20)	(1400.00)	(1,330.00)	(1,263.50)	(1,200.33)	(1,200.33)
Depreciation & Amort.	(951.19)	(1033.70)	(1245.94)	(1279.25)	(1292.88)	(1300.00)	(1,430.00)	(1,501.50)	(1,576.58)	(1,655.40)
Total operating expenses	**(2137.21)**	**(2336.84)**	**(2909.29)**	**(2548.18)**	**(2705.08)**	**(2700.00)**	**(2760.00)**	**(2765.00)**	**(2776.90)**	**(2855.73)**
Operating cost assumption										
Selling General & Admin Exp as a % of Revenue	13.8%	14.0%	15.6%	60.1%	95.5%	14.4%	12.1%	10.2%	8.5%	7.6%
Depreciation & Amort.	11.0%	11.1%	11.7%	60.6%	87.4%	13.4%	13.0%	12.1%	11.2%	10.4%
Operating Income	1,744.06	1,894.80	2,082.70	-3,035.18	-3,788.33	1,194.40	2,080.74	2,829.35	3,544.72	4,446.45
Other Income Statement Items										
Interest Expense	(297.10)	(333.70)	(408.50)	(844.20)	(1291.80)	(1,420.98)	(1,563.08)	(1,641.23)	(1,723.29)	(1,809.46)
Interest and Invest. Income	30.10	32.80	26.95	21.04	16.77	20.13	24.15	28.98	34.78	41.74
Net Interest Expenses	(267.00)	(300.90)	(381.56)	(823.16)	(1275.03)	(1400.85)	(1538.92)	(1612.25)	(1688.51)	(1767.72)
Income/(Loss) from Affiliates	156.25	210.76	230.98	(213.30)	(135.50)	(80.00)	80.00	96.00	115.20	138.24
Currency Exchange Gains (Loss)	(13.60)	(4.80)	1.76	(89.50)	(6.60)	(22.00)	(24.20)	(26.62)	(29.28)	(32.21)
Other Non-Operating Inc. (Exp.)	23.73	24.70	31.06	(66.60)	183.05	28.48	34.18	41.01	49.21	59.06
Earnings Before Tax (EBIT Exc unusual Items)	1,643.44	1,824.56	1,964.94	-4,227.74	-5,022.41	-279.97	631.79	1,327.50	1,991.34	2,843.81
Income Tax Expense	18.30	20.90	32.60	(15.00)	(45.20)	20.90	32.60	39.12	46.94	56.33
Income Tax Expense as % of Profit before tax	0.01	0.01	0.02	0.00	0.01	(0.07)	0.05	0.03	0.02	0.02
Net Income	1,661.74	1,845.46	1,997.54	-4,242.74	-5,067.61	-259.07	664.39	1,366.62	2,038.28	2,900.14

Supporting Schedules

Financial Statements *(USD million, Financial Year End Jun. 30)*	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue Model										
Total Revenue	8777.845	9493.849	10950.661	2208.805	1532.133	9736	11001.68	12431.898	14048.045	15874.291
revenue growth rate		*8.2%*	*15.3%*	*-79.8%*	*-30.6%*	*535.5%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*
Cost Model										
COGS	-4896.579	-5262.207	-5958.671	-2695.804	-2615.391	-5841.6	-6160.941	-6837.544	-7726.425	-8572.117
COGS as % of revenue	55.8%	55.4%	54.4%	122.0%	170.7%	60.0%	56.0%	55.0%	55.0%	54.0%
Net Working Capital										
Account receivables	279.983	305.432	279.888	254.648	386.559	292.08	330.0504	372.95695	421.44136	476.22873
Account receivables as % of revenue	3.2%	3.2%	2.6%	11.5%	25.2%	3%	3%	3%	3%	3%
Notes receivables	38.658	19.075	25.933	29.501	21.508	29.208	33.00504	37.295695	42.144136	47.622873
Notes receivables as % of revenue	0.4%	0.2%	0.2%	1.3%	1.4%	0.30%	0.30%	0.30%	0.30%	0.30%
Inventories	111.393	153.573	162.107	118.703	150.224	486.8	495.0756	497.27594	421.44136	412.73157
Inventories as a % of COGS	2.3%	2.9%	2.7%	4.4%	5.7%	5.00%	4.50%	4.00%	3.00%	2.60%
Prepaid Exp.	258.171	456.547	429.211	154.339	286.026	1820.632	517.07896	584.29922	660.25812	746.09168
Prepaid Exp. as % of revenue	2.9%	4.8%	3.9%	7.0%	18.7%	18.70%	4.70%	4.70%	4.70%	4.70%
Other current assets	99.32	19.565	21.751	69.821	47.706	155.776	132.02016	99.455187	70.240226	79.371455
Other current assets as % of revenue	1.1%	0.2%	0.2%	3.2%	3.1%	1.60%	1.20%	0.80%	0.50%	0.50%
Other LT assets	1066.162	845.385	914.938	846.46	802.089	954.128	1078.1646	1218.326	1376.7084	1555.6805
Other LT assets as % of revenue	12.1%	8.9%	8.4%	38.3%	52.4%	9.80%	9.80%	9.80%	9.80%	9.80%
Account payable	360.113	488.212	563.706	353.422	545.978	847.032	935.1428	1031.8476	1151.9397	1254.069
Account payable as % of COGS	7.4%	9.3%	9.5%	13.1%	20.9%	8.7%	8.5%	8.3%	8.2%	7.9%
Accured expenses	950.491	974.311	1148.435	868.418	1139.549	1022.28	1155.1764	1305.3493	1475.0447	1666.8006
Accrued expenses as % of revenue	10.8%	10.3%	10.5%	39.3%	74.4%	11%	11%	11%	11%	11%
Deferred revenue	2308.291	3148.837	1700	124.8	814.3	672.6118	555.57735	458.90689	379.05709	313.10116
revenue growth rate	0.0%	8.2%	15.3%	-79.8%	-30.6%	-17.40%	-17.40%	-17.40%	-17.40%	-17.40%
Other short term liabilities	47.464	78.476	1823.013	1716.717	2473.803	2000	660.1008	745.9139	842.88271	952.45746
Other short term liabilities as % of revenue	0.5%	0.8%	16.6%	77.7%	161.5%	6%	6%	6%	6%	6%
Net working capital	83.119	-88.118	-1922.973	-1626.967	-2435.292	-1912.376	-638.0974	-808.0734	-1081.699	-1238.195
changes in NWC						522.916	1274.2786	-169.976	-273.6261	-156.4952

Financial Statements *(USD million, Financial Year End Jun. 30)*	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Other LT Liabilities										
Other LT liabilities	406.304	542.787	553.642	500.912	443.101	496.536	561.08568	634.02682	716.4503	809.58884
Other LT liabilities as % of revenue	4.6%	5.7%	5.1%	22.7%	28.9%	5.10%	5.10%	5.10%	5.10%	5.10%
Net PPE										
Capex	-564.1	-3660	-3024.7	-1965.1	-2229.7	2336.64	2200.336	1864.7848	1404.8045	1587.4291
Capex as a % of revenue	6%	39%	28%	89%	146%	24%	20%	15%	10%	10%

Financial Statements *(USD million, Financial Year End Jun. 30)*	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Retained earning										
Retained earning BOP						302.276	1.4032	538.61324	1950.4231	4160.2228
Add Net Income						-300.8728	599.18984	1288.3767	1944.3941	2787.4759
Less dividends						0	-61.9798	123.43311	265.40561	400.54518
Retained earning EOP	9022.405	10263.282	11523.326	5562.775	302.276	1.4032	538.61324	1950.4231	4160.2228	7348.2438
Dividends expense	437.455	527.494	602.674	326.421	0	0	-61.9798	123.43311	265.40561	400.54518
dividends as % of profits for the year	26.9%	29.1%	32.1%	-5.6%	0.0%	0%	20.6%	20.6%	20.6%	20.6%