

# FEBRUARY 2015 WAVE PRICING SURVEY

Win some, lose some

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## CALL TO ACTION

With oil prices no longer an EPS tailwind - bunker fuel gained 15% in February MoM - yields have to deliver. Our latest pricing survey uncovered mixed results, both from a market and company perspective. Following the slowdown in our January pricing survey, pricing pivoted favorably, in part to one of the coldest February's on record in North America. CCL in particular seems to have improved. However, Europe pricing moved lower again. RCL pricing in this market was disappointing and we remain most cautious on the name.

## SURVEY THOUGHTS

It was a rally for most of the brands in the Caribbean in February. It wasn't just easy comps as we saw, for the 1<sup>st</sup> time in a while, some real pricing power. Maybe it's because "super low priced" MSC is not being as aggressive as before, although there are still some \$199 deals out there. More likely, one of the coldest winters the US has ever experienced is driving timely demand. The promotional environment continues to be heavily weighted in the Western/Southern Caribbean itineraries but even that region rebounded nicely in February. The clear winner is the Carnival brand.

Meanwhile, it's getting darker and gloomier in Europe. We have been warning of lower European pricing for months. RC core brand pricing has been leading the charge lower and it got worse in February. The itinerary shifting could be to blame or the competitive pressures from the new ships - *Anthem* and *Britannia* - are taking their toll on the older fleet.

Management from CCL/RCL haven't really acknowledged the European slowdown but that's because the tumbling prices from the older fleet in the core RC brand and even the core P&O UK brand are masked by higher APDs driven by *Allure's* summer Europe sailing season and the new ships in the UK market. Taken as a whole, the trend is negative. The risk is real and the sell-side is just starting to take notice.

Given the European concerns and higher fuel prices in February, we recently reduced RCL's FY 2015 net yields to 3.5% from 3.8% previously and EPS 2015 to \$4.68 from \$4.85 previously.

What about the darling of late, Norwegian? Management at Analyst Day last week mentioned casually that they are seeing higher prices. We believe them but we think it is mostly close-in Caribbean pricing. Up until February, Norwegian had been relatively immune to the European risk given its high exposure to the US sourced market and the higher yielding Prestige brands. While overall YoY pricing remained modestly higher, tough comparisons in February resulted in negative YoY pricing in Europe for the 1<sup>st</sup> time in a long time. The comps will not be easier as NCLH navigates through the Spring months.

The new ship premiums continue to be impressive, led by *Quantum*, of course, which is doing just fine in China. European premiums were more volatile as *Anthem* premiums took a dip in mid-February and recovered at the end of the month. P&O UK saw an uptick in its premium but at the expense of its P&O peers, who fared much worse. In addition, we have our 1<sup>st</sup> look into Norwegian *Escape* premiums –or lack of premiums – as *Getaway* APDs were surprisingly higher than that of *Escape* for the Winter 2015 itineraries.

## SURVEY METHODOLOGY

We track YoY and sequential pricing for 13,500 ship itineraries spanning across 8 geographic regions. We follow brand pricing for the following: Carnival, Royal, Celebrity, Pullmantur, Princess, Holland America, Costa, Cunard, Azamara, Norwegian, AIDA, P&O Cruises UK, Oceania, and Regent. **We rely on sequential pricing trends (defined as the most recent direction of how pricing has changed relative to pricing seen at the last time the company provided guidance) for price pivot signals.**

## FEBRUARY SURVEY PRICING PIVOTS

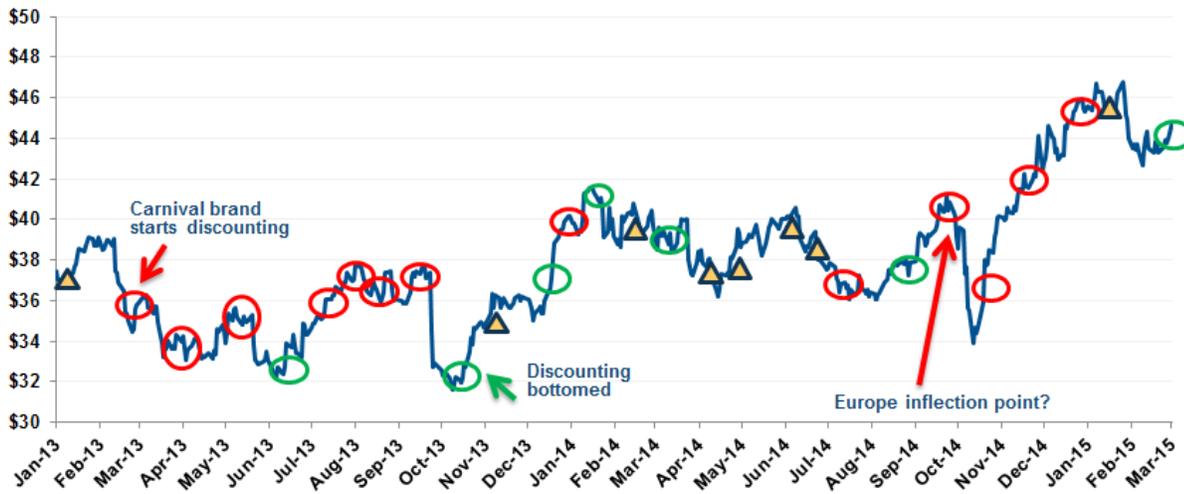
- **CCL: Positive**
  - **A positive pivot warranted by a surge in the Carnival brand's Caribbean pricing which wasn't all comp related. This was enough to offset the weaker pricing from Europe and Asia.**
- **RCL: Negative**
  - **RCL also saw some lift in Caribbean pricing but the tumble in European pricing was too much to overcome. It's the one eyesore that will pressure yield growth in 2015.**

- **NCLH: Negative**
  - **Caribbean close-in Q1 pricing jumped but tougher comps weighed on pricing post Q1 in the Caribbean and Europe. The Spring comps will not be easier.**

## PIVOT HISTORY

### CCL STOCK VS PRICING SURVEY SENTIMENT

○ BEARISH PIVOT    ○ BULLISH PIVOT    ▲ NO PIVOT  
 \* SURVEY DATE WHERE PRICING PIVOT WAS OBSERVED



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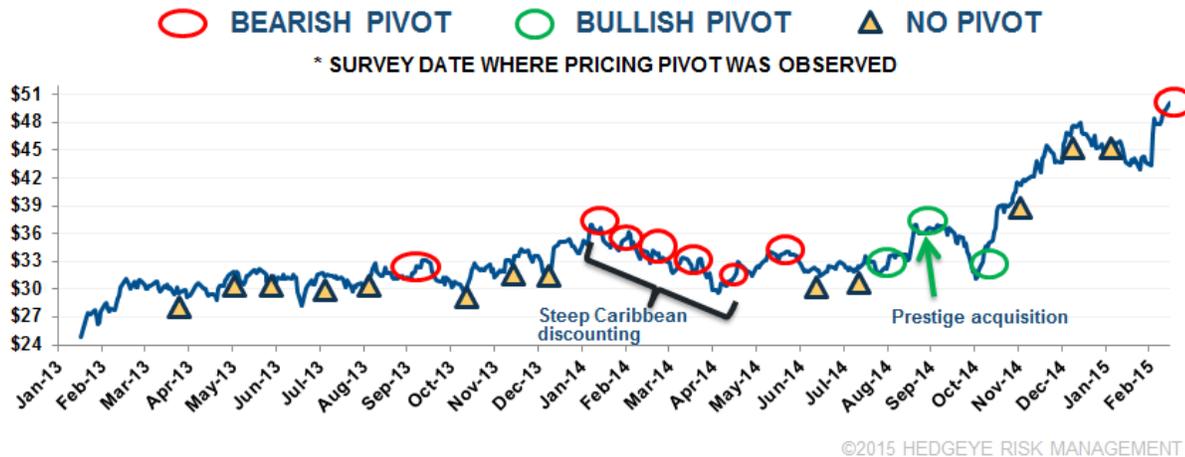
### RCL STOCK VS PRICING SURVEY SENTIMENT

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## NCLH STOCK VS PRICING SURVEY SENTIMENT



## SURVEY DETAIL

### SPOTLIGHT: RCL CHINA PRICING VS LOAD

Asia is the focus for 2H 2015 and while all the attention has been on Quantum, it's been the older RC ships that has been having greater success at selling out. Pricing has been pretty steady.

## RCL: 2015 ASIA ITINERARIES

	<u>% SOLD OUT</u>	<u>SEQUENTIAL PRICING (FEB VS JAN)</u>
<b>LEGEND OF SEAS</b>	10%	-5%
<b>MARINER OF SEAS</b>	36%	FLAT
<b>QUANTUM</b>	14%	+5%
<b>VOYAGER</b>	55%	FLAT

### CCL

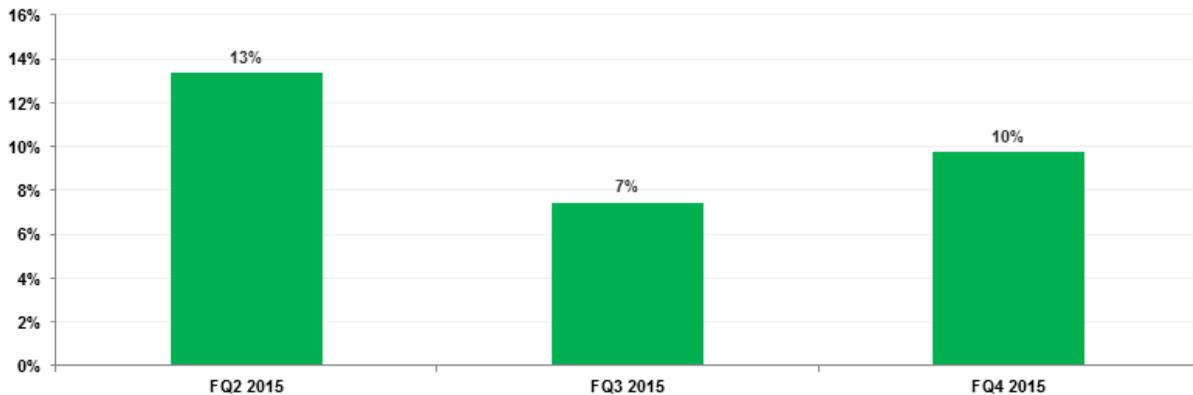
A big spike in close-in pricing turned a positive pivot for the Carnival brand and for Carnival Corp.

Costa also maintained its status quo in February. However, pricing weakness is beginning to emerge everywhere else e.g. the core P&O fleet and *Princess* in the UK.

### Caribbean

- *Carnival* brand
  - **Eastern Caribbean** – sequential pricing surged higher for the *Carnival* Brand for FQ2-FQ4 2015. YoY pricing improved as well across the board, particularly FQ2 2015.

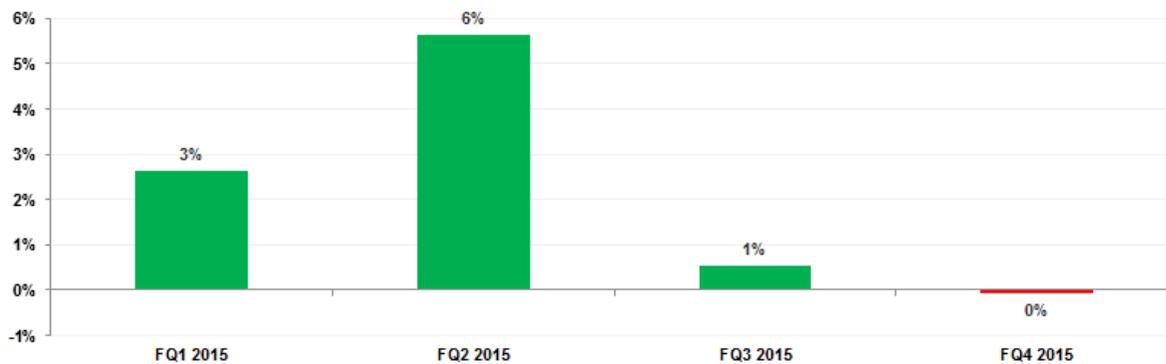
### CARNIVAL BRAND EASTERN CARIBBEAN PRICING SEQUENTIAL CHANGE



\* Sequential pricing trends (defined as how pricing has changed relative to pricing seen at the last time the company provided guidance) for price pivot signals.

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### CARNIVAL BRAND EASTERN CARIBBEAN PRICING YOY CHANGE



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- **Western/Southern Caribbean** – an even larger positive reversal was seen in the Western/Southern itineraries (Carnival's trouble spot). Pricing in January had seen steep declines but the big recovery in February has erased some red columns.

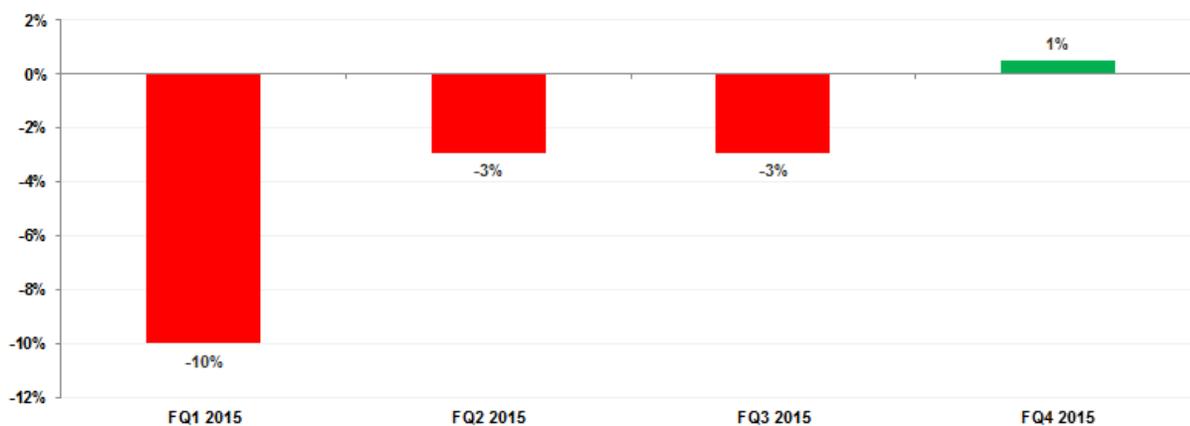
### CARNIVAL BRAND WESTERN/SOUTHERN CARIBBEAN PRICING SEQUENTIAL CHANGE



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### CARNIVAL BRAND WESTERN/SOUTHERN CARIBBEAN PRICING YOY CHANGE



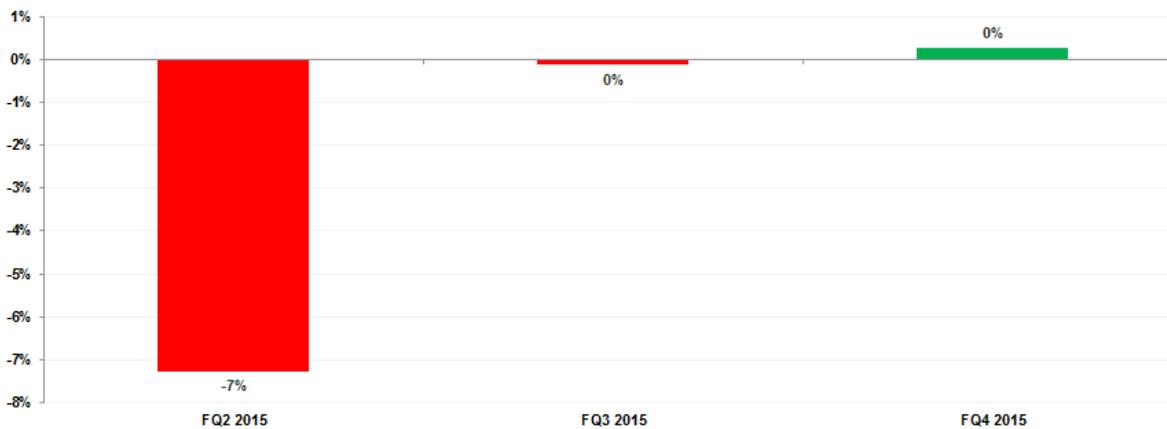
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- *Princess/Holland America* – Carnival Corp's other brands did not participate in the February rally. Pricing has been flattish to slightly lower for FY 2015.

## Europe

- *Costa* – F2Q sequential pricing declined but YoY pricing remained around the unchanged level. YoY performance is holding up better than we thought.

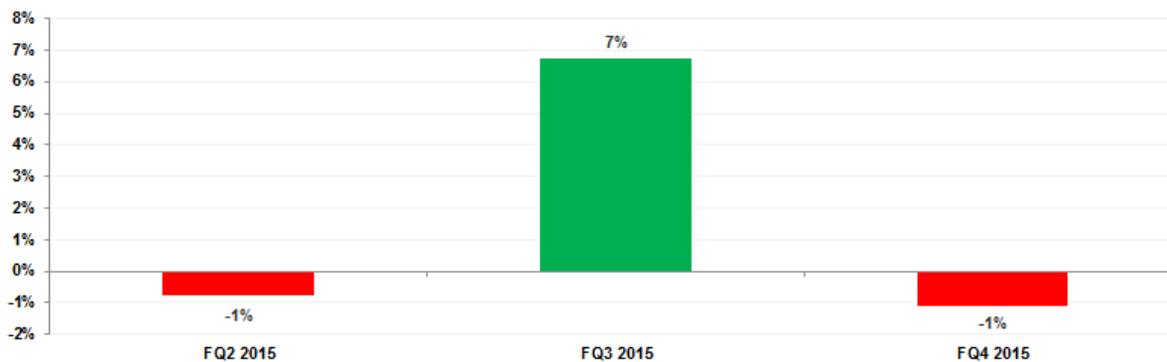
## COSTA EUROPEAN SEQUENTIAL PRICING CHANGE



\* Sequential pricing trends (defined as how pricing has changed relative to pricing seen at the last time the company provided guidance) for price pivot signals.

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## COSTA EUROPEAN PRICING YOY CHANGE



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- *P&O Cruises UK*: with the entrance of two new ships this summer, pricing took a sharp drop for the core P&O fleet. Sequential and YoY pricing were down 15-20%.
- *AIDA's* sequential and YoY pricing remain firmly in the red for the entire 2015 sailing season
- *Holland America* and *Princess* both slashed pricing aggressively for the UK and Holland, respectively, for summer 2015

## Alaska

- Alaska is by far the strongest market in 2015. Up until February, almost all of the pricing gains were comp related. In February, we saw some pricing power as sequential pricing rose as well, which further increased YoY gains.

## Asia/Australia

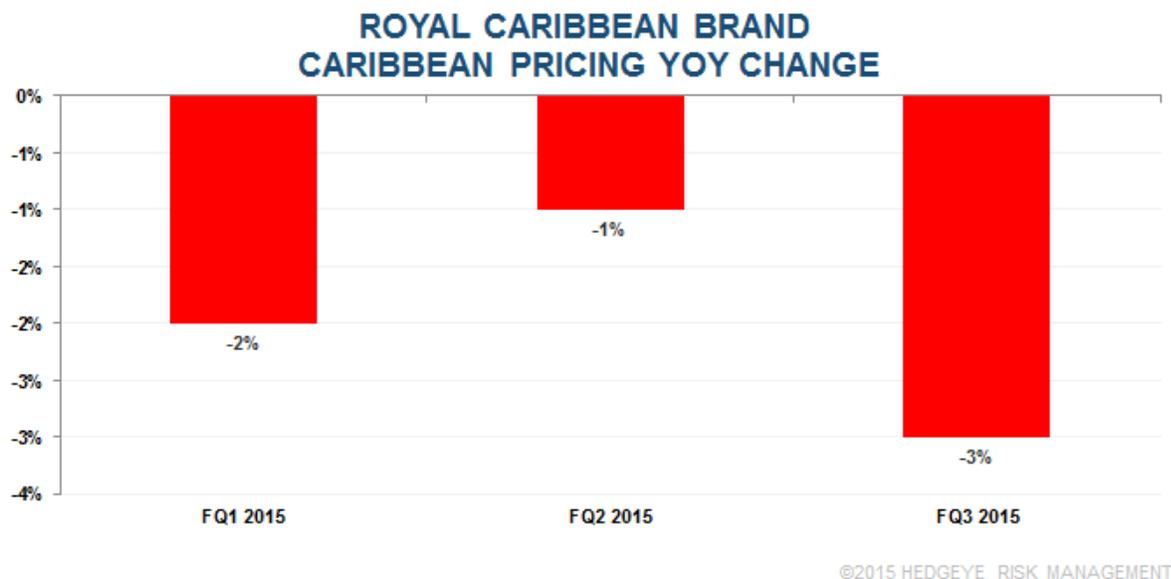
- *Princess* lowered pricing in Yokohama and Brisbane/Sydney by +10%. These markets continue to weigh on Carnival.

## RCL

We have been concerned about the core RC brand's weak European pricing for a while. February's data show those risks are coming to fruition.

### Caribbean

- *Royal Caribbean brand*
  - RC brand's legacy fleet has yet to return to the black but strong close-in pricing for FQ1 is a good sign it may happen later.

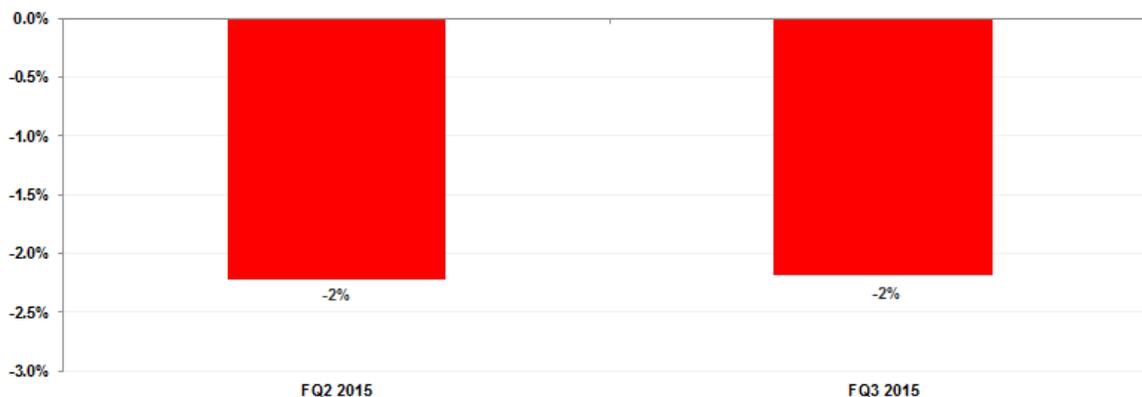


- *Celebrity brand*
  - 1H 2015 pricing are now moderately higher YoY for the sparse itineraries.

### Europe

- *Royal Caribbean brand*
  - On a YoY basis, the RC brand pricing is really struggling. Pricing power is also declining. Maybe it's because of all the deployment shuffles this year. This has been a key risk for RCL's 2015 and we're seeing it come to fruition.

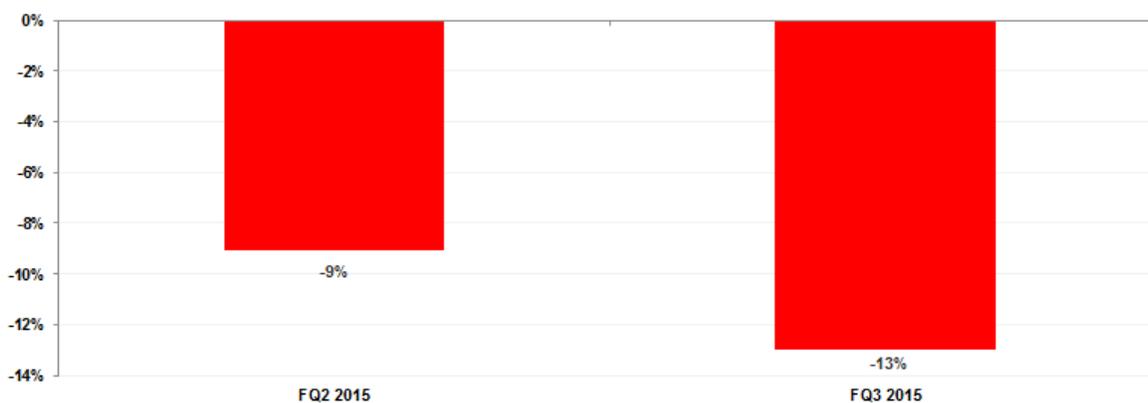
### ROYAL CARIBBEAN BRAND EUROPEAN PRICING SEQUENTIAL CHANGE



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### ROYAL CARIBBEAN BRAND EUROPEAN PRICING YOY CHANGE



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- *Celebrity* brand – Summer 2015 pricing is up slightly with deteriorating sequential pricing trends

#### Alaska

- *Royal Caribbean* brand
  - Solid YoY pricing growth due to easy comps with sequential pricing also higher
- *Celebrity* brand
  - *Celebrity's* summer YoY pricing entered positive territory in February. Momentum is accelerating.

## South America

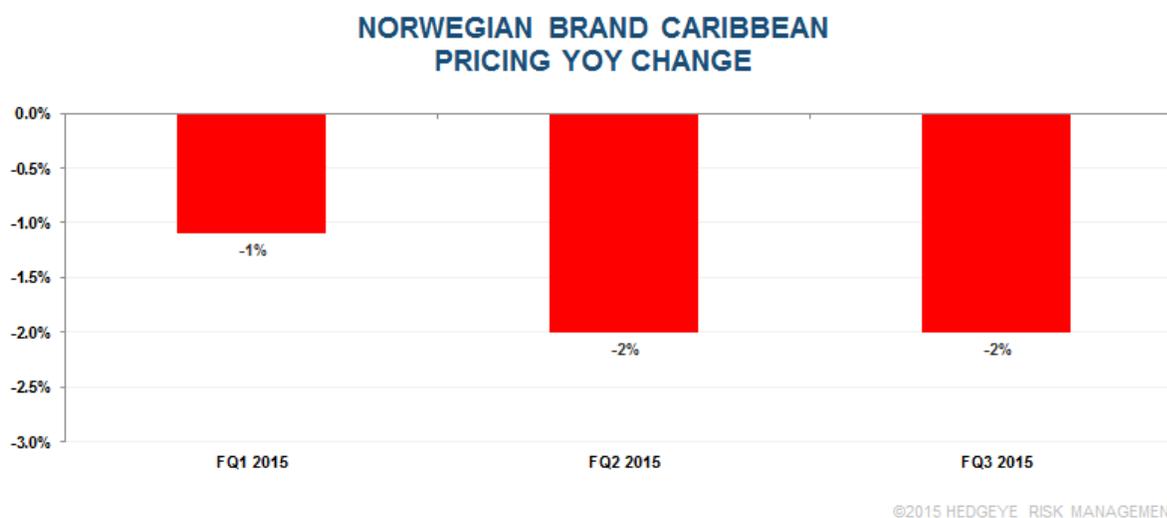
- Pricing is volatile but directionally FQ1 2015 pricing has been higher

## NCLH

Difficult comps are coming for the Norwegian brand. While they have been the outperformer the last several months, the harder comps finally hit them in February. The damage wasn't too bad as the general robust trends remain relatively intact.

## Caribbean

- Norwegian brand
  - Close-in 1Q 2015 pricing shot up through the roof in February but FQ2/FQ3 didn't follow due to harder comps



- Regent/Oceania brands
  - YoY Pricing for F1Q is down slightly – a rarity for Prestige

## Europe

- Norwegian brand
  - Harder comps are coming as YoY pricing growth slowed to mid-single digit from double digit levels in January.
- Regent/Oceania brands
  - 2015 summer pricing is slightly up YoY

## Alaska

- Pricing remain robust with YoY pricing growth near +15% YoY
- *Regent/Oceania* brand pricing was also strong, up double digits YoY

## Hawaii

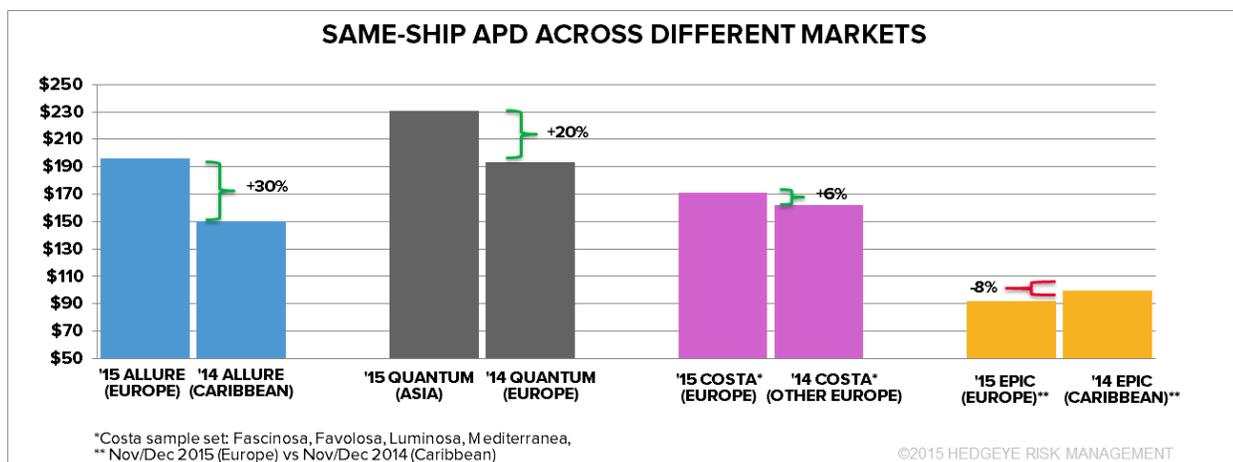
- Hawaii Summer 2015 pricing growth is trending in the high teens but pricing power lessened somewhat in February

## Asia

- *Insignia* pricing for its Around the World itinerary remain -7% below levels seen in October

# SAME-SHIP ANALYSIS

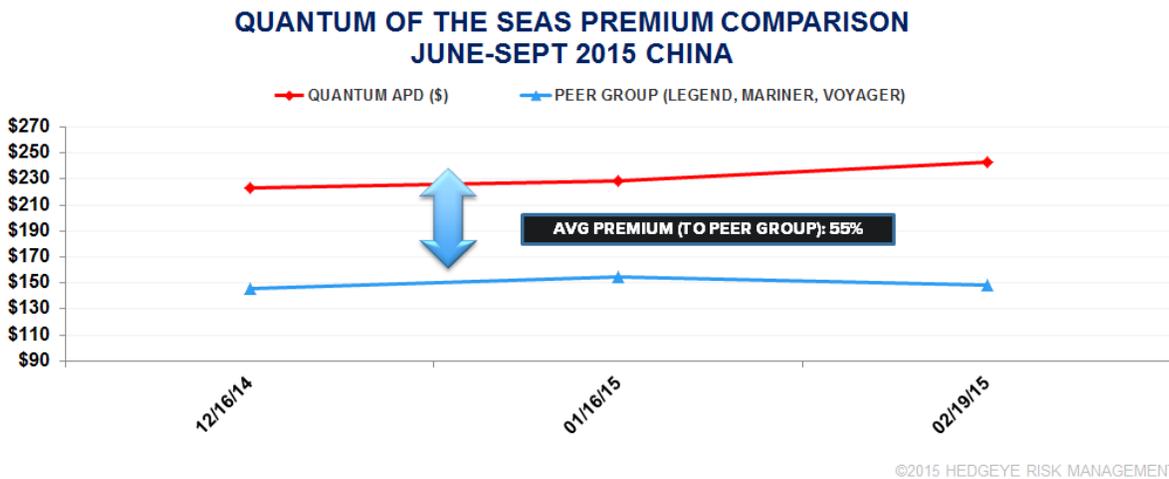
In this segment, we analyze how a ship's pricing has fared when deployed elsewhere. For this year, we looked *Allure of the Seas* (RCL), *Quantum of the Seas* (RCL), a group of Costa ships (CCL) and *Norwegian Epic* (NCLH). Except for *Epic's* winter in Europe, all the other ships saw improvement in their APDs over last year. *Allure* led the way with a remarkable 30% higher APD in Europe than in its home base in Fort Lauderdale. Maybe RCL should keep *Allure* in Europe, at least in the near-term.



# NEW SHIP PRICING POWER

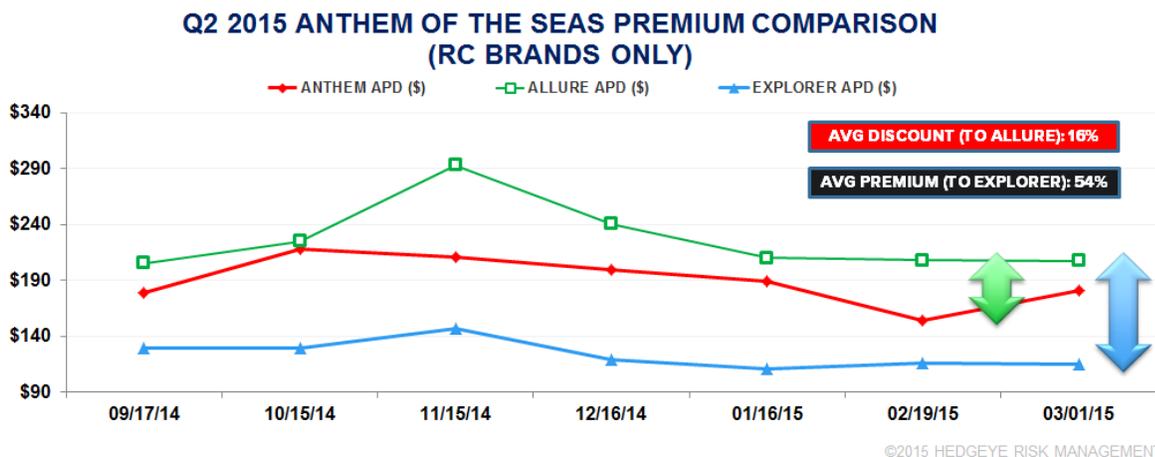
## Quantum of the Seas (RCL)

- Premiums continue to be impressive and are substantially above average.
- Quantum’s premium in China is currently around 55% from June to September 2015
- Early read on Winter 2015 shows a large premium for Quantum as well

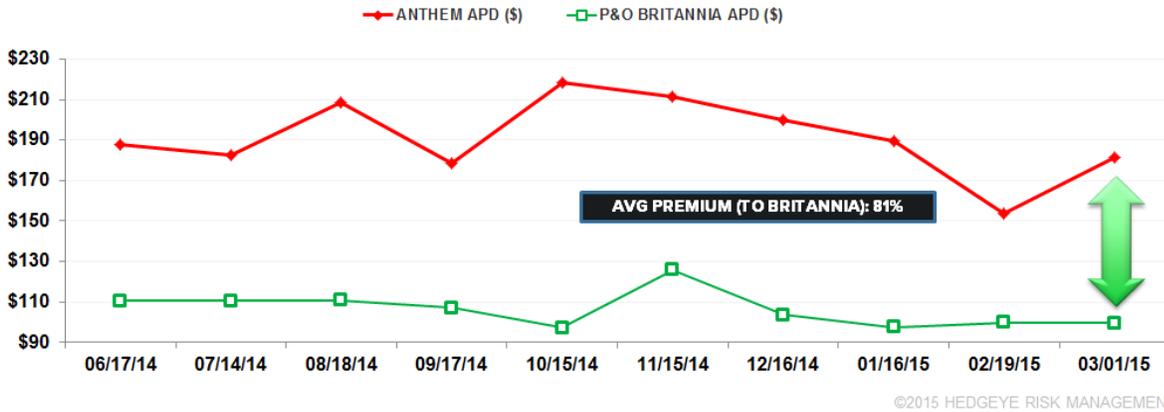


## Anthem of the Seas (RCL)

- Anthem premiums shrank in mid-February but have recovered somewhat at the end of the month.
- As mentioned before, the discount to Allure is attributed to customer mix.



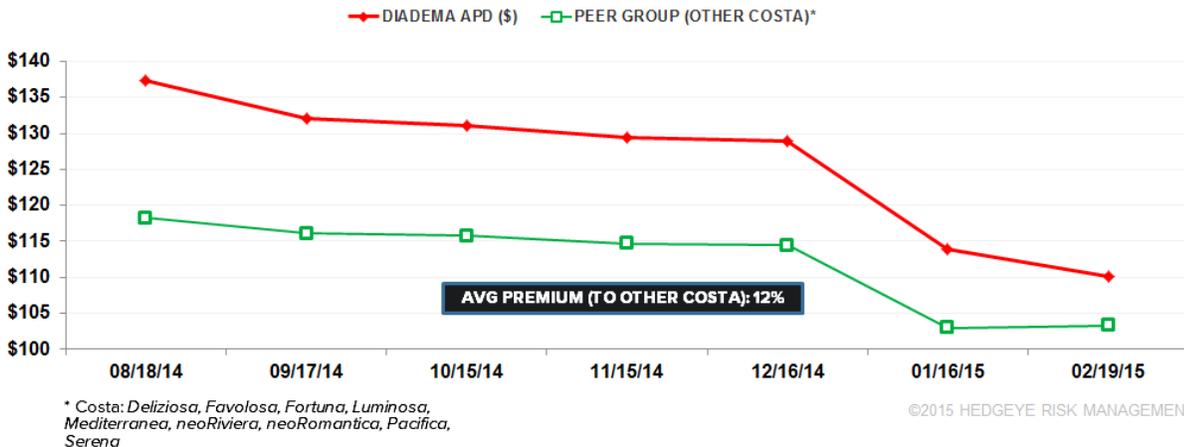
**Q2 2015 SOUTHAMPTON PREMIUM COMPARISON**



**Costa Diadema (CCL)**

- *Diadema* premiums relative to its *Costa* peer group has consistently been in the teens but the overall pricing trend has been lower.

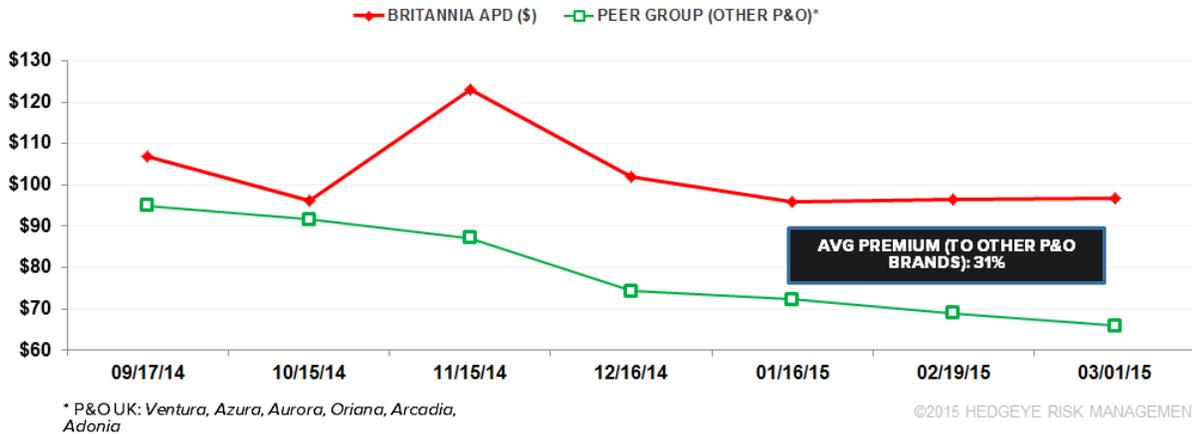
**MAR-MAY 2015 COSTA DIADEMA PREMIUM COMPARISON**



**P&O Britannia (CCL)**

- *Britannia* APDs have stabilized while its peers' pricing continues to drop.
- *Britannia* premiums have widened to over 30%.

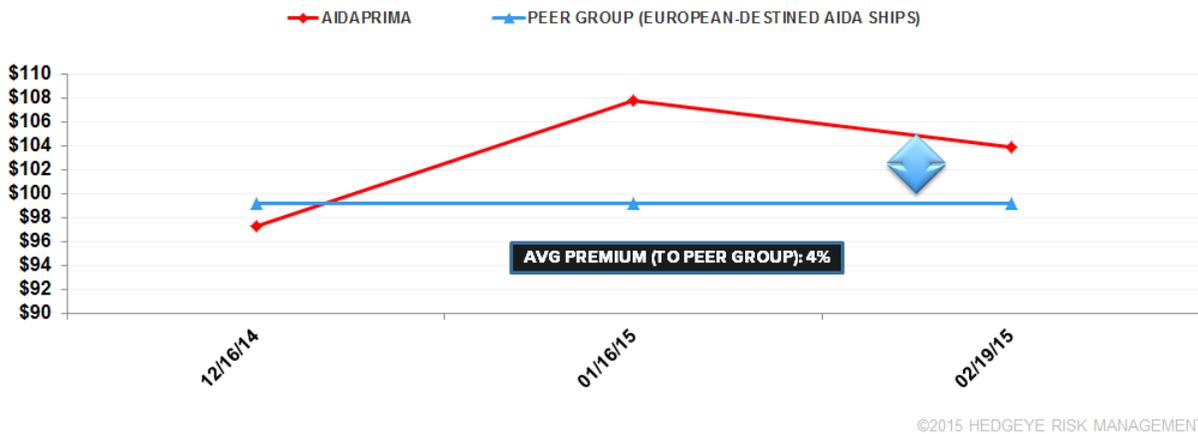
**APRIL-JUNE 2015 P&O BRITANNIA PREMIUM COMPARISON**



**AIDAprima (CCL)**

- AIDAprima will be in Dubai for the winter season. Compared with that of the other AIDA ships cruising around Europe, AIDAprima premiums have been flattish.

**NOV-DEC 2015 AIDPRIMA PREMIUM COMPARISON**



**Norwegian Escape (NCLH)**

- An early read on Escape pricing is one of disappointment. Its pricing is in-line or even at a slight discount with its peers (Getaway/Pearl) for the Nov/Dec 2015 sailings in the Caribbean.

## CONCLUSION

Following our in depth cruise pricing survey, our stock opinions have moved a little. We're now less bullish on NCLH due to upcoming difficult compares and the strong stock action this year. For RCL, we remain negative due in part to higher fuel prices but more to European related softness. Better CCL pricing offsets recent higher fuel costs and keeps us neutral on the stock.

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