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An Analysis of Carnival Corporation & PLC (CCL)

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Abstract: CCL is a leisure travel company that was created in 1994. Ever since the Covid-19 pandemic started, it has not been doing well and we can see it through the different financial ratios. All the data presented are from the years 2020 and 2021. An example of a ratio that is doing badly includes the current ratio which is under 1.

Keywords: Current Ratio; Quick Ratio; Time Interest Earned Ratio (TIE); Debt to Net Worth; Debt to Total Asset; Earnings Before Interest and Taxes (EBIT); Dupont Leverage; Return on Assets (ROA); Return on Equity (ROE); Carnival Cruise Line & PLC (CCL)

Introduction

Carnival Corporation & PLC was founded by Ted Arison in 1994. The current CEO is Arnold Donald who started on July 3, 2013. Carnival currently has over 40,000 employees all over the world and is headquartered in Doral, Florida. Carnival controls 87 cruise ships under 9 brands in operation and Carnival manufactured most of its ships. Carnival Cruise Line is also the biggest cruise line company in the world. Its passengers include 47.4% of all cruise line customers. It also earns 39.4% of all revenues in the cruise line industry. Some of its biggest competitors include Royal Caribbean Group and Norwegian Cruise Line. The largest shareholder of Carnival is Vanguard Group Inc with 8.03% (CNN). Their ticker for both the New York Stock Exchange and London Stock Exchange uses the CCL symbol. The reason this research report on CCL was made to inform you if CCL is a buy-and-hold stock right now. In this research report, I will be talking about the financial ratios of CCL.

Analysis

In this research paper, I will be discussing the different financial ratios that predict the company's direction in the upcoming years. The Current Ratio measures whether a company has the liquidity to fulfill its current liabilities. It can be calculated when you divide *current assets* by the *current liabilities*. The Quick ratio is a ratio that measures if the company can quickly convert its asset into cash in a short amount of time without liquidity. This can be calculated when you subtract the *current assets* from the *inventory* and then divide it by the *current liabilities*. The Time Interest Earned ratio (TIE) measures if the company has the ability to pay off its debts. This can be found when you divide *earnings before interest and taxes* (EBIT) by the interest expense. Debt to net worth is used to see how much of a company's asset is financed by debt. To calculate this, you would have to divide the *debt* by the *net worth.* The next ratio that is developed in the report is the debt to total assets. Debt to total assets is used to find the company's ability to generate cash from their debt. This ratio can be generated when you divide the *debt* by the *total asset.* Return on assets(ROA) is also another important ratio. This is used to find if the company's assets are efficiently generating a profit. This can be calculated when you divide *earnings before interest and taxes*(EBIT) by the *total assets.* One of the most important ratios to investors is the return on equity (ROE). The return on equity finds how profitable a company is. This can be measured when you divide the *net income* by the *equity.* The last ratio that is presented is the Dupont model leverage. This calculates how the company employs debt as a source of capital rather than equity. This is calculated when you divide *total assets* by *equity.*

- Ratios: All data are for the fiscal year ending 11/30

Table 1 Current Ratio

2021	2020
.974	1.22

During 2021, Carnival current ratio dropped below 1. The company was not able to generate much cash because of COVID so it had to sell some of its ships for liquidity purposes. It went below 1 because it was just when the no-sail rule was lifted by the Control for Disease Center(CDC) at the end of 2020. If someone on the cruise ship had Covid-19, they would have to quarantine the entire ship which can last up to days causing the ship to lose a lot of money. They also didn't resume their normal services until June of 2021. Even when it resumed its cruises, customers were required to have a vaccine card to board the ships and many people didn't have one. This rule was only lifted on July 14, 2022, for the Princess cruise ships. There was also a stigma against going into small spaces where Covid-19 can run rampant which reduced the demand for cruise vacations. A cruise ship has very little room for the customers to get away from the infected so it caused many people to not purchase tickets to the cruise ships.

Table 2 Quick Ratio

2021	2020
.939	1.18

The Quick Ratio of Carnival Cruise Line is not very high because it doesn't have much inventory due to them being a leisure and tourism company. They have small shops on the ship which accounts for most of the inventory. The Quick ratio is not as important to look at compared to current ratio.

Table 3 Time Interest Earned (TIE) Ratio

2021	2020
4.428	9.905

The ratio has decreased because CCL wasn't able to generate any operating profits for 2 years due to Covid. On March 14, 2020, the CDC implemented the no sail policy for all cruise ships until it was lifted on October 30, 2020. But even after that date, most of their ships weren't in operation which caused them to generate less earnings and they were able to pay off their debt.

Table 4 Debt to Total Assets

2021	2020
0.534	0.413

CCL still wasn't able to pay off its debt and even added $3 billion to it which shows that the company hasn't recovered from Covid. During the year of 2020, CCL was able to sell 18 of their cruise ships which kept its *Debt to Total Asset* ratio low but in 2021, they didn't sell as many ships and also gained more debt which caused the ratio to increase.

Table 5 Return on Assets (ROA)

2021	2020
-0.133	-0.165

During the entire year of 2020, CCL lost over .3 because of Covid. Since then, CCL is starting to do better with Covid going away. They were able to put a few of their ships in operation but the ships didn't generate enough money to keep its ROA high.

Table 6 Return on Equity (ROE)

2021	2020
34.459	-5.453

CCL still wasn't able to bring the ROE up so that means that they weren't able to generate a return to the shareholders. There was such a big jump in their ROE because during 2020, CCL weren't generating any profits and during 2021, they generated profit but it wasn't much compared to the years prior to COVID.

Table 7 PE Ratio

2021	2020
-2.38	-1.51

Carnival Cruise Line's PE ratio dropped even more after 2020 because they still weren't able to generate profits. Many people were scared to go on the cruise ships because they still had the stigma that cruise ships were Covid Super Spreaders.

Table 8 Dividend Yield (NASDAQ)

2021	2020
n/a	n/a

CCL had ended its dividend on 2/20/20 because of Covid. This might hint that they canceled the dividends to focus on making more profits.

Recommendation

I rate Carnival Corporation and PLC as a buy/hold stock right now. Since their Return On Equity (ROE) is 34.459 right now, it is not very low compared to other cruise companies such as Royal Caribbean Group (RCL) and Norwegian Cruise Line (NCLH). Since CCL has not recovered little in 2021, it has the potential to improve in 2022 as the Covid-19 restrictions and stigmas are slowly dissipating. During the months of December of 2021, the stock price went up 5 dollars even though the Omicron variant of Covid was running rampant. This shows that CCL will still prevail even if there is another virus. As of July 16, 2020, the CDC has lifted its No-Sail Policy for Cruise Ships. However, many countries still haven't lifted their Covid-19 restrictions which negatively affects CCL's revenues. CCL was able to bring up its revenues at the end of 2021 and when the Omicron variant emerged, it was still able to increase by 5 dollars as Omicron was running rampant.

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