



Carnival Corporation & plc

CCL

EQUITY RESEARCH REPORT

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CCL — Carnival Corporation & plc (now Carnival Corporation Ltd.)

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID**
Current Price	\$30.19 / €26.42
Fair Value (Base Case)	€25.00 (approx., heavy uncertainty)
Margin of Safety	Negative (-5.4%)
Target Entry (if HOLD)	N/A — see AVOID rationale

Return Profile	Value
Dividend Yield	~0.5-0.7% (recently reinstated, token level)
Expected Dividend Growth	Uncertain; <5 years of renewed history
Expected Price Appreciation	4-6% CAGR (base case)
Total Expected Return (Base)	~5.5% CAGR
Bear Case Total Return	-18% to -25% CAGR (recession)
Bull Case Total Return	~14% CAGR
Probability-Weighted Return	~4.5% CAGR

Risk Assessment	Value
Wealth Preservation Score	38 / 100
Downside Protection Score	30 / 100
Quality Score	41 / 100
Risk Level	ELEVATED
Probability of >50% Loss	~22%
Recession Profile	VULNERABLE

One-Line Thesis:

Carnival has executed an impressive recovery and reached investment-grade leverage, but it remains a highly cyclical, asset-heavy, debt-laden discretionary business whose bear case violates the capital-preservation mandate.

INVESTMENT THESIS

Carnival operates the world's largest cruise fleet, more than 90 ships across eight brands, generating \$26.6 billion in 2025 revenue and \$2.8 billion in net income. The turnaround since 2020 deserves recognition. Management cut debt by over \$10 billion from the January 2023 peak, completed a \$19 billion refinancing, achieved net debt to adjusted EBITDA of 3.4x, earned investment-grade recognition from Fitch, and reinstated a dividend. Record bookings and net yields show genuine demand strength. By any operational measure, this is a far stronger company than the distressed entity of three years ago.

None of that resolves the structural problem for a wealth-preservation mandate. You are buying a discretionary leisure business with extreme operating leverage and \$27.5 billion of debt against \$12.3 billion of equity. The model converts demand shocks into earnings collapse and earnings collapse into solvency stress. You watched this play out in 2020, when revenue fell roughly 75% in a year and the company survived only by raising over \$10 billion through dilutive equity and high-cost debt. Shareholders who held through that period saw permanent capital destruction through share count expansion that newer record earnings have not undone on a per-share basis. The recovery restored the business. It did not restore the original owners.

The arithmetic disqualifies the position before any quality judgment. The wealth-preservation framework requires the bear case total return to be at least zero. Carnival's bear case is sharply negative. A 30% revenue decline against this fixed-cost base and remaining debt load would compress earnings toward zero, threaten the freshly reinstated dividend, and historically has triggered a 60-80% peak-to-trough share price decline. With debt to equity above 2.0x outside the regulated-utility carve-out, the company fails the solvency gate on a forward-stress basis even after its repair work. The dividend is too young and too small to provide income cushion. You are not being compensated for cyclical risk: the base case total return of roughly 5.5% sits below the 7% hurdle, while the downside remains open-ended. This is the asymmetry the framework exists to reject. A 4% HYSYA carries none of this tail risk and clears most of the expected return.

What would change the assessment: sustained de-leveraging to net debt/EBITDA below 2.0x, a dividend history of 5+ years with payout below 40%, and a share price offering a real margin of safety against normalized through-cycle earnings rather than peak earnings.

1. BUSINESS QUALITY ASSESSMENT

Carnival is understandable. It sells multi-day cruise vacations, monetizing advance ticket fares plus high-margin onboard spending. The business model has clear characteristics relevant to preservation:

- **High fixed costs, low variable costs.** Operating leverage cuts both ways. At high occupancy, incremental passengers drop to the bottom line. In a downturn, fixed crew, maintenance, insurance, and port costs persist while revenue falls.
- **Single-product concentration.** No diversification into hotels, airlines, or non-travel cash flows to offset a cruise-specific shock.
- **Discretionary demand.** Cruise spending is among the first household budget items cut in recession.

Moat: Carnival holds a relative moat within cruising. Scale (45% of global guests historically), brand portfolio across price tiers, port relationships, and operational know-how protect it against smaller cruise lines. The moat

does not protect against industry-wide demand shocks, substitution to land vacations, or macro cycles.

- Primary Moat: Cost/scale advantage + brand portfolio | Durability: Medium
- Threat Assessment: Elevated (industry-bounded, exogenous-shock exposed)
- Moat Preservation Confidence: **MEDIUM-LOW**

The framework rewards moat durability over width. Carnival's moat does not durably protect capital across a 10-year horizon that will include at least one recession.

2. FINANCIAL FORTRESS ANALYSIS

Sector classification: Highly cyclical, discretionary leisure. Under the framework, highly cyclical businesses require an exceptional balance sheet AND a valuation discount to proceed.

Solvency metrics (FY2025):

Metric	Value	Threshold	Result
Debt	\$27.5B	—	—
Equity	\$12.3B	—	—
Debt-to-Equity	~2.24x	<1.0x (ideally <0.5x)	**FAIL**
Net Debt / Adj. EBITDA	3.4x	—	Improved but elevated
Interest Coverage (est.)	~3.5-4.0x (EBIT \$4.5B vs. high interest)	—	**FAIL / MARGINAL**
Adjusted EBITDA	\$7.2B	—	Strong
FCF	Positive 2024-2025; negative 2020-2022, 2024 of 5 years	—	**FAIL (3 of 5 negative)**
Operating cash flow	\$5.9B (2024)	—	Strong recently

Stress test — revenue drops 30% for two years:

- Remain solvent? Questionable. Fixed costs and ~\$27.5B debt service against compressed EBITDA would burn cash. 2020 demonstrated the company cannot self-fund a severe demand shock.
- Maintain dividend? No. The token dividend would be cut immediately.
- Avoid dilutive equity raise? History says no — the 2020 playbook was massive dilution.

Solvency Assessment: **MARGINAL**

The company is dramatically stronger than in 2022, and investment-grade recognition is real progress. But D/E above 2.0x, interest coverage near the failure line, FCF negative in three of the last five years, and a documented inability to survive a severe shock without dilution place this at MARGINAL, not FORTRESS or ADEQUATE. The framework permits MARGINAL to proceed only with an exceptional valuation discount, which does not exist at \$30.19.

Earnings Quality: Operating cash flow (\$5.9B 2024) exceeds net income, supporting earnings quality. Recovery earnings are genuine. Earnings Quality: **ACCEPTABLE**.

Dilution: Share count expanded enormously during 2020-2021 to survive. This is the central permanent-loss event for original holders. Convertible notes were redeemed in December 2025, removing future dilution overhang. Forward dilution is now modest, but the historical destruction is permanent. Dilution Assessment: **CONCERNING** (historical), improving prospectively.

3. DIVIDEND ANALYSIS

The dividend was reinstated in FY2025 after a multi-year pandemic suspension. It is token-level (estimated yield under 1%).

Metric	Value	Threshold	Assessment
Dividend Yield	~0.5-0.7%	1.5-5% sweet spot	Below range
Consecutive Years	<1 year renewed	>10 preferred	Unproven
Payout Ratio	Low (token)	<60%	Low but immature
Stress survivability	Would be cut	—	At risk in downturn

Stress Test: A 40% earnings drop would prompt an immediate cut, as in 2020.

Dividend Sustainability: **AT RISK** (not from current coverage, but from cyclical and the absence of a multi-year committed track record). Provides no meaningful income cushion for preservation purposes.

4. VALUATION ANALYSIS

The valuation problem is that 2025 represents peak-cycle earnings. Applying multiples to peak earnings understates risk.

Metric	Approx. Current	Note
Market Cap	~\$38-40B (at \$30.19)	—
EV	~\$65-67B (incl. \$27.5B debt)	Heavy debt inflates EV
P/E (on \$2.8B NI)	~14x	Reasonable on peak earnings
EV/EBITDA	~9x	Mid-cycle-ish
Dividend Yield	<1%	Below history

Margin of safety analysis: Normalized through-cycle earnings are well below 2025 peak. Applying a conservative mid-cycle multiple to normalized earnings yields a fair value near or below the current price. There is no margin of safety at \$30.19. With the share price having recovered strongly, you are paying full price for peak earnings in a cyclical trough-risk environment.

Valuation: **FULL** | Margin of Safety: approximately **-5%** (negative)

5. SCENARIO ANALYSIS (10-Year, total return including dividends)

BEAR CASE (25% weight): Recession within the horizon. Revenue declines 25-30%, fixed costs crush margins, dividend cut, possible equity raise. Historical peak-to-trough drawdowns of 60-80%.

- 10-Year Total Return CAGR: **approximately -18% to -25%** in the trough; even assuming partial recovery, a holder who entered at \$30.19 faces deeply negative returns through a cycle.

BASE CASE (50% weight): Economy grows at trend, Carnival maintains share, modest de-leveraging continues, EPS grows low-to-mid single digits, multiple holds. Dividend grows from a token base.

- 10-Year Total Return CAGR: **approximately 5.5%**

BULL CASE (25% weight): Continued de-leveraging to investment grade entrenched, sustained record yields, multiple re-rating, accelerating buybacks and dividends.

- 10-Year Total Return CAGR: **approximately 14%**

Scenario	Total CAGR	Weight	Contribution
Bear	-20%	25%	-5.0%
Base	+5.5%	50%	+2.75%
Bull	+14%	25%	+3.5%
Probability-Weighted			**~+1.25% to +4.5%**

Critical framework test: The bear case total return is sharply negative, not zero or positive. The base case (5.5%) sits below the 7% hurdle. Both absolute requirements fail.

6. RISK ASSESSMENT

Downside protection analysis:

- Historical max drawdown (2020): ~80% peak-to-trough.
- Bear case decline from current: 50-70% plausible in a severe recession.
- Dividend provides negligible cushion.
- **Probability of >50% permanent loss: ~22%** — exceeds the 10% wealth-preservation threshold and the 15% absolute ceiling.

Key risks:

- Extreme operating leverage on a fixed-cost base.
- \$27.5B absolute debt; refinancing risk in a higher-rate environment.
- Single-product concentration; no diversification buffer.
- Exogenous shock sensitivity (pandemic, geopolitical, fuel, hurricane).
- Demonstrated history of dilutive survival financing.

Risk Level: ELEVATED | Recession Profile: VULNERABLE (2020: revenue fell ~75%, dividend eliminated, \$10B+ capital raise required).

7. MANAGEMENT & GOVERNANCE

Management (Chairman Micky Arison; CEO Josh Weinstein) executed a competent crisis recovery. The \$19B refinancing, \$10B+ debt reduction, convertible redemption, achievement of 3.4x leverage, investment-grade recognition, and dividend reinstatement reflect disciplined balance-sheet repair. The 2026 unification into a single Bermuda-incorporated entity simplifies governance.

Capital allocation since 2020 was dominated by survival: dilution, then de-leveraging. No 50%-permanent-loss governance red flags appear (no going concern, no auditor qualification, routine insider RSU sales only). The redomiciliation to Bermuda is worth noting for governance and tax considerations.

- Management Quality: **GOOD**
- Capital Allocation Track Record: **ACCEPTABLE** (crisis-constrained; de-leveraging is the right priority)

Management quality is not the issue. The business model and balance sheet are.

8. PEER COMPARISON

Dimension	CCL	RCL (Royal Caribbean)	NCLH (Norwegian)	Best for Preservation
Leverage	High (3.4x)	High	Highest	RCL
Scale	Largest	Second	Third	CCL
Net yield momentum	Strong	Strongest	Strong	RCL
Balance sheet repair	Strong	Strong	Lagging	RCL/CCL

The entire cohort shares the same disqualifying profile for a wealth-preservation mandate: high leverage, deep cyclicity, discretionary demand, severe drawdown history. Carnival is not the worst of the group, but none of them clear the framework.

9. KEY METRICS SUMMARY

Metric	Value
Revenue (2025)	\$26.6B
Net Income (2025)	\$2.8B
Adj. EBITDA (2025)	\$7.2B
Operating Margin	16.9%
Net Margin	10.5%

Metric	Value
Debt	\$27.5B
D/E	~2.24x
Net Debt/EBITDA	3.4x
Adjusted ROIC	>13% (highest in 19 years)
FCF (5-yr consistency)	Negative 3 of 5 years
WP Score	38/100

ROIC above 13% exceeds WACC and signals value creation at the operating level — a genuine positive. It does not offset the balance-sheet and cyclical failures for a preservation mandate.

10. MONITORING CHECKLIST / RE-REVIEW TRIGGERS

Not a holding. Conditions that would warrant a fresh review toward a possible HOLD/BUY:

Trigger	Threshold for Re-Review
De-leveraging	Net debt/EBITDA sustained below 2.0x; D/E below 1.0x
Dividend track record	5+ consecutive years, payout below 40%
Valuation	Price offering >15% margin of safety vs. normalized (not peak) earnings
Interest coverage	Sustained above 8x
FCF	Positive in 4 of trailing 5 years

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Disqualifying factors (any one is sufficient; CCL fails several):

- Bear case total return sharply negative (requirement: $\geq 0\%$).
- Base case total return ~5.5%, below the 7% hurdle (requirement: $\geq 7-8\%$).
- Solvency MARGINAL with D/E >2.0x outside the utility carve-out.
- Dividend sustainability AT RISK in any downturn.
- Probability of >50% permanent loss ~22%, exceeding the 15% ceiling.
- WP Score 38, below the 50 floor.

This is a well-run recovery in a structurally fragile, deeply cyclical business purchased at full price on peak earnings. The asymmetry runs against you: limited upside compensation versus open-ended cyclical downside. A 4% HYSA dominates on a risk-adjusted basis.

ANALYST NOTES

Key Assumptions:

- Current price \$30.19 / €26.42 (authoritative live price).
- 2025 figures (\$26.6B revenue, \$2.8B NI, \$7.2B EBITDA, \$27.5B debt, 3.4x leverage) from FY2025 release; treated as peak-cycle earnings.
- Equity ~\$12.3B (per overview); D/E derived therefrom.
- Interest coverage and per-share figures partly inferred; flagged where estimated.

Limitations:

- Full FY2025 cash-flow statement (capex, exact FCF) not in source data; FCF margin not precisely calculable.
- Exact current share count and dividend per share not fully specified; yield estimated.
- 2021-2023 line items partly based on standardized prior filings, not the supplied excerpts.

Confidence Level: HIGH — The AVOID conclusion does not depend on precise figures. The disqualifying factors (cyclicality, leverage above 2.0x, negative bear-case return, recovery-priced valuation, >15% permanent-loss probability) are robust to reasonable estimation error.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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