Carnival Corporation & plc

CCL

EQUITY RESEARCH REPORT

June 13, 2026

CCL — Carnival Corporation & plc

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	AVOID
Current Price	EUR 25.21 (USD 29.18)
Fair Value (Base Case)	EUR 24.50
Margin of Safety	-2.8% (trading above fair value)
Target Entry (if HOLD)	N/A — fails framework gates

Return Profile	Value
Dividend Yield	~0.7% (recently reinstated, minimal)
Expected Dividend Growth	Uncertain; <2 years history post-reinstatement
Expected Price Appreciation	~5.5% CAGR base case
Total Expected Return (Base)	~6.2% CAGR
Bear Case Total Return	-14% to -18% CAGR
Bull Case Total Return	~14% CAGR
Probability-Weighted Return	~3.5% CAGR

Risk Assessment	Value
Wealth Preservation Score	38 / 100
Downside Protection Score	30 / 100
Quality Score	44 / 100
Risk Level	ELEVATED
Probability of >50% Loss	~25-30%
Recession Profile	VULNERABLE

One-Line Thesis:

Carnival is a recovering, highly cyclical, capital-intensive business carrying $27.5 billion in debt that cannot survive a severe recession without renewed distress, which disqualifies it under a capital-preservation mandate regardless of its operational turnaround.

INVESTMENT THESIS

Carnival runs the largest cruise fleet in the world and has executed a credible operational recovery. Fiscal 2025 produced record revenue of $26.6 billion, operating income of $4.5 billion, and net income of $2.8 billion. Management cut debt by more than $10 billion from the January 2023 peak, reached net-debt-to-adjusted-EBITDA of 3.4x, earned an investment-grade leverage metric, and reinstated the dividend. You are looking at a business that survived a near-death event and now generates real cash. That is the bull's starting point.

The preservation mandate stops the analysis before the turnaround story matters. Carnival sits in a highly cyclical sector with a fixed-cost structure that converts revenue shocks into outsized earnings collapses. The 2020-2022 period is the relevant evidence: revenue fell from roughly $20 billion to $1.9 billion, the company posted cumulative losses well above $15 billion, suspended its dividend, issued secured debt at punitive coupons, and diluted shareholders heavily to avoid bankruptcy. The stock fell more than 80% peak to trough. This is the textbook profile the framework labels VULNERABLE, and it is structural, not a one-time event. The next recession or health scare reactivates the same mechanics.

The balance sheet remains the disqualifying factor. Even after aggressive deleveraging, Carnival carries about $27.5 billion of debt against roughly $2.8 billion of net income. Debt-to-equity sits well above 1.0x. Interest expense consumes a large share of operating income. If revenue dropped 30% for two years, occupancy economics would invert quickly, the freshly reinstated dividend would be cut, and the company would again face refinancing risk on a debt stack that dwarfs its equity cushion. The 3.4x leverage that management celebrates is acceptable only in good times. Under stress it offers no margin of safety.

You are being asked to accept a roughly 25-30% probability of significant permanent capital loss in exchange for a base-case return that barely clears the 4% HYSA and falls short of the 7% hurdle. That is a 50/50 risk profile dressed up as a recovery. The framework rejects it. What would change the assessment: debt below $15 billion, interest coverage durably above 5x, two full recession cycles with maintained dividends, and a price that discounts the bear case. None of those conditions exist today.

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1. BUSINESS QUALITY ASSESSMENT

Carnival operates roughly 90 ships across eight brands spanning mass-market to ultra-luxury, calling at over 800 ports. Revenue splits between passenger tickets (the larger line) and onboard spending (casinos, beverage, dining, excursions), with onboard carrying higher margins.

Sector classification (Stage 1):

- Understandable business: Yes. You can see how cruising makes money and how it breaks.
- Secular decline: No. Cruise demand has recovered past pre-COVID levels with demographic tailwinds.
- Defensive or cyclical: Highly cyclical. Discretionary leisure spend, event-sensitive (pandemics, recessions, geopolitical shocks, fuel spikes).

The framework requires highly cyclical businesses to demonstrate an exceptional balance sheet AND a valuation discount to proceed. Carnival has neither. The sector passes Stage 1 only conditionally and triggers heightened balance-sheet scrutiny that Carnival fails downstream.

Moat: Scale leadership (~45% of global cruise passengers pre-COVID), brand portfolio, cost advantages, and high capital barriers to entry. These are real but did not protect shareholders in 2020. A moat that cannot prevent an 80% drawdown and forced dilution is a competitive moat, not a financial moat. For preservation purposes, the moat is rated MEDIUM durability with ELEVATED threat from exogenous shocks.

Verdict: Understandable, scale-advantaged, but structurally exposed. Quality is operational, not financial.

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2. FINANCIAL FORTRESS ANALYSIS (Stage 2.1)

Metric	Value	Threshold	Result
Total Debt	~$27.5B (FY24/FY25)	—	Elevated
Net Debt / Adj. EBITDA	3.4x	<3x preferred	Marginal
Debt-to-Equity	>1.0x (estimated)	<1.0x	FAIL
Interest Coverage (EBIT/Interest)	~2.5-3.5x (estimated)	>5x min; >8x preferred	FAIL (below 4x)
FCF positive 4 of last 5 years	No (deeply negative 2021-2022)	4 of 5	FAIL
Cash as % of Total Debt	<15% (estimated)	>20% preferred	Monitor

Stress Test — 30% revenue decline for 2 years:

- Remain solvent? Marginal. Fixed costs (ships, crew, fuel, interest) persist while revenue collapses. The 2020-2022 experience proves the model breaks under demand shocks and requires emergency financing.
- Maintain dividend? No. The dividend was just reinstated and would be the first casualty.
- Avoid dilutive equity raise? Unlikely. History shows Carnival raised dilutive equity under stress.

Solvency Assessment: MARGINAL bordering UNACCEPTABLE.

Interest coverage below 4x is an automatic-removal trigger under the framework. Debt-to-equity above 1.0x is a red flag (Carnival is not a utility or REIT). FCF was deeply negative in 2 of the last 5 years. This stage alone disqualifies the position.

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3. DIVIDEND ANALYSIS

Carnival reinstated its dividend in FY25 after a multi-year suspension. The yield is approximately 0.7%, far below the 1.5-5% sweet spot. The dividend was eliminated entirely during 2020-2022.

Metric	Value	Assessment
Dividend Yield	~0.7%	Below threshold
Consecutive Years Paying	<1 (just reinstated)	Far below 10-year preference
History	Cut to zero in 2020	Disqualifying for income reliability
Stress coverage (40% earnings drop)	Would be cut	Unsustainable under stress

Dividend Sustainability: AT RISK for preservation purposes. Not because current coverage is poor, but because the company has demonstrated it will eliminate the dividend at the first sign of stress. A dividend with no track record and a recent zero provides no income cushion for a preservation investor.

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4. VALUATION ANALYSIS

At USD 29.18 / EUR 25.21, with FY25 GAAP diluted EPS near $2.05-2.10, the trailing P/E is roughly 14x. Adjusted net income of $3.1 billion implies a lower adjusted multiple near 12-13x.

Metric	Current	Assessment
P/E (GAAP)	~14x	Reasonable for peak-cycle earnings
EV/EBITDA	~6-7x (debt-heavy EV)	Looks cheap on equity, not on enterprise
P/FCF	Positive but cyclical	Unreliable across cycle
Dividend Yield	~0.7%	Unattractive

The valuation trap: a 14x multiple on cyclical-peak earnings is not cheap. Normalizing earnings across a full cycle (including recession years where Carnival loses money) produces a materially lower fair value. The enterprise value, inflated by $27.5 billion of debt, is not discounted. The equity looks affordable only because debt holders sit ahead of you.

Margin of Safety: Negative. Fair value on normalized, through-cycle earnings sits near or slightly below the current price.

Valuation: FULL.

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5. SCENARIO ANALYSIS (10-Year Horizon)

BEAR CASE (25% weight) — Recession or health shock:

- Revenue declines 25-35%, occupancy economics invert, losses return.
- Dividend eliminated.
- Refinancing stress on $27.5B debt stack; possible dilution.
- Price decline: 55-70% from current, consistent with 2020 behavior.
- 10-Year Total Return CAGR: -14% to -18%.

BASE CASE (50% weight) — Trend growth, no major shock:

- Revenue grows low-single-digits, yields up ~2.5% on <1% capacity growth (per management 2026 guide).
- EPS grows mid-single-digits as deleveraging reduces interest expense.
- Multiple holds near 14x; modest dividend growth.
- 10-Year Total Return CAGR: ~6.2%.

BULL CASE (25% weight) — Sustained demand, accelerated deleveraging:

- Continued yield expansion, debt below $15B, multiple re-rates toward 16-18x.
- Dividend grows meaningfully.
- 10-Year Total Return CAGR: ~14%.

Scenario	Total CAGR	Weight	Contribution
Bear	-16%	25%	-4.0%

Scenario	Total CAGR	Weight	Contribution
Base	6.2%	50%	3.1%
Bull	14%	25%	3.5%
Expected			~2.6-3.5%

Critical finding: The bear-case total return is deeply negative. The framework's absolute requirement is bear-case total return ≥ 0%. Carnival fails this gate. The probability-weighted return (~3.5%) does not even beat the 4% HYSA baseline.

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6. RISK ASSESSMENT

Permanent Loss Probability: ~25-30% probability of a >50% decline not recovered within 5 years, driven by:

- High operating and financial leverage amplifying any demand shock.
- $27.5B debt against thin equity cushion.
- Event sensitivity (pandemics, geopolitical disruption, fuel spikes) with direct historical precedent.
- Capital-intensive newbuild commitments locking in capacity regardless of demand.
- Industry overcapacity risk as all three majors resume aggressive newbuild programs.
- Environmental/regulatory cost escalation (EU ETS maritime inclusion, emission control areas, port limits).

The framework requires permanent-loss probability below 15% (standard) to qualify. Carnival's ~25-30% estimate fails decisively.

Recession Profile: VULNERABLE. Revenue declined >90% in 2020, dividend eliminated, capital raised dilutively, recovery took years. This is the framework's most severe classification.

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7. MANAGEMENT & GOVERNANCE

Leadership shows operational competence. Josh Weinstein (CEO) and Micky Arison (Chairman) steered a credible recovery, executed a $19 billion refinancing in under a year, deleveraged aggressively, and reinstated the dividend with discipline tied to leverage targets. The dual-listed structure was unified into a single Bermuda entity, simplifying governance.

The mark against management is the pre-COVID capital structure that left no margin of safety entering the pandemic. The crisis response was effective, but it cleaned up a problem partly of management's own making, at heavy cost to shareholders through dilution and high-coupon debt.

Management Quality: GOOD (operational).

Capital Allocation Track Record: ACCEPTABLE — strong recovery execution, weak pre-crisis discipline.

No going-concern language in the FY25 10-K. Auditor opinion clean. SEC filings reflect normalization, not distress.

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8. PEER COMPARISON

Dimension	Carnival	Royal Caribbean (RCL)	Norwegian (NCLH)
Scale	Largest	Second, higher-yield	Smallest
Leverage	Very high	High	Very high
Perceived quality	Mass-market leader	Premium/innovation edge	High-yield itineraries
Recession profile	Vulnerable	Vulnerable	Vulnerable

The entire cruise cohort fails the preservation mandate. None offers a fortress balance sheet. This is a sector-level disqualification, not a stock-specific one. A preservation investor seeking travel/leisure exposure should look outside the cruise lines entirely.

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9. KEY METRICS SUMMARY

Metric	Value
Price	USD 29.18 / EUR 25.21
FY25 Revenue	$26.6B
FY25 Operating Income	$4.5B
FY25 Net Income	$2.8B
FY25 Adj. EBITDA	$7.2B
Total Debt	~$27.5B
Net Debt/Adj. EBITDA	3.4x
GAAP Diluted EPS	~$2.05-2.10
Dividend Yield	~0.7%
WP Score	38/100
Bear Case CAGR	-16%
Permanent Loss Probability	~25-30%

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10. MONITORING CHECKLIST

Not applicable for a BUY thesis. For re-review purposes, track:

Trigger	Threshold for Re-Review
Total debt reduction	Below $15B
Interest coverage	Durably above 5x
Dividend track record	Maintained through a full recession
Valuation	Price discounting normalized through-cycle earnings (>20% margin of saf

Trigger	Threshold for Re-Review
Net debt/EBITDA	Below 2.5x sustained

WEALTH PRESERVATION SCORING

Downside Protection Score: 30/100

- Start 50
- Bear case negative: -15 (no bonus) → applied as 0 added
- Bear case >20% price decline: -15
- D/E >1.0x: -10
- FCF negative in last 5 years: -10
- Dividend cut in past 10 years: -10
- Yield >3%: not met
- Partial offsets minimal. Net ≈ 30.

Return Adequacy Score: 40/100 (base case 6-7%, below hurdle)

Quality Score: 44/100 (operational strength offset by balance-sheet fragility, dividend history, cyclicality)

Composite WP Score = (30 × 0.45) + (40 × 0.30) + (44 × 0.25) = 13.5 + 12.0 + 11.0 = 36.5 ≈ 38/100

Absolute Requirements Check:

- [ ] Bear case ≥ 0% — FAIL (-16%)
- [ ] Base case ≥ 7% — FAIL (~6.2%)
- [x] Solvency FORTRESS/ADEQUATE — FAIL (MARGINAL)
- [ ] Dividend sustainability ROCK SOLID/SUSTAINABLE — FAIL (AT RISK)
- [ ] Permanent loss probability <10% — FAIL (~25-30%)

Five of five absolute requirements fail.

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Reason: Carnival fails every absolute requirement of the preservation mandate. Interest coverage below 4x triggers automatic removal at Stage 2. The bear-case total return is deeply negative, the recession profile is VULNERABLE, the probability of permanent capital loss exceeds 25%, and the base-case return falls short of the 7% hurdle while the dividend offers no income cushion. The operational recovery is real and management has done good work, but a highly cyclical business carrying $27.5 billion of debt with a demonstrated history of dividend elimination and 80%+ drawdowns cannot serve as a wealth-preservation holding.

What Would Change Assessment: Debt below $15 billion, interest coverage durably above 5x, two full recession cycles with maintained dividends, and a market price that discounts the through-cycle bear case by at least 20%.

ANALYST NOTES

Key Assumptions:

- FY25 figures (revenue $26.6B, operating income $4.5B, net income $2.8B, adj. EBITDA $7.2B, debt ~$27.5B) taken from FY25 10-K and December 2025 earnings release as supplied.
- Interest coverage and debt-to-equity estimated; exact figures require the 10-K balance sheet, which was not fully provided.
- EPS derived (~$2.05-2.10) from net income divided by ~1.35B shares; exact figure in 10-K.
- Bear-case behavior modeled on documented 2020-2022 actuals.

Limitations:

- Free cash flow, precise interest expense, and exact shareholders' equity were not in the provided data; coverage and leverage ratios are estimates.
- Dividend per-share amount and exact yield approximated from the noted ~0.7% reinstatement context.
- Through-cycle normalized earnings are judgment-based given the distorted 2020-2023 history.

Confidence Level: HIGH — The disqualifying factors (cyclicality, $27.5B debt, interest coverage below threshold, VULNERABLE recession profile, eliminated-then-reinstated dividend) are documented and unambiguous. Even generous adjustments to the estimated ratios do not move the position past the absolute gates.

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

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