Royal Caribbean Cruises Ltd.

RCL

EQUITY RESEARCH REPORT

June 21, 2026

RCL — ROYAL CARIBBEAN CRUISES LTD.

Report Date: 2026-06-21

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID**
Current Price	€272.48 (USD $312.51)
Fair Value (Base Case)	Cannot be established with preservation-grade confidence
Margin of Safety	Negative on P/B and P/FCF; thin on P/E
Target Entry (if reconsidered)	See Stage 7

Return Profile	Value
Dividend Yield	~0.5-0.8% (token reinstatement; minimal)
Expected Dividend Growth	Uncertain; recently reinstated
Expected Price Appreciation	5-8% CAGR base case
Total Expected Return (Base)	~6-8% CAGR
Bear Case Total Return	Sharply negative (-30% to -50% drawdown realistic)
Bull Case Total Return	12-15% CAGR
Probability-Weighted Return	Insufficient relative to downside risk

Risk Assessment	Value
Wealth Preservation Score	~38 / 100
Downside Protection Score	~25 / 100
Quality Score	~45 / 100
Risk Level	**ELEVATED**
Probability of >50% Loss	15-25% over a 10-year horizon containing a recession
Recession Profile	**VULNERABLE**

One-Line Thesis:

Royal Caribbean is a well-run premium operator in a recovering industry, but its debt-to-equity near 2.1x, current ratio near 0.18x, and history of dividend elimination plus 25% share dilution in the last downturn make it a leveraged cyclical that fails the capital-preservation mandate at any price.

INVESTMENT THESIS

You are being asked to own the second-largest cruise operator in the world at a moment when bookings are strong, earnings are at records, and the stock has roughly tripled off its pandemic lows. The business itself is good. Royal Caribbean runs differentiated hardware in the Icon and Oasis classes, owns private destinations like Perfect Day at CocoCay that competitors cannot replicate quickly, and management under Jason Liberty has executed a fast recovery to $17.9 billion in revenue and $4.3 billion in net income for 2024. None of that is the problem.

The problem is the balance sheet against the business model. Cruise operating costs are largely fixed once a ship is built. Crew, maintenance, port fees, and debt service do not fall when occupancy drops. Royal Caribbean carries debt-to-equity near 2.15x and a current ratio near 0.18x, meaning short-term obligations dwarf short-term assets. When you combine a fixed-cost structure with high leverage and discretionary demand, you get a business that can lose money fast in a recession and has no choice but to raise capital to survive. That is exactly what happened in 2020. The company eliminated its dividend, issued equity and convertible notes, and diluted pre-COVID shareholders by roughly 25%. Anyone who owned RCL going into that shock took permanent dilution and a multi-year drawdown.

For a wealth-preservation mandate, the first question is how much you can lose, and the answer here is too much. The bear case is not theoretical. The cruise industry has demonstrated, within living memory, that a demand shock forces dilutive survival financing and dividend elimination. A 30% revenue decline over two years, which our framework stress-tests, would push this company back toward emergency financing given the leverage. The stock trades at roughly 7x book and 58x free cash flow, so there is no asset-value floor and no cash-flow cushion to catch a falling price. You would be relying on the next downturn not arriving during your holding period, which is not a thesis a preservation investor can underwrite.

Compared to the alternative of a 4% HYSA and the inflation+4% hurdle, RCL's base-case return of roughly 6-8% does not clear the bar by enough to justify a 15-25% probability of severe permanent capital impairment. This is a textbook 50/50-tail-risk profile that the framework rejects regardless of the quality of the ships.

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1. BUSINESS QUALITY ASSESSMENT

Royal Caribbean operates a vertically integrated cruise platform across mass-market (Royal Caribbean International), premium (Celebrity), and ultra-luxury (Silversea) brands, plus a 50% JV in TUI Cruises/Hapag-Lloyd. It controls roughly 27% of worldwide cruise passengers and runs about 70 ships. Revenue splits into ticket fares and high-margin onboard spending.

The business is understandable. It is not in secular decline; cruise demand is recovering and growing. But it is **highly cyclical** discretionary travel, which under the framework requires an exceptional balance sheet AND a valuation discount to proceed. RCL has neither.

Sector classification: Highly cyclical consumer discretionary.

Sector verdict: The framework permits continuing only with a fortress balance sheet plus valuation discount. RCL fails the balance sheet test, so analysis continues only to document the disqualification.

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2. FINANCIAL FORTRESS ANALYSIS

This is the decisive stage.

Metric	Threshold	RCL Reading	Pass/Fail
Debt-to-Equity	<1.0x (ideal <0.5x)	~2.15x (net debt/equity cited as high as 232%)	**FAIL**
Current Ratio	>1.5x	~0.18x	**FAIL (severe)**
Interest Coverage	>5.0x min	Improving with earnings recovery; not confirmed at fortress level	Marginal
Free Cash Flow	Positive 4 of 5 yrs	Negative through pandemic years; recovering	**FAIL on 5-yr basis**
Debt Maturity	No cliff >30% in 2 yrs	~$22B total debt (2023), ~$2B maturing 2024; ongoing refinancing relianc	Monitor
Cash as % of Debt	>20%	Not confirmed at threshold	Monitor

Stress Test (revenue -30% for 2 years):

- Remain solvent? Only with access to capital markets. Survival is not self-funded.
- Maintain dividend? No. History shows elimination.
- Avoid dilutive equity raise? No. 2020 proved the opposite.

Solvency Assessment: MARGINAL trending UNACCEPTABLE.

A current ratio of 0.18x and net leverage above 200% of equity is the opposite of a fortress. Per the framework, a highly cyclical business without fortress balance sheet strength is disqualified. The recovery in earnings does not change the structural fragility that reappears in any downturn.

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3. DIVIDEND ANALYSIS

RCL only recently reinstated a token dividend after eliminating it entirely during COVID. Yield is well under 1%.

Metric	Threshold	RCL	Assessment
Dividend Yield	1.5-5%	<1%	Below floor
Consecutive Years	>10 preferred	Broken in 2020	**FAIL**
Dividend cut in past 10 yrs	Disqualifier flag	Eliminated entirely	**FAIL**

Dividend Sustainability: AT RISK as a preservation income source.

The dividend was cut to zero in the last downturn. For a mandate that treats dividends as real, reliable return, a payer that eliminated its dividend within the last decade cannot be relied upon for income protection.

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4. VALUATION ANALYSIS

Metric	Current	History	Assessment
Trailing P/E	~17-19x	10-yr median ~16.8x	At/slightly above average
Forward P/E	~14.6-15.4x	—	Reasonable on growth
EV/EBITDA	~14-15x	Above pre-COVID norms	Full
P/FCF	~58x	Distorted by recovery	**EXPENSIVE**
P/B	~7.1x	Above cruise norms (low single digits)	**EXPENSIVE**
P/S	~4.0x	—	Full

Margin of Safety: On the two metrics that matter for downside protection (price-to-book and price-to-free-cash-flow), there is no margin of safety. There is no asset floor near the current price and no cash yield to cushion a decline. The forward P/E looks fair only if you accept the consensus ~14% EPS CAGR, which itself assumes no recession.

Valuation: FULL. The framework requires a cyclical to be at a valuation discount to proceed. RCL is not.

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5. SCENARIO ANALYSIS

BEAR CASE (25% weight) — Recession arrives:

- Discretionary cruise demand contracts. Fixed costs hold. Earnings collapse.
- Historical analog: peak-to-trough drawdowns exceeded 70% in 2020.
- Dividend eliminated again; dilutive raise likely.
- Realistic 10-year bear: -30% to -50% price decline with no dividend cushion.
- **Bear case total return: sharply negative.**

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

- Revenue grows high single digits, EPS mid-teens, deleveraging continues.
- Multiple holds near current levels.
- **Base case total return: ~6-8% CAGR**, barely at or below the inflation+4% (~7%) hurdle.

BULL CASE (25% weight) — Strong demand, margin expansion, re-rating:

- EPS CAGR exceeds consensus, leverage normalizes, multiple expands.
- **Bull case total return: ~12-15% CAGR.**

Critical framework test: Is the bear case total return positive? **No.** Per Stage 5, if the bear case CAGR is negative, downside protection is insufficient. This is an automatic disqualification.

Scenario	Total CAGR	Weight
Bear	Strongly negative	25%
Base	~6-8%	50%
Bull	~12-15%	25%

The probability-weighted return is dragged down by a fat negative tail with no floor.

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6. RISK ASSESSMENT

- **Leverage:** Net debt/equity above 200%; refinancing dependence; assets pledged as collateral.
- **Cyclicality:** Discretionary middle-class demand, first to be cut in a downturn.
- **Fixed costs:** Crew, maintenance, fuel, debt service do not flex with occupancy.
- **Fuel and FX:** Direct margin sensitivity; 2026 underperformance partly attributed to fuel.
- **Capital intensity:** 10 new ships ordered in 2023; heavy multi-year capex commitments.
- **Dilution history:** ~25% share count increase since 2019.
- **Insider selling:** Flagged in third-party risk summaries; insider ownership ~0.38%.
- **Regulatory/ESG:** Emissions rules and anti-tourism sentiment raise future capex.
- **Impairment risk:** Long-lived specialized assets vulnerable to write-down in a downturn.

Probability of >50% permanent loss over a 10-year horizon: 15-25%. This exceeds the framework's 10-15% ceiling and disqualifies the position.

Recession Profile: VULNERABLE (revenue declined sharply, dividend eliminated, capital raised in 2020).

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7. MANAGEMENT & GOVERNANCE

Management quality is genuinely a strength here. Jason Liberty's team navigated the COVID shutdown, restored profitability, and prioritized deleveraging and high-ROI growth (Icon-class hardware, private destinations, river cruising). Fortune and Forbes recognition in 2026 reflects operational competence.

The qualifications: capital allocation has leaned on debt and convertibles, insider ownership is negligible (~0.38%), and third-party data flags insider selling during the rally. Management did what it had to do to survive, but the survival required diluting shareholders. Good operators cannot offset a balance sheet that forces dilution in every downturn.

Management Quality: GOOD.

Capital Allocation Track Record: ACCEPTABLE (defensive then opportunistic, but dilution-dependent in stress).

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8. PEER COMPARISON

Dimension	RCL	CCL	NCLH	Best for Preservation
Leverage	High (~2.1x D/E)	High	High	None qualify
Balance sheet	Strongest of the three	Weaker	Weaker	RCL relative
Valuation vs peers	Premium to CCL/NCLH	Cheaper	Cheaper	—
vs travel peers (MAR, HLT, BKNG)	Lower forward P/E	—	—	Asset-light peers superior

RCL is the best house in a structurally fragile neighborhood. For preservation, the relevant comparison is not CCL or NCLH; it is asset-light travel franchises (Marriott, Hilton, Booking) that carry no shipbuilding capex and survive downturns without eliminating dividends. RCL loses that comparison on durability.

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9. KEY METRICS SUMMARY

Metric	Value	Verdict
Debt-to-Equity	~2.15x	Fail
Current Ratio	~0.18x	Fail
Dividend Yield	<1%	Below floor
Dividend History	Eliminated 2020	Fail
P/B	~7.1x	Expensive
P/FCF	~58x	Expensive
Forward P/E	~14.6x	Fair on growth
Recession Profile	Vulnerable	Fail
WP Score	~38/100	Avoid

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10. MONITORING CHECKLIST

Item	What Would Change the View
Net leverage	Sustained D/E below 1.0x through a full cycle
Current ratio	Improvement toward 1.0x+
Dividend	Multi-year coverage above 1.3x FCF and proven through a downturn
Valuation	P/B below ~3x and bear-case return turning positive
Free cash flow	Positive and growing across 4 of 5 years post-recovery

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FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Reason: Multiple absolute requirements fail. The bear case total return is negative (no downside protection). Solvency is MARGINAL/UNACCEPTABLE for a highly cyclical business. The dividend was eliminated within the last decade. Probability of >50% permanent loss exceeds the 10-15% ceiling. WP Score below 50.

What would change the assessment: A fundamentally restructured balance sheet (D/E below 1.0x, current ratio toward 1.0x), a dividend proven sustainable through a downturn, and a valuation offering real margin of safety on book and cash-flow metrics. None of these conditions exist today.

This is a quality business and a competent management team. It is not a wealth-preservation vehicle. The leverage plus fixed-cost plus discretionary-demand combination guarantees severe stress in the next recession, and the last one cost shareholders a dividend and 25% dilution. At €272.48, you are paying a full price for that risk profile. Hold cash or own durable, low-leverage compounders instead.

ANALYST NOTES

Key Assumptions:

- Leverage and liquidity figures (D/E ~2.15x, current ratio ~0.18x) sourced from third-party data in the research package.
- Bear case anchored to the 2020 historical drawdown and dilution event.
- Base-case EPS CAGR of ~14% reflects consensus and assumes no recession.

Limitations:

- Full audited 5-year financial statements were not present in the research data; FCF margins and precise interest coverage could not be confirmed from primary filings.
- Exact current dividend rate is uncertain in the provided data.
- Debt maturity schedule beyond 2024 not fully exposed.

Confidence Level: HIGH on the AVOID conclusion. The disqualifying factors (cyclical model plus high leverage plus negative bear case plus dividend elimination history) are structural and well-documented regardless of the precise valuation snapshot. Price moves do not fix a balance sheet that forces dilution in a downturn.

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

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