Don’t Invest in Cruise Lines: Buy Air Canada (TSX:AC) Instead

Description

The outbreak of the coronavirus pandemic has had a calamitous impact on cruise lines. Not only has their stock plummeted, but there are signs that the industry’s reputation is irreparably tarnished. The world’s largest publicly listed cruise line **Carnival** (NYSE:CCL) has lost a whopping 76% for the year to date. This sees it trading at around its lowest point since 1995.

In fewer than four months, nearly three decades of gains have been wiped out. That, along with significant insider buying, has sparked speculation that now is the time to buy Carnival. Cruise lines are a far riskier proposition for investors than airlines, which Warren Buffett once described as death traps for investors. There are signs the industry will suffer a far worse fate than airlines.

Tarnished reputation

The extremely poor outlook for cruise lines is easy to understand. Unlike airlines, which provide important linkages between business hubs, cruise lines solely offer a consumer discretionary service. Governments across the world have shut down all but essential services, implemented travel restrictions, and closed their borders, thereby crushing the tourism industry.

The coronavirus pandemic has demonstrated how cruise liners are ideal incubators for infectious diseases. More than 32 cruise ships were affected by the coronavirus. It is estimated that there are still over 6,000 crew and travellers trapped on liners around the world. Cruise companies were even still launching voyages after the World Health Organization (WHO) declared the coronavirus a pandemic on March 11, 2020. This has significantly tarnished the reputation of the industry, particularly when the botched handling of the handling pandemic by cruise operators is considered.

While many cruise lines expected to recommence operations somewhere between mid-May and late June 2020, there are signs it will take longer. The U.S. CDC recently extended a no-sail order for waters in U.S. jurisdiction to 100 days. This essentially means vessels with a capacity of 250 or more crew and passengers are unable to enter U.S. waters until mid-July. Carnival has suspended the operation of most of its ships until the end of June. It is difficult to see how it and other cruise companies can restore consumer confidence in their operations.

Weak financial position

Carnival at the end of 2019 was on the ropes with US$9 billion in current liabilities and US$9.7 billion of long-term debt compared to US$518 million of cash. More worrying was that it had significant near-term debt maturities totalling almost US$2.2 billion falling due between 2021 and 2023. That placed considerable pressure on Carnival and forced it to raise further capital to strengthen its weak financial position.

Since the end of March, Carnival has raised around US$6.6 billion through a combination of debt and equity offerings. While that will help it to weather the coronavirus storm and ward off bankruptcy, it was obtained a high cost. This will weigh on Carnival's financial performance for some time. There are also legal actions afoot against the cruise line concerning its handling of the coronavirus pandemic, which adds further uncertainty.

For these reasons, Carnival is a highly unattractive investment.

Air Canada is a better investment

For investors seeking a contrarian play on tourism and travel, **Air Canada** (TSX:AC)(TSX:AC.B) is a superior bet. Not only does it possess a strong brand that hasn't been tarnished in the eyes of consumers by operational failings like the cruise industry, it is in a firmer position.

Air Canada reported strong 2019 numbers, including record revenue and unrestricted liquidity of $7.4 billion, with an impressively low leverage ratio of 0.8. It also bolstered its liquidity by drawing $1 billion from a credit line.

A reduction up to 90% in operational capacity sees Air Canada grounding most of its fleet, furloughing staff, reducing capital spending, and cutting executive salaries. Those measures, along with sharply lower oil prices, will substantially reduce costs.

Foolish takeaway

The strength of Air Canada's financial position compared to other airlines can't be emphasized enough. Net debt, including pensions and leases, was a mere 27% of 2019 revenue and a mere 1.5 times EBITDA. It will be one of the last airlines to fall if bankruptcies rock the airline industry. There is also the likelihood of a government bailout, because it is the national flag carrier.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:CCL (Carnival Corp.)

2. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/19
Date Created
2020/04/15
Author
mattdsmith