Ignore Royal Caribbean (NYSE:RCL): Buy This Top TSX Stock Instead

Description

Speculation is swirling regarding the fate of cruise lines in a post-coronavirus world. Listed cruise companies have plunged since the pandemic hit in late February 2020. The world's second-largest cruise line **Royal Caribbean Cruises** (NYSE:RCL) has plummeted by 73% since the start of 2020. There are growing doubts as to whether many cruise lines will emerge as viable businesses.

Cruises are crushed

One aspect the coronavirus shares with the Spanish Flu pandemic of just over a century ago is that cruise liners, like the troop ships returning home from the Great War, were a hotbed of infection. It is estimated that over 32 cruise ships were infected by the virus. In some instances, the virus was found on ship surfaces up to 17 days after they were vacated but before being disinfected.

For this reason, important questions are being asked about how competently cruise operators managed outbreaks on their vessels. There are even instances of cruises being launched after the World Health Organization (WHO) announced the pandemic on March 12, 2020.

Those events have sparked government investigations in various jurisdictions, most notably a criminal investigation in Sydney, Australia, to determine whether they acted negligently. They also triggered legal cases against several cruise operators, with **Carnival** being the most exposed.

The significant growth of 2021 bookings gives the deeply embattled cruise industry hope. That, along with potential government bailouts and the sharp decline of their share prices, has sparked speculation that they are attractively valued and will rebound over coming months.

Rising risks for cruise lines

Investors should not raise their hopes. Many cruise lines, including Carnival, have suspended operations until June 30, 2020, while Royal Caribbean states on its website that it expects them to resume after April 11, 2020. It may take far longer than anticipated for cruises to restart. Two weeks ago, the Centre for Disease Control extended its no-sail order for 100 days. Cruise ships will not be sailing in U.S. waters until mid-July — much later than the implemented voluntary suspensions.

It is likely that there will be further delays, because the pandemic and government measures to contain it are unlikely to end that soon. This will weigh heavily on Royal Caribbean's outlook.

The cruise line finished 2019 with US$9 billion of long-term leases compared to US$244 million of cash. Royal Caribbean secured a 364-day US$2.2 billion secured term loan, boosting liquidity and its ability to weather the harsh environment which exists. That has only increased Royal Caribbean's debt burden**,** increasing financing costs and further weighing on its performance.

There is little likelihood of the cruise line receiving a government bailout. Royal Caribbean, like many of its peers, is incorporated in the African nation of Liberia. This allows it to boost profitability by flouting U.S. laws and avoiding federal taxation.

The post-coronavirus outlook for cruise lines is poor. It will be some time before tourism and travel return to normal. The pandemic may be the catalyst required to force governments to take a closer look at the activities of Royal Caribbean and other cruise lines.

There is the possibility of greater regulation of cruise operations and a decline in popularity in a post-coronavirus world. That will impact an industry already weighed down by massive debt and high operating costs.

Buy this airline instead

Canadian freight airline **CargoJet** (TSX:CJT) is a superior investment to cruise lines. Unlike **Air Canada**, which is down 63% for the year to date, CargoJet has gained 14%. It expects strong demand, despite the impact of the coronavirus pandemic on air travel. The reason for this is simple: CargoJet is a leading provider of overnight freight services.

CargoJet is poised to experience strong growth, despite the coronavirus pandemic. The rapid growth of e-commerce, including internet retailing, has sparked strong demand for logistics and transportation services. There is also pressing demand for essential medical supplies and equipment, which drives greater demand for CargoJet's services.

Importantly, 75% of CargoJet's revenues are contracted. Those agreements have volume-based minimums and are inflation linked, essentially guaranteeing CargoJet's earnings. The carrier has enacted measures to ensure that its cargo services remain uninterrupted. CargoJet is also focused on minimizing the impact of the pandemic on its employees, assets, and operations.

For these reasons , demand for CargoJet's services will grow, despite governments shuttering non-essential services, boosting earnings, and ultimately its share price.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:RCL (Royal Caribbean Cruises Ltd.)
2. TSX:CJT (Cargojet Inc.)

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