Avoid Carnival: Buy This Canadian REIT Instead

Description

Travel stocks have been hit hard by the coronavirus. Airlines have suffered significant losses, as highlighted by **Air Canada** losing a whopping 62% for the year to date. Cruise lines have suffered even worse. The world's largest cruise operator **Carnival** (NYSE:CCL) saw its stock plunge a whopping 72%. That considerable loss, and with talk of bailouts and insider buying, has sparked speculation that now is the time to buy Carnival. While it appears cheap and is a tempting investment opportunity, there are signs that Carnival is not as attractive as it initially appears.

Poor outlook for travel

Global tourism and travel won't return to anything vaguely resembling what existed prior to the coronavirus pandemic. Many countries have closed their borders and restricted internal travel. There are signs that many nations will remain closed to international travel for months to come.

Australia indicated its borders could be closed beyond the end of 2020, while Argentina recently banned all international flights into and out of the country. Ottawa has banned all foreign nationals, except those from the U.S., from entering Canada until the end of June.

More telling for cruise lines is the CDC's no-sail order, which bans cruise vessels from waters under U.S. jurisdiction at least until late July 2020. That saw Carnival suspend operations until the end of June for most of its vessels and July 31 for Cunard.

There is a significant groundswell of distrust regarding cruise ships. The handling of the contagion by cruise operators has been brought into question. There were even voyages being launched after the World Health Organization (WHO) declared a pandemic.

Scientists and medical professionals have stated for decades that there is a greater risk of contracting respiratory and gastrointestinal diseases on ships. The coronavirus has proven no different. Vessels provided an ideal environment for spreading the virus and proved to be petri dishes for the coronavirus.

Increased scrutiny

For these reasons, it is difficult to see the cruise industry emerging unscathed from the pandemic. Government scrutiny and regulation of cruise lines will increase significantly in a post-coronavirus world. That will impact margins and profitability in an industry long known for doing its best to avoid regulation.

Many cruise companies, including Carnival, are incorporated in jurisdictions such as Panama, which have extremely lax legal and regulatory oversight while operating in profitable developed markets like the U.S. and Canada. That has allowed Carnival and its peers to flout relevant laws and regulations to boost profitability.

Those factors don't bode well for Carnival's future.

Weak financial position

Carnival has added around US$6 billion in long-term debt to an already bloated balance sheet, plus it drew down US$3 billion from a credit facility. That will strain an already delicate financial position, which includes US$11 billion in existing long-term debt and leases at the end of the first quarter 2020.

An immediate lack of cash flow, extreme operational uncertainty, and the tremendous costs associated with that debt will weigh on Carnival's financial performance. For these reasons, Carnival is a stock to avoid.

Buy this Canadian REIT instead

A superior investment is leading Canadian real estate investment trust (REIT) **Dream Industrial REIT** (TSX:DIR.UN). It was one of the best-performing REITs of 2019, and after losing 25% for the year to date it appears extremely attractively valued. Dream Industrial is trading at a 19% discount to its net asset value per unit, highlighting the upside available and why now is the time to buy.

The REIT possesses considerable growth prospects, which, when coupled with a wide economic moat, makes it an attractive stock to own in the current uncertain environment. Dream Industrial finished 2019 with an impressive 95.8% occupancy rate and a weighted average lease term of just over four years. That bodes well for the certainty of Dream Industrial's earnings, although the coronavirus pandemic will have a sharp short-term impact.

Dream Industrial is in a strong financial position ending 2019 with a net debt-to-assets ratio of 23.7%. That is exceptionally low for a REIT, underscoring the strength of its balance sheet. Dream Industrial's foray into Western Europe boosts its long-term growth prospects. When coupled with growing demand for industrial real estate because of the rapid expansion of internet retailing, Dream Industrial's asset value and earnings will expand at a solid clip.

CATEGORY

1. Coronavirus

2. Investing

TICKERS GLOBAL

1. NYSE:CCL (Carnival Corp.)
2. TSX:DIR.UN (Dream Industrial REIT)

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