

innovations

Focusing on innovation in the global cruise industry

A turbulent year for cruise ships



Special Report
International Cruise Ship Industry

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Both shipowner and shipbuilder are awaiting better times

VesselsValue (VV) has examined the COVID-19 timeline month by month this year as to its affect on cruise ships and their operations.

At the beginning of this year, in January the cruise sector was on a roll. The orderbook was at record levels, following 35 and 43 orders placed in 2017 and 2018, respectively.

Cruise companies were also in good shape, for example, Royal Caribbean Cruises stock was at an all-time high. The number of passengers who travelled in 2019 had set new records.

This positive energy and boom in demand can easily be seen in the newbuilding chart reproduced below.

In January, the global cruise fleet was valued just under \$170 bill.

Then on the 29th January, the World Health Organisation (WHO) declared a PHEIC, a public health emergency of international concern, with regards to the coronavirus outbreak, which was only the sixth PHEIC to be declared since 2005 when the International Health Regulations came into effect.

WHO stated that it “does not recommend any travel or trade restriction based on the current information available.”

Later on the 3rd February, 2020, a COVID-19 outbreak was reported on the ‘Diamond Princess’, which at the time was sailing just off the Japanese coast. During the next month, over 700 people tested positive and nine died.

The fate of the passengers and the authorities’ response was played out on the world media stage.

VV’s trade data showed how the ‘Diamond Princess’ was operating on her usual routes until the outbreak on board, which kept the ship in Yokohama for over six weeks.

By March, the number of COVID 19 cases* worldwide had risen to 808,269 and on the 11th March, the WHO declared the coronavirus as a Pandemic.

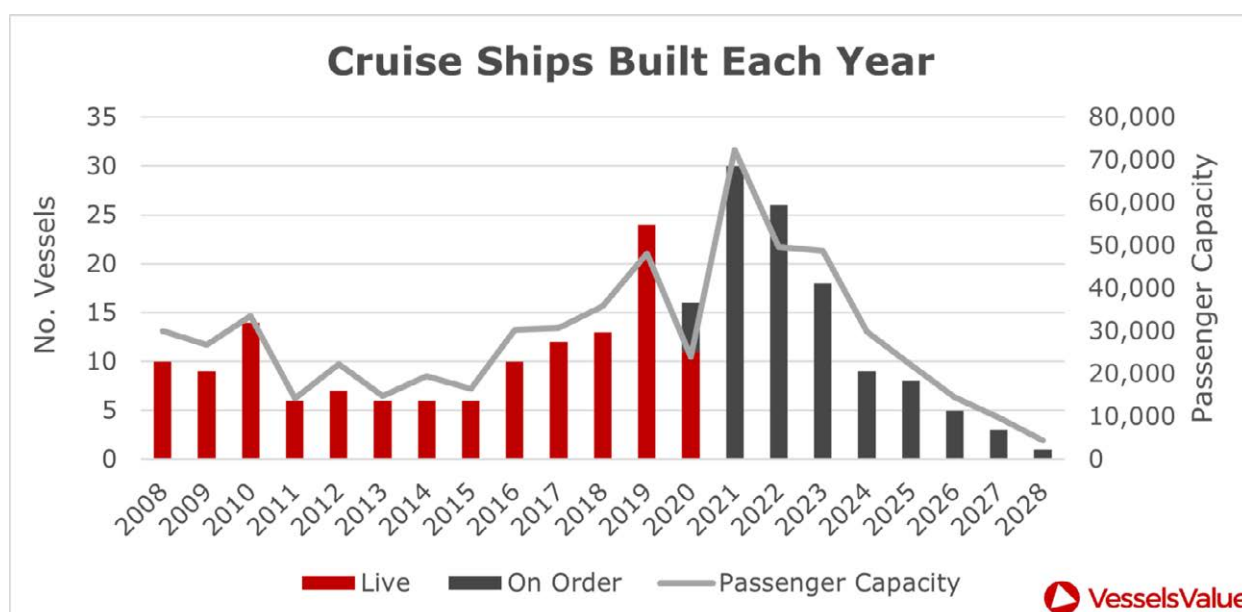
Suspension

Two days later the Cruise Lines International Association (CLIA), who represent more than 95% of the global Cruise ship capacity, announced a voluntary 30-day cruising suspension.

As a result, cruising activity fell off a cliff, as by the end of March, around a third of all cruise ships were idle but this was only the beginning.

The unprecedented cessation of operations on such a large scale affected the market dramatically and by the end of March the global fleet had fallen in value by \$5 bill. Not an insignificant amount, but a 3% drop in the ocean, compared with what is to come.

The following month, April there were 3.15 mill cases reported worldwide.



Source: VesselsValue



Source: VesselsValue

As cases increased and the cruise ‘no-sail’ orders were extended, asset values fell further. Major cruise lines began taking out multi-billion-dollar loans to shore up finances against the lack of profitable operations.

Late April saw the first of what was going to become a trend of cruise ship disposals and fleet readjustments. Albeit at auction, following an arrest, ‘Glory Sea’ (24,318 gt, built 2001) was sold to Fujian Guohang Ocean Shipping for CNY38.06 mill. This marked the first S&P transaction since the global outbreak.

The graph above shows the number of cruise ships bought and sold on the S&P market in the last 10 years - up to November this year.

The financial stress caused by the pandemic, saw cruise liquidity more than double compared to previous years, setting an all-time high.

By May, the number of cases had reached 6.04 mill.

May was a stagnant month, as the industry held its breath waiting to see whether the pandemic would show any signs of abating.

Cruise ship activity continued to fall, parallel with asset values, as ships entered and remained in costly warm layup.

No Cruise ships were sold this month.

A month later the worldwide cases had risen to 10.29 mill.

First scrap candidate

June saw the first of many cruise ships sold for scrap.

The first to go was Costa Cruises’ ‘Costa Victoria’ (75,166 gt, built 1996), which was committed to an Italian breakers yard.

Shortly after, COVID claimed its first cruise operator, as Pullmantur Cruises fell into bankruptcy and was forced to scrap their entire fleet, comprising three smaller cruise ships with a combined passenger capacity of 7,800.

All three were scrapped at a Turkish yard for \$150 per LDT.

The chart overleaf shows the number of cruise ships scrapped each year by location from 2010.

Traditionally, cruise ships were scrapped in India. However, the recent economic climate and low demolition prices saw owners favouring Turkish and even Italian yards.

July’s COVID-19 cases shot up to 17.07 mill.

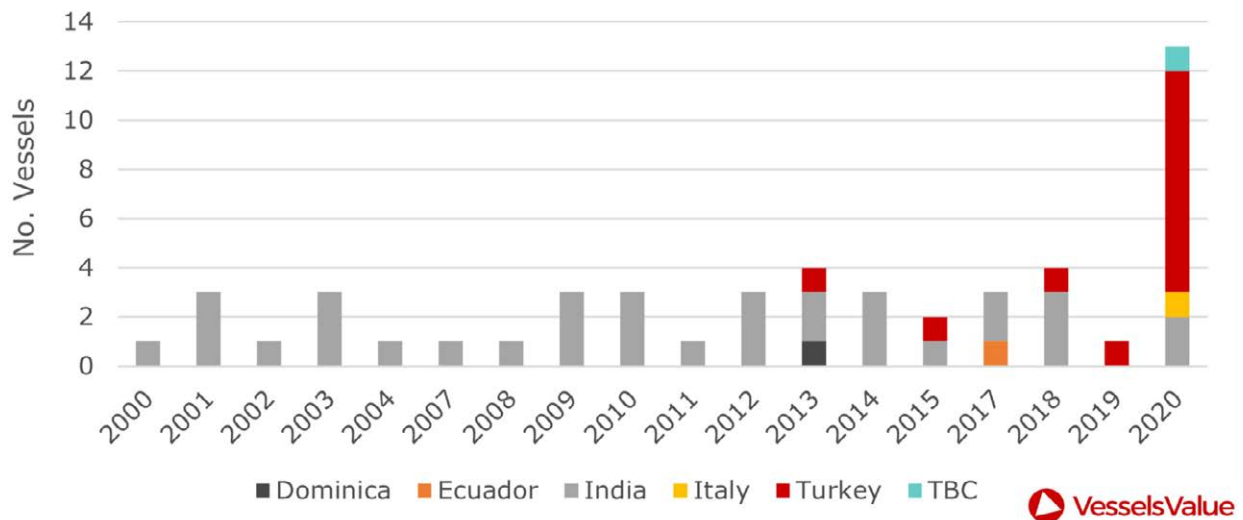
This was the busiest month this year with six secondhand transactions beating the whole of 2017’s S&P activity.

This was mostly a result of the largest cruise company in the world, Carnival, announcing it would sell off at least 13 cruise ships.

Carnival’s Holland America Line sold four of its largest cruise ships, Carnival’s Costa continued by selling the 1993-built ‘Costa Neoromantica’, and P&O sold the 2000-built ‘Oceana’.

Taking advantage of the situation was seasoned ferry owner Seajets, who entered the cruise ship market to snap up some of the older cruise ships at rock-bottom prices.

Cruise Ships Scrapped Each Year



Source: VesselsValue

By the end of July, the global fleet value had fallen 17% to \$30 bill since January.

On the 24th July after detailed COVID mitigation preparations, TUI Cruises tested the water with a three-day non-stop cruise off Norway from Hamburg with 'Mein Schiff 2', while 'Mein Schiff 1' started cruising out of Kiel on 31st July.

In August, cases had risen to 25.32 mill.

CLIA extended the voluntary postponement of cruise operations until the end of October.

This announcement further dampened activity and companies desperately tried to reduce costs.

The average global speed of the entire cruise fleet, particularly in recent years, has remained very stable, ranging between 13.5 knots and 15 knots.

However, cruise ship voyages were becoming associated with non-profit laying up as opposed to genuine cruise activity.

Since the beginning of this year, average speeds have plummeted to below 11 knots to save on fuel and in-port costs, whilst the vessels were en route to their layup locations.

However, with countries coming out of lockdown, more cruise companies tentatively recommenced operations. MSC cruises, for example, embarked on Mediterranean Cruises once again on 'MSC Grandiosa' and 'MSC Magnifica'.

September, and the number of cases continued to rise, reaching 33.78 mill.

Following MSC's success in restarting operations in August, Costa Cruises also resumed

Mediterranean operations, under tight new restrictions, guidelines, and protocols to diminish the threat of COVID-19.

More ship sales

However, at the same time, Carnival announced that it would sell a further five ships, bringing the total to 18.

By the end of September, the fate of 15 of the 18 were known, as 10 were sold for further trading and five for scrap.

Thus far, the industry tendency had been to sell off older non-core assets, predominately vessels of 20 years or older.

This could have been interpreted as an effort to streamline and modernise current fleets for an eventual recovery.

All of the sales were concluded quickly and under distressed conditions with the inevitable effect of forcing vessel valuations downwards.

A second coronavirus wave hit in October, bringing the total up to 45.18 mill cases.

The now defunct UK company, Cruise & Maritime Voyages (CMV) vessels were sold in a series of auctions throughout October.

Sadly, the sale of 'Vasco Da Gama' illustrated and solidified the depressed cruise market.

At the start of January, her VV value was \$108 mill. This value fell dramatically several times as the pandemic's effects ripped through the industry.

She was then sold on the 12th October to

Mystic Cruises for \$10.19 mill, By comparison, VV's value on the 11th was \$ 9.78 mill.

Change in vessel values

Build year	Mega (200k)	Large (100k)	Small (25k)
2020	-18.3%	-17.5%	-17.0%
2015	-20.3%	-19.5%	-19.0%
2010	-26.8%	-26.1%	-25.6%
2005	-44.4%	-43.8%	-43.5%
2000	-69.8%	-69.5%	-69.3%
1995	-87.8%	-87.6%	-87.5%

Source: VesselsValue

More widely, US and India struggled to contain COVID-19 infection rates and Europe started to see an alarming second wave of cases.

Countries in Europe were once again forced to take countermeasures to slow its spread, dashing hopes of any significant cruise activity recovery in 2020.

By November, the number of cases had hit around 50 mill.

The global fleet had fallen in value by nearly \$40 bill.

Activity was at an all-time low with 61% of the fleet idle.

The major players were burning anywhere from \$200 mill to an excess of half a billion dollars a month to keep operations afloat.

Carnival had borrowed a record amount of close to \$12 bill since March, due to the pause in guest operations forcing the company to secure substantial additional financing to preserve cash and increase liquidity.

Royal Caribbean took similar action during this period, securing around \$5 bill in loans, as well as offering just over \$3 bill in bonds and undertaking credit debt holidays to defer repayments.

Older assets were only worth scrap value and companies were being forced into bankruptcy.

On a more positive note, the recent news of a potential vaccine could be a shot in the arm for the cruise Industry.

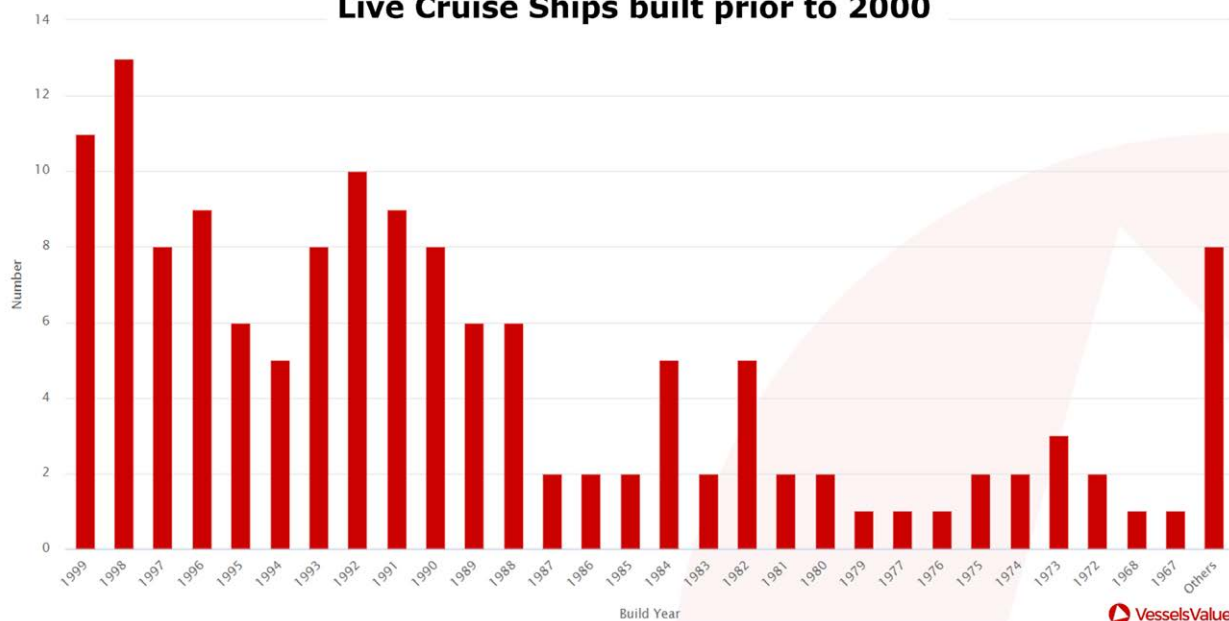
Both Carnival and Royal Caribbean enjoyed a well needed uptick in their stock value earlier this month.

Also positive were the statistics from cruise companies showing that with the correct procedures and protocols in place, COVID safe cruises can operate.

Interestingly in analysing the cruise ships still shown in operation, VV found that 143 were built in or before 1999 and another 13 in 2000, out of a total fleet of 370 (see bar chart for a breakdown of the number of vessels built per year).

This means that at least 156 cruise ships could be viewed as vulnerable to disposal sooner rather than later.

Live Cruise Ships built prior to 2000



Source: VesselsValue

*COVID-19 cases are the cumulative total by the end of each month. Data from - OurWorldinData