cruise insights

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Are the good times returning?

Liverpool has been one of the beneficiaries of the UK's staycation cruising policy.

INTERNATIONAL CRUISE SHIP INDUSTRY

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October 2021

This report is the second in our series of bi-annual in-depth analysis of the cruise ship industry, courtesy of VesselsValue (VV).

Expert analytical commentary in this report was provided by VV's Cargo Analyst, Guy Cooper.

An overview of the current situation showed that the COVID-19 pandemic has severely hampered the cruise sector. Assets were sold off at all-time lows, demolition activity was up and new orders had all but stopped.

Activity itself was at extremely low levels and entire fleets burned through cash in warm layup around the world. Stocks crashed, bookings ceased and enormous billion dollar loans were taken out to keep companies afloat.

It was reported that the largest cruise group, Carnival, raised in excess of $19 bill in debt and equity since the pandemic's outbreak in March, 2020.

The world is still battling COVID-19 with the variants posing a significant threat, yet as nations continue to roll out successful vaccination programmes, the tourism industry is starting to see a healthy rebound in its prospects.

As the sailing restrictions around the world begin to ease and market fundamentals start to recover, the potential for a significant market rally grows. Activity is up, asset valuations are firming, stock prices are on the rise and demand through booking numbers is strong. Both the short and long term outlook is positive for the sector.

Analysis of VesselsValue AIS data showed that activity has been growing since the lows of April, 2021. From the chart in Figure 1, we can see that it currently resides at around 64% with a steady linear increase, which would predict resumption to normal activity of 90% by January/February, 2022.

The continued growth seen since May, 2021 is a result of governments easing sailing restrictions and the introduction of new protocols and regulations. This, coupled with vaccines and on board medical advances, have proven crucial for the successful restart of cruise operations around the world.

These factors are paramount in rebuilding passenger confidence: allowing them to cruise safely in a controlled environment, with mitigated risk of catching COVID-19.

Cruise ship valuation - 'Scarlet Lady'

In February of last year, all eyes were on the 'Scarlet Lady', as Sir Richard Branson took delivery of his first cruise ship.

'Scarlet Lady' was built at the Italian yard, Fincantieri Sestri. She can carry 2,800 passengers and has 17 decks. She was ordered back in June, 2015 for $710 mill. Her historic market valuation is shown below in Figure 2.

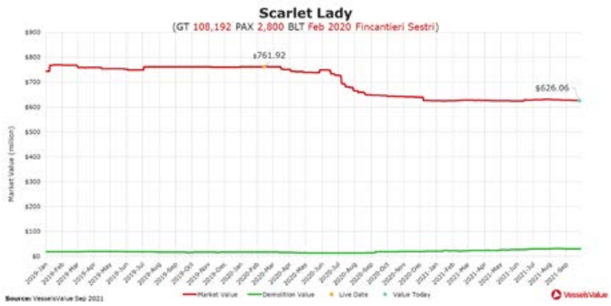

Figure 2: VesselsValue's historic market valuation of 'Scarlet Lady'.

On delivery, 'Scarlet Lady' was valued at $761.2 mill, over $50 mill more than her contracted price – a healthy investment.

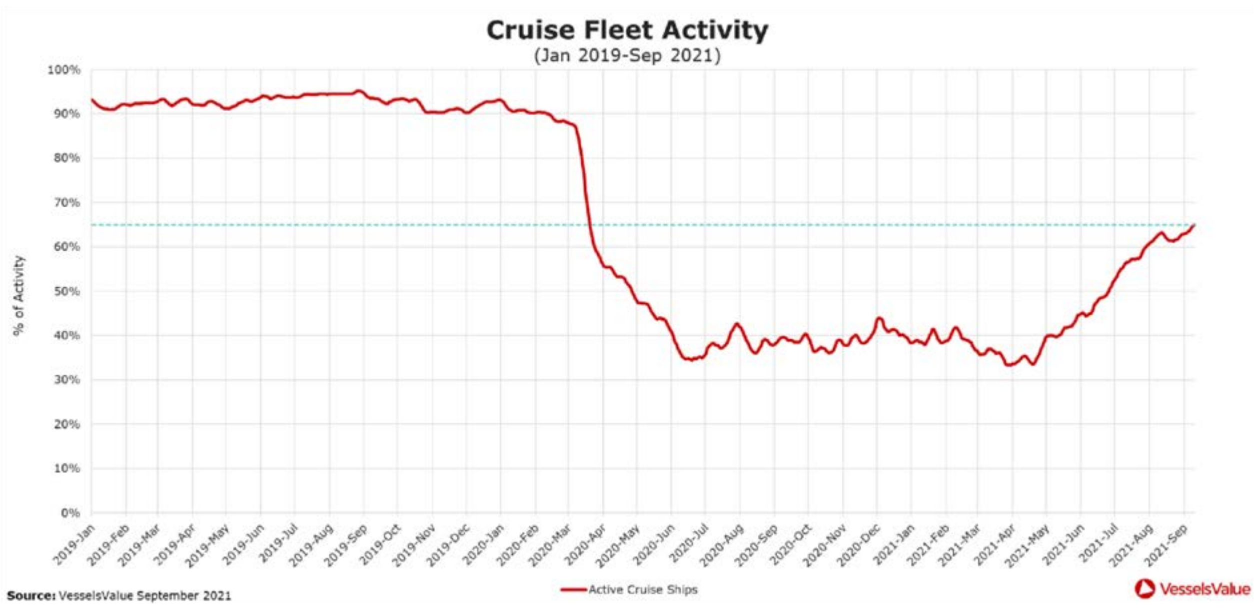

Figure 1: Seven day rolling average of active Cruise ships (%), Jan 2019- Sep 2021. (A Cruise ship is considered inactive if it has not moved a significant distance, outside of a port/yard, for seven days or more).

Unfortunately, this valuation quickly fell throughout the pandemic and today she is valued at $626.06 mill, a drop in value of 17% - a slight uptick from the lows of January, 2021 at $623.27 mill.

Cruise ship valuation - 'Aegean Myth'

In relative terms, modern ships, such as 'Scarlet Lady', were impacted far less in terms of market value than the older tonnage.

A prime example was 'Aegean Myth', a 1993 cruise ship built at the Italian yard, Fincantieri Monfalcone, with a carrying capacity of 1,623 passengers. Her historic market valuation is shown below in Figure 3.

Figure 3: VesselsValue's historic market valuation of 'Aegean Myth'.

'Aegean Myth' (ex 'Maasdam') was up for sale pre-pandemic. In August, 2019 her asking price was $120 mill. This asking price aggressively dropped as the pandemic spread across the cruise sector.

A timeline of her asking price is listed below:

- August, 2019 = $120 mill
- February, 2020 = $80 mill
- March, 2020 = $40 mill
- June, 2020 = $20 mill

She was snapped up in July, 2020 for $10 mill by Greek ferry owner, Sea Jets, which was looking to capitalise on the unprecedented low prices.

As can be seen in Figure 3, towards the end of 2020 and beginning of 2021 'Aegean Myth' was worth more in scrap value than she was on the secondhand market.

However, since her low of $10.71 mill in December, 2020, her market value has recovered by 83% to her current value of $19.60 mill.

Cruise markets

Demolition, S&P and newbuilding activity are all down this year, compared to 2020, which is demonstrated in Figure 4.

Pre pandemic, the cruise industry was very much in a boom phase. Orders were up significantly, with a record breaking 43 ships contracted in 2018.

This rate naturally slowed post 2018 to avoid a market over supply of newer tonnage. COVID-19 compounded the decrease, as owners and operators were unable to sail their operational ships. A number of newbuilding orders were also delayed, as owners attempted to postpone the delivery of new tonnage into a market with no physical demand.

The only order thus far this year was from the Japanese owner, Asuka Cruises, which contracted a large luxury cruise ship at the Meyer Werft shipyard. The vessel is due for delivery in 2025 and is worth around $500 mill.

As ordering slowed last year, demolition and secondhand activity ramped up as owners attempted to generate cash flow through alternative means, as their main revenue of income had dried up. This situation can be seen in Figure 5 overleaf.

For the first time in 16 years, the net cruise sector fleet size has remained stable, as the increase in scrapping balanced out the delivery of new tonnage.

However, this year the markets have remained stagnant and this is expected to last for the rest of the year, as the markets begin to normalise and cruising activity recovers to pre-pandemic levels.

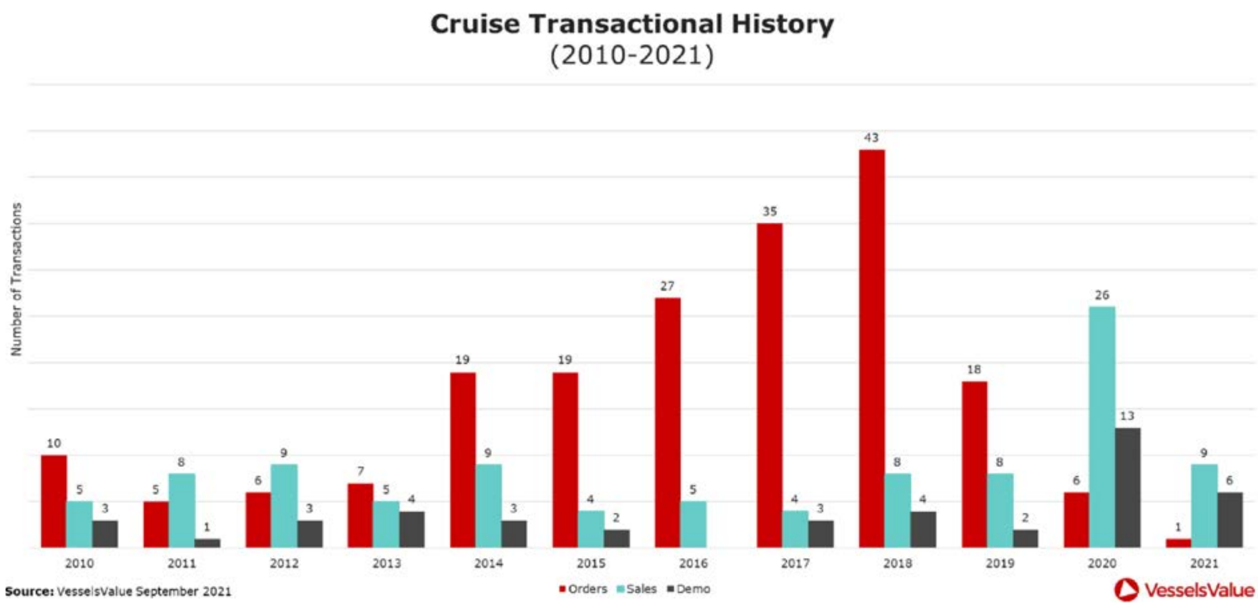

Figure 4: Number of orders, sales and demolition transactions each year, 2010-2021.

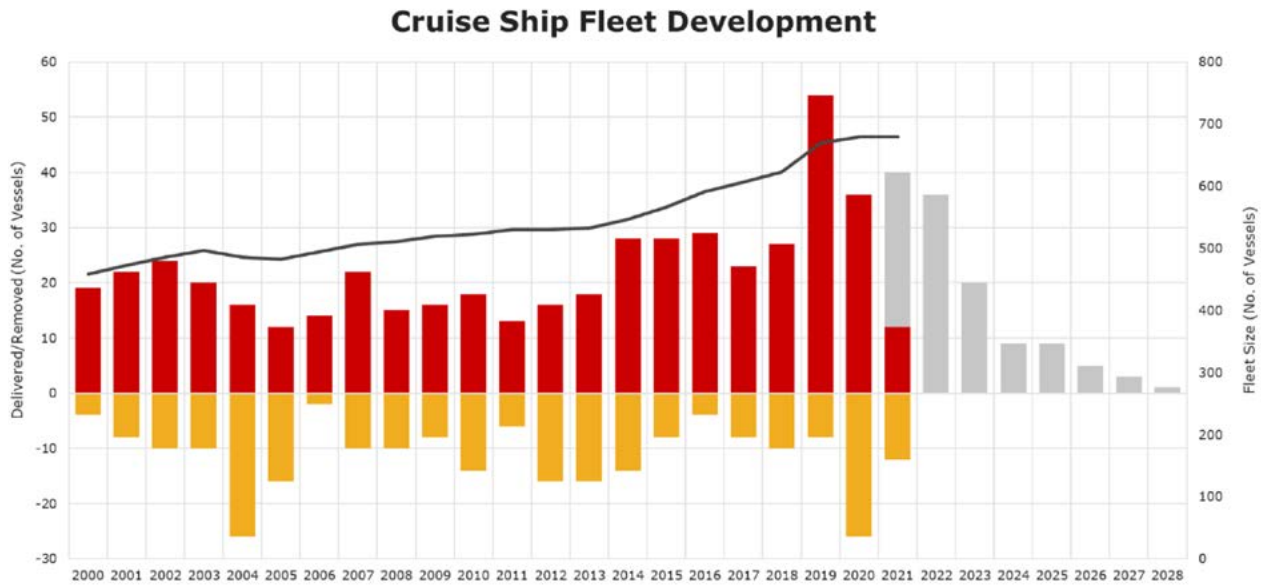

Figure 5: Cruise fleet development, deliveries, removals, and overall fleet size, 2000-2028.

Top owners

The following chart (Figure 6) shows the top owners by value and number of cruise ships.

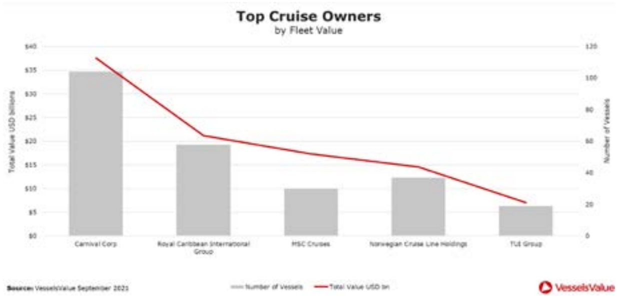

Figure 6: Top five largest cruise owners by fleet value (USD billion) & fleet number.

The entire cruise industry took a massive hit in fleet value, due to the pandemic, as a pre-pandemic value of $167 bill shrank to $125 bill, a fall of 26%.

Owners were forced to suspend cruising globally. Cruise ships entered warm layup - a costly exercise of $2-3 mill per ship per month. This saw many owners turn to the S&P and demolition markets, selling assets at sometimes rock bottom prices, which resulted in tumbling valuations.

Companies reacted to this unprecedented situation somewhat differently.

The largest player owning over 20% of the total cruise ship fleet, Carnival group, saw its fleet value fall by 34% to $37.6 bill from $56.3 bill in September, 2019.

This was as a result of the global plunges and the strategic renewal of the fleet - disposing of older assets to be leaner and greener. This should give the group a strong and efficient footing for the future. Carnival recently announced targeting of 50% capacity restart by the end of October and a goal of 65% by the end of this year.

A more ‘wait and see’ response was seen by the second largest group, Royal Caribbean. This fleet’s pre-pandemic (September, 2019) value was $29.5 bill, which now sits at $21.2 bill, down 28% although the fleet size has remained relatively stable.

Stocks

Like most public cruise companies, Carnival and Royal Caribbean (RCI) stocks took a massive hit at the start of the pandemic.

Pre-pandemic peak for RCI was at $133.7 in January, 2020. This fell by 83% two months later to $22.3.

Carnival followed a similar trend, plummeting 86% from its February, 2019 peak.

This can be seen in Figure 7.

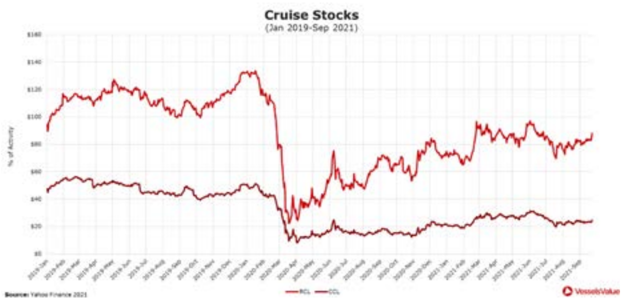

Figure 7: Carnival and RCI stock prices Jan 2019-Sep 2021.

Today, both stock prices have recovered significantly, compared to the lows of early 2020. RCI is up 295% and Carnival is up 210%.

A wobble in early June saw stock prices briefly fall as the highly contagious Delta variant flooded the US, causing a spike in infection rates and hampering both cruising accessibility and passenger confidence.

Since then, both stocks have corrected and both the short-term and long-term outlook for the cruise industry looks promising.

If cruise activity continues to develop (as can be seen in Figure 1) and addresses the current pent-up passenger demand, we would anticipate some of the major cruise lines will become profitable again in the first half of next year.