
Fitch: New No Cruise Order Would Be Neutral for US Cruise Lines, Ports

Fitch Ratings-Chicago/New York-04 December 2020: Reimplementation of the Centers for Disease Control and Prevention's (CDC) No Sail Order would not result in immediate credit profile pressure on cruise operators and ports with sizable cruise operations, given we currently assume cruise operations will not meaningfully resume until 2H21, says Fitch Ratings. However, cruise operator and port credit profiles will become vulnerable to further deterioration if delays extend beyond this period and liquidity becomes an issue.

The CDC's previous No Sail Order that suspended cruise operations in the US from March 14 to Oct. 20 has expired. However, lawmakers reportedly began urging the CDC to reinstate the expired No Sail Order after several people on a Seadream Yacht Club cruise to the Caribbean tested positive for coronavirus last month.

A Framework for Conditional Sailing Order, which includes phases and milestones cruise lines must reach to resume operations in a way that mitigates the risk of spreading the coronavirus, replaced the No Sail Order at the end of October. This framework remains in effect until the earliest of a government declaration that the coronavirus is no longer a public health emergency, a CDC recension or modification of the order, or Nov. 1, 2021.

Major operators, including Norwegian and Royal Caribbean, voluntarily extended their suspension on some or all cruises this week, in part to provide time to comply with the conditional sailing order. Norwegian suspended nearly all voyages through March 2021. Royal Caribbean's extensions vary by geography and date with some into April 2021. Carnival announced extensions on certain cruises last month, suspending some seven-day or longer cruises until November 2021.

We believe the cruise industry revenue recovery to the 2019 base line level will be among the slowest in the hard-hit travel and leisure sector, due in large part to the health-related risks of occupying close quarters. Global and domestic travel restrictions will also have an impact, as most cruise passengers travel to reach the cruise port. We do not envision a secular decline in demand for cruising, as the industry has successfully navigated prior, more localized health-related incidents, but anticipate the time to return to pre-pandemic profitability levels will be lengthy.

Credit profiles for Fitch's universe of cruise operators and ports with significant exposure to the cruise industry have deteriorated due to the virtual standstill of cruising. Our forecasts for cruise operators and ports assume cruise travel does not begin to meaningfully pick up until 3Q21. Credit profiles are currently supported in part by liquidity positions but reinstatement of the No Sail Order that extends beyond our expectations and leads to cash burn could add pressure.

Cruise operators have minimal liquidity headroom, even after significant capital access and some delaying of the delivery of new ships to conserve cash. We estimate roughly 10 to 17 months of cash on hand for the three major cruise operators, after servicing upcoming debt maturities. Two of the three have become fallen angels due to the effects of the pandemic, with operators' revenue projected to be down 84% in 2021 over 2019.

Fitch-rated ports have strong liquidity and most have cargo operations that provide an offset to declines in cruise revenue. However, given uncertainty for the industry, minimal cruise activity is assumed through 2Q21 and we are forecasting 2021 revenue at only 34% of 2019 levels. Downside risk from coronavirus-related disruptions has resulted in multiple negative rating actions. Canaveral Port Authority's Outlook was revised to Negative from Stable in April and ratings subsequently downgraded to 'A-'/Negative from 'A'/Negative on Nov. 10 due to the severe deterioration of cruise revenues and resulting decline in financial performance. Port Miami's (A/Negative) and Broward County's (A/Negative) Outlooks were also revised to Negative.

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