Market unfazed by Aurora setback

As the Aurora limped back to its dock on 20 January, a blizzard of photos and interviews seemed to add up to an unambiguous tale of woe.

The ship had another slice of bad luck to add to its history of health scares and technical trouble. And its owner, P&O Cruises - now part of the huge US Carnival Corporation - was looking at a significant slice chopped off this year's profits and a potential PR fiasco. No-one, however, seems to have told the stock markets. The warning of a five-cent hit to 2005 earnings came just 24 hours after one of the world's biggest investment banks had upped its target for Carnival's share price, from £35 to £36.20. Other investors barely blinked, and by 1300 GMT Carnival's shares in London were down a single penny, or 0.03%, at £32.26.

Why the mismatch between the public perception and the market's response? "The Aurora issue had been an ongoing one for some time," says Deutsche Bank's Simon Champion. "It was clearly a source of uncertainty for the company - it was a long cruise, after all. But the stock market is very good at treating these issues as one-off events."

Despite its string of bad luck, he pointed out, Aurora is just one vessel in a large Carnival fleet, the UK's P&O Princess group having been merged into the much larger US firm in 2003. And generally speaking, Carnival has a reputation for keeping its ships pretty much on schedule. "Carnival has an incredibly strong track record," Mr Champion.

Similarly, analysts expect the impact on the rest of the cruise business to be limited. The hundreds of disappointed passengers who have now had to give up the opportunity to spend the next three months on the Aurora have got both a refund and a credit for another cruise. That should mitigate some of the PR risk, both for Carnival and its main competitor, Royal Caribbean. "While not common, cancellations for technical reasons are not entirely unusual in the industry," wrote analysts from Citigroup Smith Barney in a note to clients on Friday. "Moreover, such events typically have a limited impact on bookings and pricing for future cruises." After all, the Aurora incident may be big news in the UK - but for Carnival customers elsewhere it's unlikely to make too much of a splash.

Assuming that Citigroup is right, and demand stays solid, the structure of the industry also works in Carnival's favour. In the wake of P&O Princess's takeover by Carnival, the business is now to a great extent a duopoly. Given the expense of building, outfitting and running a cruise ship, "slowing supply growth" is a certainty, said David Anders at Merrill Lynch on Thursday. In other words, if you do want a cruise, your options are limited. And with Carnival remaining the market leader, it looks set to keep selling the tickets - no matter what happens to the ill-fated Aurora in the future.